ECONOMY

JAN - DEC

1984

Another rise in GST likely — Old Mutual

OLD MUTUAL chief economist, Mr Rob Lee, says it is a very laudable intention to keep spending down to 11,7 percent — a level not much higher than the inflation rate given the huge demands on Treasury from a number of sources.

"If this can be accomplished it is a considerable achievement but one must be sceptical. On the other side the increase in revenue of nine percent before the tax increase is fairly conservative particularly on the gold outlook and gold revenue could easily be higher."

Mr Lee said it was very important to note that should spending over-runs occur the minister is prepared to increase taxes.

"One presumes this would be General Sales Tax thus the chances of a GST increase later in the year appear good."

The Budget contained a relatively large total increase in taxation of nearly R1 billion and a rise in GST later in the year could bring the figure to over the R1 billion.

"The minister must be applauded for his courage in increasing taxes by this extent given our particular circumstances.

"A notable feature is that of the tax increases some 60 percent will come from the corporate sector which is being hit hard and the measures are worse than expected. The motivation is that the effective tax rate has fallen and the minister is justified in looking at this area.

Mr Lee said that on the financing side expenditure appears low as does the borrowing requirement. The latter should be easy to finance particularly with the substantially increased contribution of the Public Investment Commissioners.

The net new institutional requirement from government in stocks was R950m — substantially less than in the 1983/84 year. If the borrowing requirement remained at this level it should be mildly bullish for rates in the long term gilts market.

KWV hails exemption

THE government's understanding of the problems of the Western Cape wine industry would contribute significantly to an improved relationship between producers and the government, the KWV said last night.

The general manager of the KWV, Mr R S de la Bat, said that the KWV "welcomed the fact that the government showed understanding of the problems of the industry", but not increasing the exise tax on wine and spirits.

Problems

In his Budget address, the Minister of Finance, Mr Owen Horwood, said: "Sections of the wine industry in the Western Cape have been experiencing financial problems for some time and I therefore do not feel it equitable to impose or raise excise duties on wines and spirits at this time."

The 1981 increase in excise tax had, Mr De la Bat said, caused diffi-

to allow more flexibility for both parties in the future.

Mr Horwood also said the Board of Trade and Industries was investigating the position of brandy with a view to assisting the industry, possibly by increasing the rebate on blended brand to the full GATT binding.

Report

"No decision on the matter can be taken until their report has been submitted and studied, among others by the Commissioner for Customs and Excise," he said.

Commenting on this, Mr De la Bat said the

BUDGET 84

Delight about GST review

"WE are delighted that the Minister of Finance, Mr Owen Horwood, has heeded the call of the supermarket industry and is reviewing GST on basic and other foodstuffs," said Mr Gordon Utian, Checkers' managing director.

It was a balanced Budget without too many shocks and surprises.

Emphasis

"The emphasis has been placed rather on company taxes where the tax has been increased and more importantly the closing of the company tax loophole which was bleeding the economy unnecessarily.

"With the drought, economic conditions and unemployment, it is vital that the consumer does not bear the brunt of tax, and we view the closing of company tax loopholes and the in-

Consumer Council welcomes no tax increases

JOHANNESBURG. — The ordinary consumer found it a source of relief that the Minister of Finance, Mr Owen Horwood, resisted the temptation to increase income tax in general, said the Consumer Council yesterday about the Budget.

"His decision to rather take a closer look at companies must be welcomed from all quarters. Naturally there is some apprehension that companies will in due course pass on the increased costs to consumers," the council said.

Main tragets

"Clearly this year's strict Budget has two main targets — combating inflation and improving the current balance of payments. According to expectations, the minister has decided not to start taxing fringe benefits immediately. He has rather pin-pointed luxury articles such as beer, cigarettes and imported essentials.

"This year's budget — which is regarded as the most stringent since the past decade — is the direct result of disasters caused by natural forces. The drought aid programme will cost an estimated R1 500m, while the ensuing flood damages will deplete the state coffers."

BUDGET 84

Company tax: Costs

No liht for homeowners — Prm MD

THE managing direr of the SA Permant Building Society, r Bob Tucker, has welcomed the governme's "attack" on fringe benefits where it confrs luxury housing and e changing emphasis housing aid from subsidy to tax relief.

But he warns homeowners that, on the fe of present facts, thers likely to be neither relief for bond rates r an increase in amous available for mortge finance.

Speaking in the (y yesterday, Mr Tucir said that the Budget of the Minister of Finan, Mr Own Horwoi, offered "no significt relief" to home-owns and would not unl-s the total economic... ture changed.

Omissions

As far as the building society movement wi concerned, Mr Tuck thought that Mr Horwood's omissions we more significant tha his inclusions.

Mr Horwood said tht recommendations) give building soceitis the choice of continuing as mutual bodies or converting to an equity capital base were still being considered.

"Mr Horwood made no mention of how the government might plan to phase out the societies' tax privilege.

"However, the government has clearly reconsidered the impact of subsidized housing on the fiscus."

Mr Tucker said that emphasizing tax benefits, rather than housing saubsidies, could have the effect of ensuring that the benefit of relief went where it was intended to.

Fringe benefits

He also welcomed "the attack on fringe benefits" especially where it began dealing with employer benefits in the form of housing subsidies.

These, Mr Tucker said, had "severely aggravated the misallocation of funds to luxury housing".

Mr Horwood's move on fringe benefits had come sooner than the Perm had expected.

'Why no export stimulation?'

THE chief executive o' the South African Foreign Trade Organization (Safto), Mr Wim Holtes, said:

"Although the minister places the curbing of inflation and the need for a strong balance of payments as his twin guiding principles, only the first has been directly pursued in the financial plan for the year ahead.

Export sector

"The minister accepted that our economic upturns were export led but the Budget did not provide for any deliberate stimulation of the export sector — the only non-inflationary growth option possible.

"Given little prospect of any significant rise in the gold price, non-gold exports may well be the only way in which the balance of payments can be strengthened, particularly with the rising trend in imports," he said.

"It is therefore a great pity that the Budget does not include any clear-cut commitment to an accelerated export programme which has been strongly advocated by Safto for several years.

"The increase in company tax will have the effect of enhancing some of the exporters' tax allow-

Few surprises — Standard Bank

IN preliminary comment on the Budget, the managing director of Standard Bank of South Africa, Dr Conrad Strauss, stated that it was generally accepted that the Minister of Finance, Mr Owen Horwood, would be compelled to increase revenues.

In the present economic circumstances, moreover, it would have been quite inappropriate to adopt an expansionary approach.

The Budget contains few surprises and could be interpreted as a means of marking time until there is an improvement in exports, the gold price and/or agricultural conditions.

Clearly, the minister is continuing to rely on monetary policy and his Budget cannot be expected to ease the pressure on capital market interest rates.

Standard Bank has not been involved in any preliminary discussions on the implementation of stamp duty on credit cards and ATM transactions.

We require time to consider the new proposals, which at first sight seem to have significant implications for the banks' data processing systems.

On its own the Budget cannot solve the country's problems but taken with a sound monetary policy it will serve to contain the situation.

Dr Conrad Strauss, managing director of Standard Bank of South Africa.

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Assocom sees no help for inflation

THE Association of Chambers of Commerce (Assocom) said that it was "particularly concerned that one result of the Budget is that government spending will have increased over two years by more than 33%.

"Indeed it could be even larger because the minister hinted at the possibility of an-

A mild Budget — Metboard

METBOARD'S managing director, Mr John Perkins, says the Budget is mild under the circumstances with a managable deficit before borrowing which should be bullish for gilts.

"The minister has plugged a number of loop-holes, particularly incentive allowances, fringe benefits, and provisional tax payments. If his past record is anything to go by, expenditure over-runs are inevitable and an increase in GST later in the year is virtually a certainty.

"The apparent relief for individuals will be negated by fiscal drag," he said.

ers anc. ıarmec. consumption figures.

The decision by the minister not to impose a tax would improve government-wine producer relationships.

The effect of this, Mr De la Bat said, would be that producers' subsidies were rapidly approaching GATT limits.

The Board of Trade was investigating the ability of the brandy industry to compete with imported spirits.

...de... the burden.

"Pensioners will be disappointed that in some cases their increased pensions do not keep pace with inflation.

Education increase seen as excellent

THE chairman of the Afrikaanse Sakekamer in Cape Town, Mr Gilbert Colyn, said that an excellent feature of the Budget was the increase in expenditure on education.

"This is very necessary. Our inflation situation is directly coupled with productivity."

Improvements in education would help combat the underlying structural problems causing inflation, he said.

He described the budget as "mild" for the man in the street.

warning

THE managing director of OK Bazaars, Mr Gordon Hood, said he was delighted that neither personal taxation nor GST had been increased.

"We welcome the news that there is to be an objective assessment of GST, and the possible introduction of exemptions on basic foods, or a differential taxation on these staples. The lower-income consumers are the ones who have most keenly felt the impact of the recent increase in GST.

Relief

"Improved social pensions and tax relief for senior citizens and the disabled are a pleasing feature of the Budget, although the increases in pensions are disappointingly low.

"On average they are below the inflation rate, occur too late in the year, and the bonuses payable in May are unlikely to have much effect.

"Raising the company tax is unfortunate. In 1982/83 the OK made only 3,1 percent pretax profit. Our margins are thus already very low, and this additional tax burden will inhibit our ability to absorb future cost increases which are inevitable."

Incentives

"The heavy under-utilization of several of the current export incentives has left the Treasury with several hundred million rands more in company revenue than originally anticipated over the last two years.

"Particularly in the light of this, a positive implementation through the Budget of the proposed export drive would have been feasible without affecting overall anticipated revenue to any extent."

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Keep spending down — BER

IF the government could not keep its spending in the 9,4 percent limit proposed by the Budget, then South Africa could expect the recession to last the year, warned Stellenbosch Bureau for Economic Research economist, Mr Attie de Vries, yesterday.

Commenting about the Budget, Mr De Vries said it had been "fairly predictable", given such constraints as the balance of payments.

"The question is whether the government can keep expenses within the limits proposed.

"If not, it's possible that there will be further tax increases this year."

This would have the effect, Mr De Vries predicted, of retarding the improvement in South Africa's economy.

He felt that the upturn which South Africa had seen in the last half-year would decline and recession would continue for most of this year.

"The cash-flow of businesses will be under further pressure."

The increase of company tax, which as a percentage of GDP had been declining, was understandable, however, and brought company tax in line with personal tax.

run .eac.ng to ıurt.ıer tax increases.

"Assocom notes that the steep increase in government spending has occurred in a period in which the real output of the South African economy has in fact been contracting.

"This means a huge transfer of national resources from the private sector to the public sector and thus from the productive sector of the economy to the non-productive sector.

Inflation

"Assocom is also concerned that the Budget does nothing to ameliorate inflation after 10 years of double-digit inflation.

"Indeed the increases in public sector service costs previously announced, together with wide-ranging increases in indirect taxation in this Budget will result in worsening inflation in 1984.

"Furthermore the heavy extra burden placed on companies by the Budget and continuing upward pressure on interest rates will delay the economic recovery.

"The minister does, however, deserve recognition for the manner in which he intends to finance the deficit, although large deficits are themselves inherently inflationary."

Wrong time to cut training incentives — CCI

THE Economic Affairs Committee of the Cape Chamber of Industries (CCI) says the major impact of the Budget is on the business community.

"The rise in company tax and the reduction of various incentives designed to foster growth and create employment comes at a particularly unfortunate time when most industries are experiencing the effects of a prolonged recession.

Incentives

"Reference has been made to abuse of these incentives by some but it seems that the steps being taken to stop such abuses may well seriously undermine the valuable contribution which incentives such as the investment and initial allowances and training allowances are making to the growth of the economy and the solution of many of our social problems."

The chamber, while welcoming the decision to pay training incentives in the form of cash grants instead of a tax deduction regretted that they have been reduced from 100 percent to 50 percent.

"A major bottleneck in the economic progress is the shortage of skilled manpower and it is essential that training should be stimulated in periods of recession such as the economy is passing through now. This is therefore not the right time to reduce training incentives.

"For the same reasons the chamber welcomes the Budget provisions for relatively greater increases in expenditure on education and the promotion of the efficiency of our manpower resources at all levels. This is fundamental if the Republic is to hold its own in world trade.

Capital markets

The CCI said that Mr Horwood is to be commended for not placing undue pressure on money and capital markets and for seeking to avoid inflationary methods of financing his fiscal needs.

"The chamber also welcomes the undertaking that the business community will be consulted on draft legislation relating to the taxation of fringe benefits and trust that adequate time will be allowed for this purpose."

No relief for mines seen by Chamber

THE president of the Chamber of Mines, Mr Colin Fenton, said the mining industry was expecting many of the taxation measures proposed by Mr Horwood, in particular the effective increase of company taxation to 50 percent.

"It notes with concern, however, his proposal to increase the surcharge on gold and diamond mines from 15 percent to 20 percent which maintains the discriminatory differential in the total tax rates," he said.

Surcharge

"The increased surcharge on revenue from gold mines is more regrettable given the reducing profitability of gold mine production.

"The fluctuating exchange rate tends to work in the direction of maintaining gross income in rand terms. Against this static income there is a continued increase in working costs due to the rising prices of materials and services and increases in wages.

"This inflationary pressure results in the gold mines therefore being squeezed from all directions.

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'Personal tax income up 26%'

THE budget is one of higher taxes all round with the individual bearing a disproportionate share of the total taxation, claims Hill Samuel Merchant Bank.

"On the face of it tax increases were limited to companies and indirect taxes such as GST and customs and excise duties. In money terms though the income from personal taxes is budgetted to rise by 26 per cent, half of which is estimated to be the result of fiscal drag."

The ratio of private to corporate taxation in the overall budget showed clearly that the burden had been moved on to the individual.

Whereas in 1979/80 the taxation ratio (excluding GST) was individual 35 per cent, company 65 per cent, in the present budget it was individual 60, company 40 per cent.

"The ratio would have reversed almost totally if GST and the proposed fringe benefit tax had been included. Moreover individuals will again be hard hit if banks recover the 5 cents per debit stamp duty from their customers in the form of bank charges," he said.

● Dr Johan Cloete, group economist of Barclays National Bank, comments that the likelihood of a further 1 percent increase in GST later this year should not be ruled out.

"The budget announced today by the Minister forecasts expenditure for the 1984/85 year will increase by 11,7 percent over last year's actual figures.

"Past experience has shown that a 16 to 18 percent increase per annum is more likely, hence the probability of further tax increases later this year," he said.

● Mr Malcolm Mitchell, executive director of the Natal Building Society, said the budget contained little joy for either the building or the savings industry.

"Extra taxes on beer and cigarettes, in addition to an increase in duty on motor vehicles and the increased company tax will all eventually be passed on to the consumer," he said.

Discrimination, complains SAB

SA BREWERIES has called the additional excise on beer discriminatory.

"Selectively placing additional excise on beer and not on the strong drinks of spirits and wine is the most blatant form of discrimination against the working man," said Mr Peter Lloyd, managing director of SAB's beer division.

"Instead of asking all users of alcohol beverages to make a contribution, the minister has picked on the lower income groups to pay for the pleasure of the privileged. He should have applied equal treatment and spread the burden around.

"Beer is now paying a higher rate of excise than brandy and excise tax represents 37 percent of the wholesale price of beer.

"Each year SAB keeps its increases well below the rate of inflation through better productivity. The selective tax is merely a tax on productivity."

Mr Lloyd said beer drinkers of South Africa would get a good idea of how unequally they were being treated by the government when they realized that, to December, they paid R439m to excise, spirits paid R247m, and wine drinkers paid nothing.

"Excise tax is a government levy. SAB are merely collectors of the tax and therefore the full amount has to be passed on. The increase in the wholesale price represents 1,83c a quart (750mℓ) and 92c a pint (375 mℓ). The price at retail level is decided by the licensed liquor ratailers."

Analysts hail 'cooling' budget

JOHANNESBURG. — South African finance minister Owen Horwood's conservative budget was generally well received by the business community.

Analysts saw it as a sensible budget which aimed to cool the South African economy without repressing economic recovery.

Stockbrokers also welcomed the fact that the budget net was broad.

They added that it closed corporate tax loopholes.

Some brokers said they believed the changes in tax allowances on machinery and plant could have a detrimental effect on the profits of companies already committed to capital expenditure.

But they said that as the increase in company tax to 50% from an effective rate of 46,2% was anticipated by the market, it should have little effect on share prices.

Independent tax specialist Costa Divaris believed that the effect on the man in the street would be minimal.

Another analyst said investors could be affected by a possible cut in dividends as a result of the increase in company tax.

Divaris added that the phasing out of the lifo accounting system could restrict companies' cash flow significantly. — Reuter

Barlows man sees moderate increases

By ALEX PETERSEN

A LEADING industrialist, Mr Warren Clewlow of the Barlow Rand group, said last night that he had little to argue with in Mr Horwood's budget.

"I think that Mr Horwood was looking into the future. The increase were relatively moderate. I was not surprised by the increase in company tax.

On the changes in investment allowances and the phasing out of the lifo accounting system, Mr Clewlow said he could not disagree with these.

"I cannnot argue with the measures to close loopholes. Since Mr Horwood has to raise the money, what he has done is the fairest way to balance the books."

Mr Clewlow said however he was disappointed that there had been no move on export incentives.

Since the government clearly hoped to improve performance on the export side, the sooner there was something more positive on export incentives the better.

The moderate tone of the moves taken suggested that Mr Horwood had hoped that by now South Africa's exports would have been perfoming better, and suggested that Mr Horwood was reasonably optimistic of the performance of the economy by this time next year.

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Jewellery tax 'unfortunate'

THE Minister of Finance's announcement that excise duty is to be increased by five percent on jewellery items to 35 percent was most unfortunate, said the executive director of the Jewellery Council of SA.

"The industry has been endeavouring to have the already high level reduced for some years," he said.

"Our concern relates to generally high prices in the jewellery field — 35 percent on a commodity costing R1,00 is a different matter to 35 percent on a commodity costing R100 or R1000.

"The irony is that on high-priced articles of jewellery, it is often not possible to mark up by more than 10 or 15 percent. This means that excise consumes a great deal more normally than the total amount of mark-up on the higher priced commodities.

"The council is concerned also that South Africa is leading the way in the world in encouraging taxation of gold and diamonds — two of the country's primary sources of foreign exchange." — Sapa

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Govt spending the key — FCI

THE president of the SA Federated Chamber of Industries (FCI), Mr R J Ironside, said that it was a neutral budget, provided the minister's expenditure targets were not exceeded, as was the case in 1983.

"The chamber welcomes the commitment to more effective control over government expenditure over-runs and that Cabinet is seriously considering a zero-based budgetary approach.

Monetary policy

"Thus it is clear that monetary policy will continue to carry a heavy burden in the fight against inflation.

"On the tax side, the FCI welcomes government's commitment to a uniform tax system and equality between all taxpayers, which it hopes will be applied effectively also to the fringe benefits tax.

"The fact that there has been no further GST rise and that the government is investigating the exemption of food items from indirect taxes is also welcomed.

Tax allowances

"While accepting the need to eliminate abuses of the system of tax allowances, phasing out of the lifo system and of the investment allowances means that those elements which helped to alleviate the effects of inflation will be removed from the company tax system.

"Similarly the curtailment of training allowances to eliminate abuse is counter-productive, particularly as the incentives to produce managers essential to South Africa's economic future has been eliminated."

'Pensioners allowances too small'

CLICKS STORES deputy managing director, Mrs June Kritzinger, has welcomed Mr Horwood's decision not to raise personal taxes.

"The Minister is to be congratulated on not increasing the burden which the man in the street is facing at the current time with personal disposable income under pressure. The proposed investigation into exempting foods from GST is also welcomed.

"However, while the increases in pensions announced are commendable pensions should have been rised by a far more meaningful amount."

Mrs Kritzinger said the increase in company tax and decrease in tax allowances would be a blow to corporate profits. The decision to abolish lifo was also regretted as many firms had just switched to the system.

"While we understand the problem concerning the abuse of training allowances the reduced benefits will unfairly hit legitimate in-house training schemes," she said.

Rand drops against $

JOHANNESBURG. — The rand closed a cent lower against the dollar in response to the easier bullion price, and as the dollar strengthened ahead of today's United States February trade figures and leading economic indicators, dealers said.

Against other major currencies the rand closed at:

USA: 0,8055/65.
UK: 1,7920/30.
Germany: 2,0970/80.
Swiss: 1,7405/15.
Netherlands: 2,3670/80.
France: 6,4560/75.
Japan: 181,35/45. — Reuter

in the past 12 months'

Reviews by the Chairmen of the Transvaal Gold Mining Companies administered by Anglo American Corporation.

The following are extracts from the annual reviews for 1983 of:
Mr E P Gush, chairman of Vaal Reefs, Western Deep Levels, Elandsrand and Southvaal
Mr W R Lawrie, chairman of S A Lands and Afrikander Lease

Costs and economic factors

One of the difficulties facing South Africa is the imbalance between the rate of inflation here and that of our major trading partners, as inflation in this country is still running at more than 10 per cent a year. Fortunately, the efforts of the authorities are bearing fruit and inflation is continuing to drop from the peak of 18,6 per cent, as measured by the production price index, experienced in early 1980. This decrease has helped to reduce the rate of increase in the gold mining industry's costs. The mines in the Transvaal administered by Anglo American Corporation recorded a 7,3 per cent increase in the rand cost per ton milled for the year to December 1983, the lowest increase recorded for some years.

It is apposite to point out that, even with only negligible inflation, mining costs inevitably increase. As a mine gets older and deeper, workings become more distant from the shaft and it is more costly to produce each kilogram of gold. Mining at great depths requires increased refrigeration and ventilation to combat higher temperatures and more complex and expensive stope support systems are needed to withstand greater rock pressures. Bigger and faster haulage systems are also necessary. Constantly rising costs can be offset only by more innovative thinking in mining systems, layout and design, as well as the more efficient use of labour. Management continues to place a major emphasis on cost control, but as the costs of labour, stores and services steadily rise, gold production costs are still climbing at an uncomfortably high rate. For the mines mentioned above, the cost of producing a kilogram of gold increased by 9,1 per cent during the year.

In 1983 there was an average tariff increase, including coal adjustments, of approximately 18,0 per cent in electrical power costs and a further increase of six per cent, without adjustments, has been implemented this year. The cost increases of certain stores used in the treatment plants were as high as 30 per cent. Productivity improvements on the mines can reduce the impact of price rises to some extent but, with electricity and stores accounting for almost 50 per cent of operating costs, there is a need for state and private enterprises to make strenuous efforts to improve their own productivity and hold down costs.

It is gratifying that the Minister of Finance saw fit finally to lift the remaining surcharge on imported goods in the latter part of the year. On the other hand, the 16,7 per cent increase in General Sales Tax, from six per cent to seven per cent, is going to have a considerable effect on our costs, especially in this year of high capital expenditure. The gold mines' rates of income tax are considerably higher than those of other companies and it is most unfortunate that an additional tax burden has been added when, as noted above, technical factors are causing our unit costs of production to rise. Serious consideration ought to be given by the government to reducing the 15 per cent surcharge on gold mines' income tax in the light of the increase in the expenditure tax.

Gold

The average price of gold at the London fixings during 1983 rose to $424 an ounce from $376 the previous year, an increase of 12,8 per cent.

At the start of 1983, the price of gold stood at $450 and market sentiment was generally optimistic. US monetary policy had relaxed and money supply growth had exceeded its targets; the dollar, along with real US interest rates, was in decline and there was no clear sign of the long-awaited US economic recovery. Fears of sovereign debt defaults raised the spectre of the international banking system being put at risk. Expectations of oil price cuts were viewed favourably by the gold market and investor interest and fabrication demand pushed up the price to $511 by mid-February.

Towards this level, however, physical demand fell away. Moreover, a strengthening dollar, the prospect of an oil price war and a negative chartist outlook, depressed the price and triggered stop-loss selling. Panic set in and the gold price plunged by about $100.

From the end of February 1983 the gold price drifted steadily downward and it ended the year at $381. The market was dominated by professional trading, with investors showing little interest. The brief flurries of activity were invariably based on very short-term sentiment. Profits were swiftly realised and losses speedily cut. Even with the dollar's retreat in October, most investors remained nervous. Reflecting the decline in activity in the physical markets, volume on Comex, the leading gold futures market, declined for the first time.

Political events, which characterised the bull market of the late 1970's, had little or no impact on the price of gold, and served rather to strengthen the dollar. For the present, the dollar has assumed gold's traditional role as a barometer of political tensions.

The pattern of supply and demand during 1983 showed some significant differences to 1982. Although Soviet gold sales declined, central banks elsewhere sold the metal. These sales led to a waning of enthusiasm on the part of major investors and fabricators. The strength of the dollar, coupled with increasing unemployment and static disposable incomes brought about by recession, made gold jewellery expensive to buy; high real interest rates made it costly to stock. The drop in jewellery fabrication demand must however be seen in the context of a change in buying habits in the Middle East. These buyers, by custom purchasers of traditional forms of high-caratage jewellery for investment and trading purposes, are now finding direct gold investment in small bars and wafers at lower gold price premia increasingly attractive. At the same time, aggressive marketing of a widening range of such media as well as of coins helped to stimulate demand and sales rose strongly. Krugerrand sales alone rose from 80 tons in 1982 to 109 tons in 1983.

The success of inflation-curbing policies at a time of recession, and the high real returns to be gained from interest rates which have buttressed the dollar, underlie gold's present price weakness. It should not be forgotten, however, that in terms of other currencies, the performance of gold in these adverse circumstances has been most encouraging.

There are a number of conflicting factors affecting the price of gold at present. The dollar remains strong: but with increasing concerns about the US deficit, some downward movement in the US dollar appears likely. As investors diversify their investments to currencies other than the dollar, there may be a spill-over into gold.

If the US economic recovery is sustained and inflation is kept in check, fabrication demand for gold should grow. If the recovery falters, the rate of inflation may increase, which could again positively influence the gold market. In addition, the gold market could be favourably affected by the continuing debt problem of the third world and by political problems which plague various regions throughout the world. On balance, therefore, I feel the outlook for gold is more positive now than it has been in the past 12 months.

	Vaal Reefs‡		Southvaal*		Lease†		Levels		Elandsrand		S.A. Lands	
Gold	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
Tons milled – thousands	9 568	9 205	3 234	2 994	130	6	3 522	3 499	1 716	1 531	2 140	2 069
Yield – grams a ton	8,36	8,56	11,33	11,71	2,06	1,83	11,20	11,28	5,74	5,32	0,75	0,85
Production – kilograms	80 007	78 750	36 634	35 050	268	11	39 455	39 476	9 856	8 138	1 605	1 752
Cost – rand per ton milled	51,43	47,68	53,17	49,39	29,51	12,50	67,83	62,48	48,72	47,11	7,14	6,46
Cost – rand per kilogram produced	6 150	5 574	4 694	4 219	14 313	6 818	6 055	5 538	8 481	8 864	9 523	7 632
Price received – rand per kilogram	15 311	13 036	15 311	13 036	14 213	13 036	15 221	13 174	15 301	13 612	15 096	13 062
Working profit – R thousands	733 601	592 247	389 492	316 934	(18)	(94)	362 188	304 206	68 236	39 353	3 687	3 349
Capital expenditure – R thousands	156 203	129 694	87 624	57 356	4 799	12 044	152 025	122 955	50 554	25 761	4 282	5 830
Uranium												
Production – tons	1 877	1 722	948	696	—	—	174	183	—	—	—	—
Profit – R thousands	55 495	30 290	29 543	15 624	18	(210)	2 665	2 214	—	—	—	—
Financial												
Royalties received – R thousands	—	—	186 792	157 029	125 000	81 000	—	—	—	—	—	—
Tax – R thousands	307 585	231 532	88 133	73 183	—	—	139 917	108 329	—	—	481	426
Dividends – cents a share	1 195	950	395	330	—	—	426	395	40	15	60	75

‡Includes results for South Lease area and Afrikander Lease area.
*Operating results are for Vaal Reefs' South Lease area.
†Operating results are for Vaal Reefs' Afrikander Lease area.

Uranium

There has been little change in the uranium market during the past year. Although estimates of future uranium electricity-generating capacity continue to fall, production also remains in a downtrend. In the near future, reactor-fuelling demand is expected to exceed contracted supplies. It will take somewhat longer for that demand to exceed production and several more years before utility inventories are reduced sufficiently for there to be any significant growth in demand for new production and, consequently, any firming in prices.

Industrial relations

The year was characterised by a number of significant developments in industrial relations in the mining industry.

Joint representation to the government by the Chamber of Mines and the Underground Officials' Association led to the cancellation of the last racially discriminatory Ministerial decree remaining. As a result, merit-based manning is now in effect throughout the survey, sampling and environmental control departments.

The industry's annual wage and salary negotiations included participation by the Federated Mining Union and the National Union of Mineworkers (NUM) for the first time. Wage negotiations were conducted in a spirit of co-operation, and resulted in increases ranging from nine per cent to 14,4 per cent, with employees at the lower levels receiving the largest percentage increases.

Membership of the NUM has increased steadily. In the latter part of the year, a recognition of shaft stewards agreement was signed by the union and the Chamber on behalf of its members. The Minister of Manpower has given permission for membership fees of NUM members on those mines where it is recognised to be deducted from monthly wages. These are healthy steps towards normalising relations between employers and representative unions and are to be welcomed.

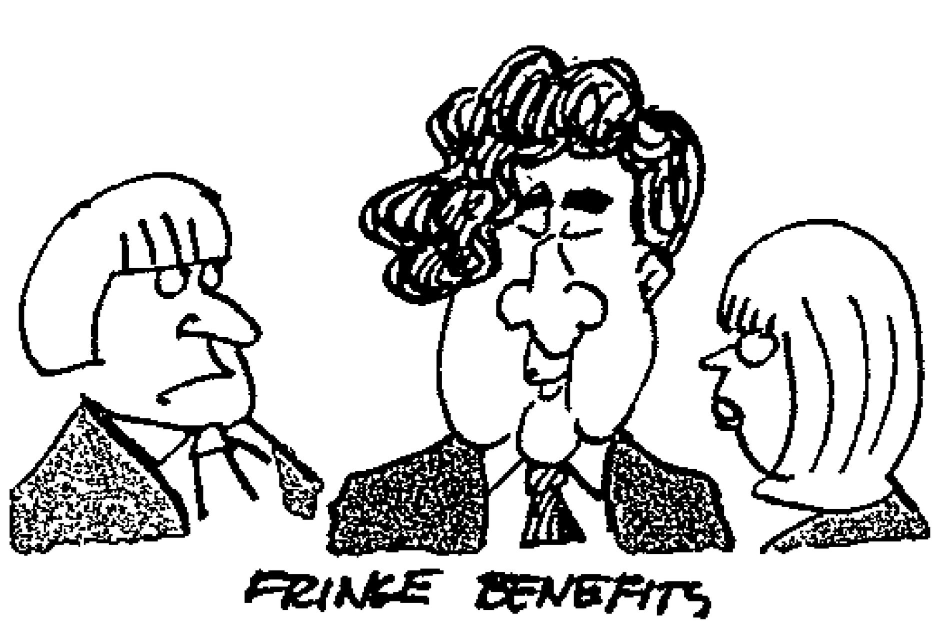
Modern computer data-base systems, known collectively as the Human Resources Information System (HURIS), have been introduced over the past few years, in an effort to improve dealings with employees, and to assist in the more effective utilisation of our very large labour force. A manpower-planning aspect of HURIS will be introduced more widely in the coming year, as will a number of systems designed to improve administrative efficiency.

Although some pleasing industrial relations developments took place in the year, a number of critically important issues remain unresolved. No progress was made in the discussions between the Chamber and the unions on the establishment of a mutually acceptable negotiating structure for the industry. It is considered essential that a structure is introduced which allows unions and management to enter into legally enforceable agreements, thereby helping to eliminate the distrust which clouds union/management relationships at present. Also, the racially discriminatory scheduled persons definition contained in the Mines and Works Act remains unchanged. In 1981, the government charged the mining industry with removing racial discrimination from its employment practices. This was to be done within a reasonable period of time by employers and unions agreeing on pre-conditions aimed chiefly at job security in the industry. Efforts are continuing to change this discriminatory legislation.

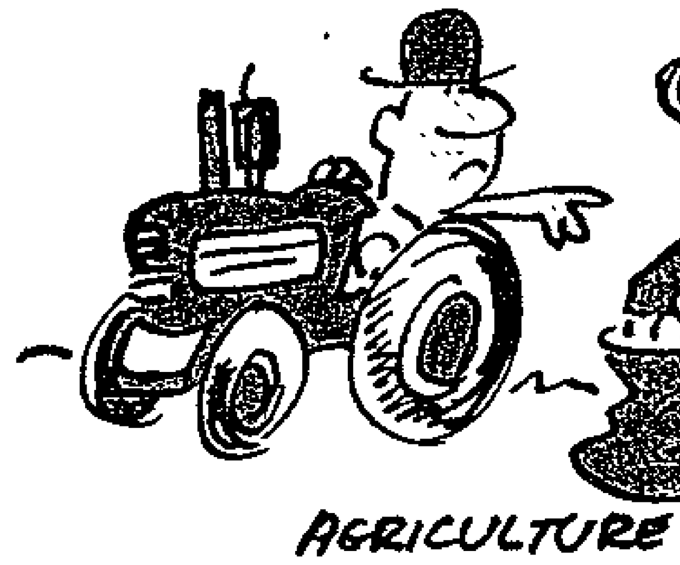
Annual General Meetings

The annual general meetings of members will be held at 44 Main Street, Johannesburg, on Thursday, April 26 1984, at the following times:

Southvaal Holdings Limited 09h30
Vaal Reefs Exploration and Mining Company Limited 09h45
Western Deep Levels Limited 10h00
Elandsrand Gold Mining Company 10h15
The Afrikander Lease Limited 10h30
The South African Land & Exploration Co. Ltd. 10h45



● Rethink on GST on food
● 41 percent more for police
● How the cake was sliced
● Where money for defence goes
PAGE 4



● Reaction from business leaders, pages 22, 23 and 24
● Security bill rockets,
● State subsidies 'under review',
PAGE 5

● The Budget at a glance
● 'Mild' proposals for fringe benefit taxation
● Schwarz slams 'ad hoc' Budget
● Pensions go up
PAGE 6

Beer and bullets Budget

CAPE TIMES 29/3/84 (49

By ROGER WILLIAMS
Chief Reporter

ON the face of it, the average South African has emerged relatively unscathed from the "beer and bullets" Budget presented by the Minister of Finance, Mr Owen Horwood, in Parliament yesterday.

But the Progressive Federal Party's spokesman on finance, Mr Harry Schwarz, said the minister's proposals did not deal with the long-term planning of South Africa and that ordinary people and small businesses would ultimately "bear the brunt of the Budget".

The Budget — Mr Horwood's 10th — brought mixed reaction from organized industry and commerce.

'Neutral'

While the president of the SA Federated Chamber of Industries (FCI) said this was a "neutral" Budget — provided the minister's expenditure targets were not exceeded, as in 1983 — initial reaction of the Cape Town Chamber of Commerce was one of gloom.

"The light at the end of the recessionary tunnel appears farther away," the president of the chamber, Mr Richard Stern, commented.

The Afrikaanse Handelsinstituut, on the other hand, welcomed the Budget proposals to the extent that they "reflect control of government spending".

Income tax

Mr Horwood's tax proposals, to offset a R4 184-million deficit, will hit beer-drinkers — a move attacked by the industry last night as "a blatant form of discrimination against the working man" — cigarette smokers, purchasers of new cars and luxury goods.

BUDGET
BUDGET
BUDGET 84

The minister also announced increases in taxes on companies and on gold and diamond mines.

But he left income tax rates and general sales tax at present levels in his plans to end the financial year with "a small surplus" of R125m.

He also announced increased allowances of about 10 percent for social, military and civil pensioners, and tax relief for the disabled, to senior citizens and to those who build up retirement benefits.

Mrs Joy Hurwitz, national president of the of Housewives' League of SA, last night welcomed the increases for pensioners but added: "We consider they should have been more."

Mr Horwood announced several new investigations into tax structures, including those for married couples, and into possible exclusion of food from general sales tax — a move that was generally welcomed last night by trade unionists and community leaders.

They were, however, highly critical of the huge increase in defence expenditure, and the United Democratic Front said the Budget would "fuel the fires of discontent and anger among the dispossessed and voteless".

Mr Horwood allocated a massive R3 755-million to defence — an increase of 21,4 percent over last year's figure — but this time it was education that got the biggest slice of the Budget cake, with an allocation of R4 200m — 23 percent up on last year.

One of those who welcomed the increased allocation to education was Mr Gilbert Colyn, chairman of the Kaapstadse Afrikaanse Sakekamer, who said improvements in education would help combat underlying structural problems causing inflation.

Main points

These were some of the main points of the Budget:

● Beer up by 2,4c a litre and cigarettes up 2c on a packet of 20.

● Ad valorem duties on non-essential goods up five percent.

● Fringe benefits to be taxed from September 1.

● Tax on motor vehicles up, by 1 percent on those retailing at below R15 000 and 2 percent above that.

● Stamp-duty on cheques to be abolished and a 5c stamp duty on credit-card and automatic-teller transactions to be introduced.

● And allocations from revenue to be diverted from the State Oil Fund to the Exchequer because of the diminishing need to finance the Sasol 2 and 3 projects.

Like Peter Broodryk and Lindsay Trundell, beer-drinkers will be relieved to hear that they will not have to foot the bill for the extra 1c tax on a 375ml bottle of beer. The Cape Hotel Association has recommended that the tax be absorbed by hotels, although off-sales prices will be increased.

Picture: Ivor Markman

Budget's beginnings

By HILARY VENABLES

IF YOU walked up to a medieval Frenchman and asked him (in medieval French, of course) what the budget held in store, he would look into his medieval pouch and, depending on his class and rank, mutter something about louis-d'or or sous, or perhaps nothing at all.

For the word "budget", which we bandy about with such gay abandon at this time of year, derives from the Middle French word "bougette", meaning a little pouch or its contents.

Of course, Mr Horwood's little pouch is far from small — your average medieval Frenchman would be quite unable to carry it around on his person — and its contents cover a wide range of expenses from defence and constitutional development to education and pensions.

Where Mr Horwood gets the contents of his "bougette", as we all know, is from our own little pouches, which is why everyone spent yesterday walking around with their hands in their pockets, hoping Mr Horwood would not demand any more louis-d'or or sous from them and leave them with nothing at all.

The word "bougette" was also used (long after our medieval Frenchman had passed away) to describe a socket in which the end of a cavalry carbine rested, so perhaps it is strangely appropriate that such a large slice of today's "bougette" is being spent on weapons of war.

WHAT do you think of the Budget and what do you think of changes to the SATV programme schedules. If you would like to comment phone Teleletters on 24-2233 between 9am and 12 noon.

● Today's Teleletters appear on page 21.

Economy performed 'remarkably well'

ARGUS 28/3/84 (1FS)

Financial Editor

IN SPITE of the drop in the gold price, the sluggish recovery in the demand for South Africa's non-gold exports and the worsening drought, the South African economy had performed remarkably well in the past year, the Minister of Finance, Mr Owen Horwood, said today.

It was true that the real gross domestic product declined by about three percent and real gross domestic expenditure by about 4,5 percent, but it was now clear that the cyclical downswing that started in September 1981 had come to an end in the second quarter of 1983 and the economy subsequently had displayed a modest recovery.

But while welcome, this new upward tendency represented a deviation from the traditional South African business cycle and in a manner which had called for careful policy adjustment.

The upswung had started out in much the usual fashion as an export-led recovery caused by the rise in the gold price.

But after the gold price fell in February 1973, the recovery in the economy was sustained by increases in Government spending and private consumption.

Mr Horwood said that convincing progress had been made in the battle against inflation. Recovery was less solidly based and more likely to run into new balance of payments and other constraints.

Although the gold prices improved fitfully in the past month, it still remained relatively low.

On the other hand the economic recovery in the United States and, to a lesser extent, in Western Europe and Japan had begun to have

Mr Horwood

an expansionary effect on the country's non-gold exports.

"Present indications are that real gross domestic product will resume an upward tendency and achieve a positive rate of growth in the course of the year."

Mr Horwood said that convincing progress had been made in the battle against inflation.

Not included

The 12 months increase in the consumer prices index had been brought down from the 16,5 percent recorded as recently as May 1982 to 10 percent in February 1984.

Indirect taxes, notably general sales tax, had not been included in the calculation of the index, the present inflation rate would be a single figure.

Mr Horwood said there appeared to be a good case for reviewing the componenets of the index in order to exclude taxes, as many countries did.

SA poorer as economy contracts 3,1 percent

NEWS 6/3/84

49

Financial Editor

DROUGHT and the recession resulted in South Africa having a negative economic growth last year for the second year running — and in South Africans becoming poorer.

The Central Statistical Services reports today that the country's gross domestic product declined sharply in the fourth quarter of last year.

This brought the contraction in the economy in the full year to 3,1 percent and followed a drop of 1,2 percent in 1982.

Gross national product, which is the GDP less net payments to foreigners, and thus the amount of goods and services available to South Africans, fell even further by 4,2 percent last year.

In view of the 2,5 to 3 percent annual increase in the country's population, it seems that gross domestic product a head fell last year by between 5 and 6 percent after a drop of between 3,5 and 4 percent in 1982.

TIGHTEN BELTS

This indicates that many people are having to tighten their belts, especially those left unemployed by the recession and those who earn their living from the land.

It also means that there is less saving available for new investment and that to finance Government spending, taxes will have to take a progessively larger proportion of incomes.

The Central Statistical Services says real agricultural production last year was lower than in any year since 1973. After falling 7,7 percent in 1982, it fell a further 21,8 percent last year.

MANUFACTURING

However, production in the non-agricultural sector fell by only 1,5 percent last year after a 0,6 percent fall in 1982.

Manufacturing production dropped 6,4 percent while the contribution of the transport sector was 5,8 percent lower.

THE REX COLUMN

An independent look at the big picture and the longer-term view

The decline and fall of consumer spending

49

S. Times 26/2/84

AFTER the big boom of 1980-1981, growth in real private consumption spending — after adjustment for inflation — has been slowing down.

For 1983 such spending is likely to have declined by 0,3%. This is hardly exceptional and is no reason for anxiety (see table A).

After all, the components of consumer spending are well known, each with its peculiar features, with none of them immediately giving reason to suspect that a major decline is imminent.

Non-durable goods and services make up 70% of total consumption spending and are marked, through boom and recession, by unremarkable steady growth, reflecting the increase in population and slowly rising real incomes.

Durable (12%) and semi-durable consumption spending (18% of total) are far more volatile over the business cycle because of a more intensive replacement cycle that allows the consumer to substantially delay purchases in times of recession. Pent-up demand usually leads to bunched purchases during recoveries.

It is likely that operation "slash and save" is displacing "spend, spend, spend".

In this respect, spending on both durables and semi-durables has not of late been behaving differently from the accepted norm.

But a careful comparison between changes in consumption spending and gross domestic product shows some unexpected features.

Whereas consumption spending moved closely in line with changes in GDP up to 1980, after that it outpaced GDP by far. GDP deteriorated rapidly after 1980, but consumer spending on durables and semi-durables has hardly slowed — in the worst recession in 50 years.

Indeed, it would appear that the GDP decline in 1982-1983 was not so bad because it was carried, so to speak, by an increasing contribution from private consumption spending (see table B).

Does such support carry its own decay and fall?

Record low

Even though real personal disposable income — after tax — declined in both 1982 and 1983, it had to accommodate growing consumption spending as well as an increase in general sales tax. It should not come as a surprise that this took place at the expense of personal savings, which fell to a record low, as well as an unprecedented resort to credit buying (see tables B and C).

This remarkable willingness to incur debt can be explained only in terms of an extraordinary consumer confidence whose expectations regarding future earnings ability was greatly enhanced by the boom years 1980-1981.

Such excessive recourse to debt, and the steeply higher finance charges, eventually topples the overextended consumer. After the overindulgence of the recent past the question is not whether but how much reckoning awaits us, and which industries, as a result, are likely to suffer most in the year and more ahead.

Given the present competitive conditions in the labour market, this year is unlikely to see an increase in real wages. To this must be added the impact of what is likely to be a stiff

TABLE A
PERCENTAGE CHANGE IN SELECTED RATIOS

	Consumption Spending	GDP	Disposable Income
1976	1,6	1,5	(3,2)
1977	(0,7)	—	5,0
1978	1,4	2,9	(2,8)
1979	2,9	4,1	4,8
1980	9,0	7,8	8,3
1981	6,5	5,1	2,8
1982	2,4	(1,2)	(1,7)
1983	(0,3)	(3,7)	(1,0)

TABLE B

	Consumption to GDP (%)	Personal savings to Disposable Income (%)
1976	56,6	6,7
1977	56,2	11,6
1978	55,3	8,2
1979	54,7	10,4
1980	55,3	10,0
1981	56,1	7,0
1982	58,1	3,8
1983	60,5	3,5

TABLE C
FUNDS RAISED BY HOUSEHOLDS (Rm)

	1976-1978	1979-1982
Bank Loans	1 339	6 211
Mortgage Loans	2 466	6 159
Other Loans	6 776	18 363
TOTAL Borrowing	10 581	30 733

Source: S.A. RESERVE BANK

before the year is out. This would be on top of the expected decline in real disposable income.

Admittedly, a decline of up to 8% in real private consumption expenditure in the period ahead is a unique proposition, and few observers seem ready for such an exceptional decline. The exposure is there, though, and there are precedents.

In 1977 real disposable income GREW by 5% while real consumption spending fell, the difference being a major jump in the personal savings rate. So far, the bubble has not burst. It may be expected that the Minister of Finance will do everything in his power to prevent a sudden collapse in confidence.

His Budget, therefore, is likely to contain even less prescience than in the past as it will be necessary to present optimistically what will surely turn out to be one of the toughest economic years on record.

The Governor of the Reserve Bank appears to expect substantial declines in lending and lending rates in the year ahead. Until now the brunt has been borne by the corporate sector, which has obliged by pairing stock levels and spending plans. It is to be seen to what extent the private household will follow that prudent example in these uncertain and expensive times.

Unprecedented

Mr Meyer Kahn, managing director of SA Breweries, the nation's largest consumption goods company, indicated the other day at the

976 6.3. CONTINUE (4.6)

980 6.4. A Editing code

supported by the speed and strength of the ensuing resurgence in consumer demand.

The parallel with the present American recovery is that despite high interest rates, it is the sentiment of the middle-class consumer that determines consumption growth.

But that is where the comparison should end. The American consumer has benefited from an unprecedented rise in real disposable income because of rapidly receding inflation AND major tax cuts, and his savings rate climbed to high levels.

The personal finances of American consumers, in other words, were greatly improved in the recent recession, only needing a turn in sentiment to induce a new willingness to incur debt and set off a consumer-led boom.

Although South Africa's consumer confidence remains high, it is the tailend of a boom that we are witnessing rather than its beginning. In the year ahead real disposable income is likely to decline materially because of the drought and tax increases, even while the savings rate returns to cautious high levels, leaving squeezed consumption spending in the middle.

The SA consumer appears to be lagging behind his American counterpart by up to half a business cycle, which is most unusual, as we have been in recession since the last quarter of 1981.

Durable and semi-durable consumption sectors would do well to prepare for what promises to be stringent operating conditions ahead as their extensive replacement cycles leave them exposed.

disposable income this year. The real danger zone, though, is the exceptional low rate of personal savings.

If the extraordinary consumer confidence of the past five years were to be reversed, for example, by a strict Budget or a further decline in the gold price, it is likely that the average consumer will turn prudent, reducing consumption spending to allow an increase in precautionary savings. Indeed, when cogniscance is taken of the impact of steeply higher finance charges these past six months, this process of restructuring personal finances may well already be under way — as apparently borne out by the recent Bureau for Economic Research consumer survey.

Major impact

Although many observers seem to think that the consumer is impervious to high interest rates, that has only been so for as long as confidence has remained high and while there was a savings margin to be eroded. With both of these being undermined, and with high real interest rates making a major impact on the average household's budget, it is more likely that operation "slash and save" is displacing "spend, spend, spend". Bankruptcy statistics have, of course, a charm all of their own.

If the average savings rate of 10% for 1977-1980 may be taken as a bench mark, real private consumption spending in 1984-1985 could deteriorate by as much as six percentage points from this source alone. To this must be added a further one percentage point because of the recent GST increase, with one more percentage point due to GST likely

1001 Please read sections 4.5; 4.5.1; 4.5.2; 4.5.4 and 4.6 before the

1002 next lecture.

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STATE FINANCE

Counting the political costs

The 12% civil service pay rise, announced in October during the run-up to the referendum, took the Treasury by surprise and was handed out "over Horwood's dead body." In a full year such an increase will cost R60m-R70m per percentage point, about R800m To finance the 1983/84 portion of the increase requires an additional appropriation of about R200m.

When introducing the R6,5 billion Part Appropriation Bill last week Finance Minister Owen Horwood failed to mention this major cause of fiscal overspending — the cost of financing Pretoria's bigger pay packets from January 1. The reasons may only become clear on March 28, Budget day. But the Hansard copy of Horwood's 1983 budget speech makes interesting reading.

"As has already been announced, because of the prevailing financial stringency," he said, "the government has not been in a position to grant a general salary adjustment to the public service and related institutions on April 1 1983. Should the position of the Exchequer improve *significantly* (our italics) later in the year, the granting of a *modest* (our italics) general salary increase will be one of our first priorities."

A total of R295m was voted under "Improvement of Conditions of Service," but, as Horwood said, "the lion's share of this provision will be used for the virtual completion of the programme of occupational differentiation"

The latter programme has also resulted in unexpectedly high awards, the full extent of which will only become clear on Budget day. Nevertheless, with some awards in specialist job categories running as high as 80%, followed by a 12% general increase, the differentiation plan is clearly going to cost hundreds of millions more than anticipated. Coming on top of the differentiation awards, the 12% rise looks gratuitous. Strongly opposed by the Minister and his officials, it was a blatant political sop with a large price-tag attached.

The R6,5 billion Part Appropriation, now passing into law, is 16% higher than its 1982/83 counterpart. But this is never a reliable indicator of spending patterns to come, since it notionally covers current costs until July when the main appropriation is enacted by Parliament.

In his second reading this week, Horwood referred to allegations that government had lost control of public spending as "a distortion of the facts." He mentioned a few unavoidable cost inflators which, he said, were one-off phenomena that would "only temporarily" interrupt the long-term, established pattern of relatively small annual rises in government spending. Among them were the cost of drought relief (R400m so far, and rising), food subsidies, defence spending and idiosyncratic accounting procedures which substantially raised the cost of public debt during the year.

Clearly, something will have to be done about these accounting procedures. The cost of debt servicing rose strongly in the current year because of procedures whereby discounts on government bonds offered are added to the cost of the loan in the year in which it is made and not liquidated over the full term of the loan This is purely a technicality and does not result in a physical increase in spending

It is understood that the cost of servicing public debt rose R470m this year. Horwood says this is because Treasury bills are being used increasingly as policy instruments to influence monetary aggregates.

The Additional Appropriation Bill, to be read a second time in Parliament on Tuesday, is unlikely to reflect massive government spending overruns. By all accounts it will probably only marginally exceed 3% of budget, or R630m, which is par for the course.

Minister Horwood ... immodest rise over his dead body

LIFE INSURANCE

Don't bank on it

In its sharpest reminder yet, Pretoria has told banking institutions to immediately stop conditional selling of life insurance or face legislation

Shortly before Christmas, Registrar of Financial Institutions Robert Burton warned banks that they were responsible for ensuring that the provisions of Section 23c of the Insurance Act 1943 were not contravened. In effect, this section says that no person shall, as a condition of lending, insist that the debtor shall take out a policy unless he is allowed to choose his insurer, the policy package — which can be an existing one — and the intermediary

Judging by the tone of the circular, dated December 1983 and addressed to all banking institutions, the authorities are losing patience with those who persist in the practice of conditional selling of insurance.

The circular mentions the Commission of Inquiry into the Long-term Insurance Industry, which reported under J W Louw in 1976. With regard to banks acting as brokers, the commission recommended that they "be prohibited from using their position as suppliers of credit to require clients to make use of their associated insurance companies or broking services." As a last resort, "they should be prohibited from either directly or indirectly acting as life insurance brokers."

But the banks seem unperturbed — they have seen it all before. "It's a hardy annual," one banker commented, "and, anyway, we wouldn't dream of conditionally selling insurance. Indeed, we have given our branch managers specific instructions not to."

This may seem reassuring to the public; but it is quite another matter when the

CAPE TIMES 15/2/84

44

Current account showed R500m surpl

HOUSE OF ASSEMBLY. — The current account was provisionally estimated to have shown a surplus of about R500-million during 1983, the Minister of Finance, Mr Owen Horwood, said this week.

Introducing the R6 500-million "little budget" — the Part Appropriation Bill — on Thursday, he said this surplus compared with a revised deficit of R3,2-billion in 1982, and represented a substantial improvement.

"During the fourth quarter of 1983, however, the surplus on current account was temporarily transformed into a moderate deficit. This occurred despite a distinct and most welcome increase in non-gold exports, and was mainly produced by a decline in the value of the net gold output and an increase in imports.

"The latter increase was largely due to two special factors, namely an abnormal and temporary spurt in oil imports and large imports of maize to make up for the drought-induced shortfall."

Mr Horwood said that given the decline in the gold price and the other adverse extraneous developments, the rand had held up well in the foreign exchange market. During 1983 as a whole, the rand had decpreciated against the exceptionally strong United States dollar by 11,6 percent, but by only 4,3 percent in terms of a weighted "basket" of foreign currencies, including the dollar.

"Indeed, over this period it depreciated against sterling by only 1,5 percent and against the Swiss franc by 3,7 percent, and appreciated against the German mark by 0,9 percent and against the French franc by 9,2 percent.

"From the point of view of curbing inflation, any depreciation of the rand in terms of other currencies is of course problematical. But from the point of view of counteracting a decline in domestic economic activity and maintaining equilibrium in the balance of payments, this downward flexibility of the exchange rate has served the country well.

"It has, for example, prevented the rand price of gold from declining as much as the dollar price, thereby to a large extent insulating the gold mining industry from the sharp fall in the dollar price of its product."

In addition, Mr Horwood said, it had preserved the dividend payment potential of the industry not only in rand terms, but also in terms of such important currencies as sterling, German marks and Swiss francs.

It was well known, he said, that South Africa's economic upswings had in the past usually been export-led and had tended to follow the upswings in the major industrial countries, with a time lag of between six and 15 months.

"A year ago, when I introduced last year's Part Appropriation Bill, there were strong indications that in accordance with this well-established cyclical pattern, the South African economy was approaching the lower turning-point of the business cycle and was about to enter a new upward phase.

"The US economy was recovering from its recession and this augured well for our exports of minerals and other primary commodities. Moreover, in the wake of the emerging international debt crisis, the gold price had staged a strong recovery from about September, 1982, and by mid-February, 1983, was fluctuating around a level of 500 dollars per ounce.

"In addition, the balance of payments had shown a spectacular improvement during the second half of 1982. The rand had accordingly appreciated between the middle of 1982 and the end of January, 1983, by nearly 10 percent in terms of a weighted basket of other currencies, and the net foreign reserves had increased by more than R2,5-billion."

Mr Horwood said that in the months that followed, however, economic conditions and prospects had been adversely affected by a number of new extraneous developments which came to pose "quite exceptional challenges" to the authorities.

"To begin with, the gold price moved into a declining phase that was to have serious consequences for the South African economy. After reaching a peak of over 511 dollars per ounce on February 15, 1983, the gold price averaged only 427 dollars during the second quarter of 1983, 417 dollars during the third quarter, 424 dollars during the fourth quarter and a mere 373 dollars thus far this year.

"In addition, South Africa's ... mained relatively low during ... began to show a rising tenden... months of the year."

A third adverse development ... ing of the drought during the ... 1983.

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Cape Times 18/2/84 (44)

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"In addition, South Africa's non-gold exports remained relatively low during most of 1983 and only began to show a rising tendency during the closing months of the year."

A third adverse development had been the worsening of the drought during the first three quarters of 1983.

Mr Horwood said the pernicious combination of a declining gold price, disappointing non-gold exports and unfavourable weather conditions not only had adverse effects on gross domestic product, the balance of payments on current account and the budget, but had also contributed to a net outflow of capital.

"It did so, for example, by creating the expectation that the rand would depreciate, which produced unfavourable payments, leads and lags, and by encouraging the sales of South African securities by foreigners to South African residents.

"It is a tribute to the South African economy that, despite these new adverse extraneous developments, it performed well in 1983. It is true that following a decline of about 1,5 percent in 1982, gross domestic product regressed by about three percent in real terms in 1983 as a whole.

"But it is significant that the cyclical downswing which started from a high level of economic activity in August, 1981, 'bottomed out' from about the second quarter of 1983.

"Indeed, real gross domestic expenditure, real gross domestic product and non-agricultural employment all increased again during the second half of 1983, while unemployment declined," Mr Horwood said.

As part of the anticipated increase in real gross domestic expenditure in 1984, the volume of imports was expected to rise by about two percent from its existing low level. In value terms, the increase could be of the order of eight percent, Mr Horwood said.

"On these assumptions, the current account of the balance of payments can be expected to show a moderate surplus in 1984.

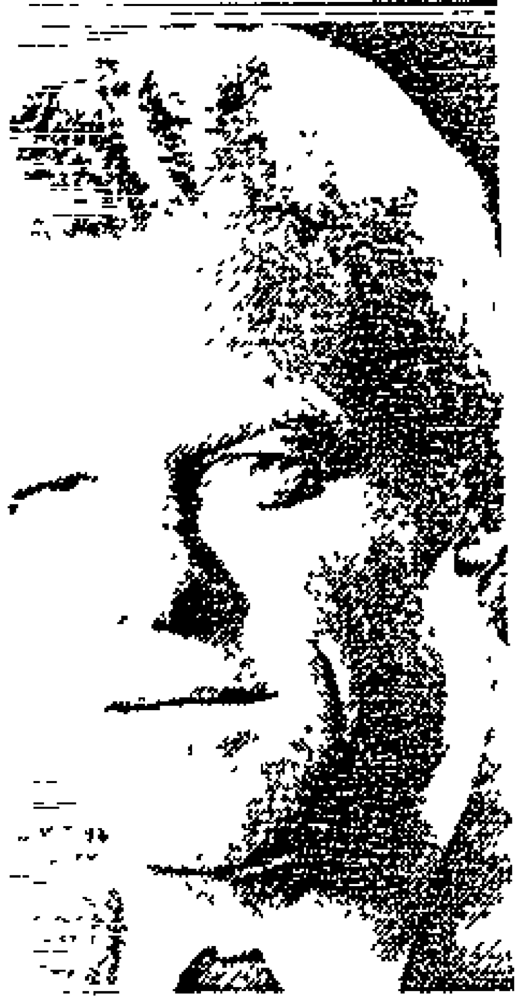
"The anticipated increase in exports and in gross domestic expenditure should be sufficient to generate an increase in real gross domestic product of about three percent in 1984. Naturally, this figure will be influenced by the extent to which the recent floods in the north-eastern part of the country and the worsening drought in certain other areas affect real agricultural output."

Mr Horwood said a positive rate of economic growth of the order of about three percent in 1984 would represent a considerable improvement on the negative growth rates of the past two years.

"Moreover, if accompanied by a lower rate of inflation than in the preceeding years and by the maintenance of a sound balance of payments position, it would point the way to a further acceleration of growth in 1985," Mr Horwood added. — Sapa

Signs point to R1-bn govt over-spending

CAPE TIMES 14/2/84 (49)



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By HAROLD FRIDJHON

JOHANNESBURG. — All signs point to the government over-spending its Budget for the current fiscal year by R1 billion.

This would mean expenditure has increased by at least 15,5 percent compared with the 10 percent estimate made when the Budget was introduced in March last year.

The indications are that Agriculture, Defence, and Finance will over-run their budgets by the largest amounts.

Government expenditure in January dropped to R1,706 billion, the third lowest month in the 10 months of the current fiscal year, compared with R1,514 billion for the comparable month of the previous year.

Expenditure

For the full 10 months expenditure amounted to R18,58 billion against R16,244 billion last year, an increase of 14,4 percent.

This year's expenditure figure is not entirely accurate because the Treasury paid R892m to the Reserve Bank to compensate it for losses on foreign currency transactions and this payment was reflected "below the line" instead of "above the line".

With expenditure for the 10 months at R18,580 billion, revenue is R15,882 billion, leaving a deficit of R2,698 billion. But revenue receipts appear to have been overstated by R900m which was drawn from the stabilization account earlier in the year. This was reflected under Inland Revenue whereas it should have been shown among "other receipts" below the line.

The two erroneous entries ultimately balance themselves out but it does change the profile of the bookkeeping.

The nominal deficit before borrowing at the end of 10 months as revealed by the published figures was R2,698 billion compared with the budgetted R2,082 billion. This will probably be increased by March 31. But Mr Horwood will not be embarrassed by the difference. He has raised R3,710 billion net so far this year.

Monthly average

The estimate of the R1 billion over-spending can be calculated in many ways. If to the total expenditure to January — R18,580 — the actual monthly average of the 10 months spending is added for February and March, the Budget could over-run by R1,121 billion. If, however, one adds to total spending for 10 months, the Budget monthly average for the remaining two months, the excess spending would be R970m.

But if one projects to the end of the fiscal year, the excess spending of specific departments and one does not take into accounts those departments which might not have spent their allocated funds, the over-run could be as much as R1,283 billion.

Perhaps this might be a more accurate measure because included in the total Budget was the item "improvements in the conditions of service" (for public servants) for which R250m was allocated. But by December only R4,73m had been spent under this heading and it is unlikely that the whole amount will be spent when the fiscal year ends.

There has been some deft footwork in the national bookkeeping.

At this stage of the fiscal year it would seem that the tiny expense on Parliament — R8,117m — will be over-run by about 30 percent. What about next year's three Parliaments?

The big over-spenders will be the Treasury which will probably exceed its vote by R291m because of the high cost of borrowed money.

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$10,1-bn take-over

WASHINGTON. — The largest corporate merger in United States history — between the Texaco Oil Company and Getty Oil Co — received tentative approval yesterday from the Federal Trade Commission.

The commission, which must review such mergers, voted four to one to allow the $10,1 billion take-over, although it will require Texaco to make some divestitures to satisfy anti-trust concerns, commission spokeswoman Mrs Susan Ticknor said.

She did not give details of the requirements. — Sapa-AP

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes

R2 000-m in drought losses

A bodyblow for growth of economy

49

8/2/84 Star

By Hannes Ferguson,
Farming Correspondent

Economic growth in South Africa this year will be given a bodyblow by the disastrous drought.

A spokesman for the Directorate of Economic Planning said that if forecasts of drought losses this year being R2 000 million turn out to be true, the effects could set South Africa's economy back by R3 500 million — five percent of the national product.

With a normal crop of 12 million tons of maize, the country's growth during this year would probably have reached 3,5 percent. But the shortfall in the crop will probably mean another year of negative growth.

In Dundee, the Natal Agricultural Co-operative said that up to 15 percent of Northern Natal's maize fields had been destroyed by floods, but Cyclone Domoina had brought good rains to large parts.

Nearer to the Drakensberg, however, maize crops were already showing stress signs and needed rain urgently.

Flood damage in the Pongola section of the Transvaal sugar industry has been assessed at R38 million, according to the SA Cane Growers' Association. This includes 600 hectares of cane washed away, 1 000 hectares of sugar fields covered by a metre of white river sand — making them a total loss.

In the west, destruction of maize crops by scoring heat moves steadily eastward over a wide front, causing about R80 million in losses for every rainless day. Even in the Eastern Transvaal Highveld, maize is beginning to show stress signs.

Recent hail damage in the Bethal district has now been assessed by the Eastern Transvaal Co-op at R80 million, of which only R20 million was covered by insurance. As much as 170 000 hectares were devastated, resulting in 50 to 100 percent crop loss.

Hail is the third major farming disaster this year after drought and floods.

According to the National Maize Producers Organisation, prospects are that last year's mini-crop of less than 4 million tons might not be exceeded this season.

Economic upswing looms — Volkskas economist

Cape Times 3/2/84

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By PAUL DOLD, Financial Editor

THE South African economy would begin its recovery this year with some three percent growth likely, Volkskas' chief economist, Mr A Jacobs, forecast yesterday.

Urging the business sector to prepare for the upswing he said, while the drought and the low gold price were negative factors there were major positive inputs.

These included an early revival of South Africa's exports as well as a rebuilding of domestic inventories which had been run down to very low levels over the past two years. As retailers re-stock, manufacturers would gear up production leading to an increase in output and GDP.

Recovery

While the first year of the recovery was likely to be typically bumpy, the gold price should harden with the average likely to be around the $420 mark.

The continued strength of the dollar would however have a major limiting effect on gold's recovery and the United States currency was likely to strengthen as the probability of President Reagan's re-election increased.

The gold price was cardinal to South African growth prospects and a $50 move could influence the balance of payments by R1 000m and make a half a percent difference to the growth rate.

Critic

Mr Jacobs expects the Budget to be restrictive with consumer spending being restrained to protect the balance of payments. With an outflow on the capital account the country could not afford runaway imports and recent figures suggested the current account had reverted to a deficit.

The authorities were faced with a difficult situation given the low gold price and heavy demands on the Exchequer.

Mr Jacobs who was a strong critic of official policy in 1980 when he urged the authorities to adopt more conservative policies and hold back spending conceded yesterday that even if the correct policy mix had been followed at that stage it would help little in the current scenario.

Deficit

He believes Mr Owen Horwood will increase corporate tax to 50 percent but that personal taxation is likely to remain unaltered. However, continued fiscal drag will lead to a higher contribution from this source.

Following the increase in General Sales Tax, the deficit before borrowing would be around R3 000 billion, equivalent to about three percent of Gross Domestic Product.

Interest rates would hinge on the gold price. Prime was finely balanced and could move either way.

The present high interest rates reflected the current account moving into deficit but a continued strengthening of the gold price would lead to lower interest rate patterns.

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The Cape Times, Thursday, February 2, 1984

South Africa may soon raise dollar loan — bankers

From NEIL BEHRMANN

LONDON. — European bankers believe that South Africa will soon raise a large dollar loan on the Euromarkets.

The money will be raised via a syndicated credit or Eurobond (gilt).

Timing could be propitious. The Eurobond market was flush with funds in the past week — an improvement over the recent cautious climate.

Spain, one of Europe's weaker credits offered $200m of 13 year notes. Such was the demand that in only a few hours the amount was raised to $250m.

Interest was set at only one eight of a point over the London Interbank rate for six months Eurodollars, currently 9,88 percent.

A Republic of South Africa bond issue would set the pace for a concerted international borrowing campaign this year.

Budget estimates

In the first nine months of its fiscal year, the government's deficit was well in excess of Budget estimates. Total outlays of all State departments exceeded revenue by R2,5 billion.

The local money and capital market is already under considerable pressure and both long and short-term interest rates are inordinantly high. So the government's domestic borrowing capability is limited.

This leaves the government and quasi-State bodies such as Escom and Iscor, little alternative but to borrow abroad.

If they fail to do so, local interest rates, especially medium and long term could either rise to new hights or there could be further depreciation of the rand.

Since the flat gold price and the prolonged drought are aggravating the recession it is highly likely that the authorities will opt for the foreign borrowing option.

Foreign markets

The big question however is whether South Africa will be able to raise substantial funds on the foreign markets this year. On the positive side, South Africa has proved to be an excellent credit risk.

"Banks are shying away from South American and East European nations, but they are happy to lend to countries with low debt service ratios," says a London banker.

He adds that South Africa's international credit commitments of two years or more were around $2,2 billion at the middle of last year only 15 percent of total exports.

He contends that there are more than sufficient international funds for sound sovereign borrowers.

But other bankers and officials, are more cautious.

The United States Congress, through various acts last year, has leant on American banks and the International Monetary Fund. This pressure enforces extra scrutiny on loans to South Africa.

Regardless of political factors, the international banking climate is not conducive towards a sharp rise in South African borrowing.

Newsletter

Agefi, the international credit newsletter, estimates that total syndicated Euro-loan and international bond issues dropped from $246 billion in 1982 to $186 billion in 1983.

"The market shrank significantly in 1983 ... such a large drop does not automatically indicate a strong revival in 1984," says the newsletter.

South Africa's borrowing on these markets tumbled by $1 billion to $1,4 billion in the same timespan, estimates Agefi. South African syndicated credit and bond borrowing in 1982, however, were considerably higher than the levels seen in 1981.

Morgan Guaranty says "lesser developed countries' debt problems led to considerable restraint by lenders and investors".

It estimates that LDC's raised only $2,5 billion in the international bond markets last year.

But Standard & Poor's, the American credit agency, recently concluded that the debt crisis confronting many developing nations, masked the deteriorating credit risks of "small industrialized nations".

These countries are much better off than Mexico, Brazil and others but their balance of payments and domestic economic performance has deteriorated because of the prolonged international recession.

Credit ratings

Last year, for the first time ever, Standard & Poor downgraded its credit ratings of industrialized countries.

Denmark and New Zealand's debt ratings were lowered from the top quality AAA to AA+.

Australia, Austria, Canada, Finland, France, Japan, Norway, Sweden, United States and United Kingdom are on AAA ratings.

South Africa is not rated by Standard & Poor's because it did not ask for an assessment.

Unfortunately, however, it can be classified as a small industrialized nation, with growing economic problems.

Even though South Africa borrowed less on the Euromarkets last year, total credits increased. Companies resorted to extensive trade finance abroad because they took advantage of lower interest rates abroad.

The Bank for International settlements says that between September 1982 to September 1983, total net South African borrowings rose from $10,9 billion to $12,4 billion.

About 60 percent of these loans were credits with a maturity of one year or less. These short-term credits must be rolled over, otherwise there could be short-term capital outflows — with all the unpleasant side effects.

Commodity Index 1999,3	
Platinum	$386,50
Palladium	$162
Raw Sugar	£127,50

South Africans to be worse off, bureau predicts

(49) S few 2/2/84

By Bill Levitt

South Africans got another gloomy economic forecast today. Wage increases are likely to slow, the Government will probably raise taxes in March and because of inflation real disposable income will show almost no increase.

That is the message of the latest consumer survey published by the University of Stellenbosch's Bureau of Economic Research.

Predicting the next few months would not be rosy, the report says negative factors have gained on the positive factors and the outlook is somewhat sombre.

"Short-term economic growth may be inhibited by the Government's tight-fisted monetary policy in the battle against inflation. That means another bout of high interest rates.

"Higher payments for mortgages and loans will add to the strain on consumers and could have an adverse effect on spending. That, along with tax increases, would militate against growth and could delay an economic upswing to some extent."

The report blames high interest rates in the United States, which have helped strengthen the dollar. The high rates have depressed the gold price and discouraged the US export sector — two things which have dampened growth considerably.

Despite these inhibiting economic factors, the bureau's consumer survey discovered that white consumers in particular are regaining their confidence in the economy.

About 32 percent of white households — up from 29,2 percent in the last quarter — reported that it was a good time to buy relatively expensive goods. About 24 percent said the time for such purchases was unsuitable, a drop of eight percent since the last quarterly survey.

Nearly 50 percent of white households reported that conditions were probably favourable for saving — up from 41 percent the previous quarter — and more of them said they would be able to save money in the near future.

BLACK VIEW

To heads of black households the immediate economic future appears grim but they seem to be quite optimistic about the outlook for the next five years. About 52 percent — up from 35,6 percent in the last quarter — expressed the opinion that the economy would show an improvement by 1988.

Fewer black households reported rising debts and about 25 percent of those surveyed reported that their income was enough to make ends meet.

In November the bureau polled whites in cities, towns and villages across the country. Blacks in major metropolitan areas were polled, excluding Cape Town.

Transport sector is hamstrung by Govt's policies, symposium told

(49) Star 1/2/88

By Melanie Sergeant

While South Africa strives for a stronger free market, free competition and a smaller public sector share in the economy, there has been little progress in aligning the transport sector with these developments.

Mr Andre Hamersma, group economist of Stanbic, said this at today's Assocom transport symposium in Johannesburg.

"The costly social and political burden placed by the Government on SA Transport Services (SATS) meant massive distortion of prices, tariffs and rates, which heavily penalised the transport of manufactured goods in particular", he said.

SECTOR POLITICISED

"Not only are railway tariffs distorted, but pipeline and wharfage charges, too, bear no relation to the cost of producing these services. Even airline fares and tariffs are directly affected."

This control limited competition and conflicted with national economic strategies.

Although Government said its aim was to reduce its economic role, its direct interest in transport remained vast, meaning the sector had become politicised, making it difficult to bring change and run efficiently.

Some major problems:

- Unrealistically high wharfages virtually strangled this otherwise effective transport means.
- Regional air services were probably underdeveloped, given the nation's geographic features.
- Co-ordination was impossible as decisions were made by different entities including central Government, public corporations, homeland authorities, local authorities and private companies, leading to a rigid SATS unresponsive to demands of a developing and rapidly changing economy.
- Many of millions of rands were paid for the administration of SATS — most of this being "pure and unadulterated waste".

While the Government aimed to integrate underdeveloped areas with modern sectors, transport policy was not in line with this, he claimed. Firms in decentralised areas were at a disadvantage over the rebate system.

But SATS' deputy general manager, Mr G M Holz, told delegates the Government-owned SATS would, for the foreseeable future, remain the national transporter.

Although SATS saw a time when freer competition in transport would be possible, Mr Holz said this would take some time; the private sector would have to accept its full cost responsibility in solving some structural problems facing SATS.

Consensus would have to be reached on:

- Raising certain SATS tariffs now based on the value principle, as for minerals and farm products.
- Releasing SATS from running uneconomical socio-economic services. The private sector wwould probably be asked this year to help finance deficits on suburban passenger services.
- Making road carriers bear their fair share of road infrastructure costs if SATS was expected to compete under freer market conditions.

Despite the Government monopoly in rail services, private road transport was growing. In 1957 the private sector's share of road transport was 38,5 percent — now about 67 percent.

HANDICAPS NOTED

At R8,715 billion, SATS' operating budget and capital investment made up about 41 percent of SA's budget.

It had vast buying power: in the last financial year it spent R150 million on imports paid for overseas, nearly R400 million on imports paid for locally, and more than R1,2 billion on locally-made goods.

Dr G J Coetzee, assistant general manager (commercial) of SATS said it was "restricted by its social-economic obligations, bound by its infrastructure costs, burdened with an outdated tariff structure, and therefore deprived of its right to act as a business enterprise.

"Yet it is mistakenly referred to as a price leader, whose tariffs others follow to suit their own pricing".

Partners in the future — Govt and big business

(49) Jan. 84

(49)

In a R100-million deal in the final days of 1983, Barlow Rand took control of Blaikie-Johnstone and the total equity of Wolhuter Steel. The man behind the take-over was John Maree, a director of Barlows and chairman of the group's building and construction division. One of the few South Africans who straddles the gap between big business and Government, Mr Maree spoke to PETER BUNKELL

PROFILE

By PETER BUNKELL

THERE is an urgent need for big business in South Africa to work closely with Government if it is to compete successfully on the international market.

This is the view of Mr John Maree, who says that the economy, in the future, will have to be export led and that co-operation between the private and public sectors is essential for a clear understanding of world markets.

"We will have to pull together all our resources, and I believe this is what is going to happen."

Mr Maree is particularly well qualified to comment on the relationship between the central authority and the business community. He is one of just a handful of South Africans who commands respect in both arenas.

In 1979, at the request of the Prime Minister, he was seconded for three years to the Ministry of Defence as chief executive of Armscor.

Speaking at Barlow Park in Sandton, Mr Maree said it was easy to understand why there was a chasm between the private and public sectors.

"Historically, the Government has been Afrikaner-rural in its whole support and structure. It has been linked to Pretoria, whereas big business has tended to be English and concentrated in the city of Johannesburg.

"That is what makes our position different to the French and British systems, where both business and government are sited in the same cities.

"There is, of course, a situation similar to ours in the United States, where you have Washington and New York, but in South Africa it is not just Pretoria-Johannesburg ... there are language and cultural differences as well."

Exacerbating the problem was the fact that Johannesburg was run very differently to Pretoria.

In Johannesburg, people were motivated by a certain set of stimuli ... business, growth, development and what was being reported by the financial Press.

In Pretoria, people thought differently and were not subject to the time scales which dictated the need to speak to shareholders every six months.

They were busy with macro projects — what was good for the country — and this made them different.

"Before I went to Armscor I was told by a friend of mine that my secondment was going to be the most fascinating three years of my life, that after working with Government officials I would soon realise that they approached things differently.

"There is no doubt that there is a gap between us and it is one that is not going to be easy to bridge."

Mr Maree believes, however, the Mr P W Botha is determined to bring the two sectors closer together. This, he feels, is something that will be reflected in the result of the referendum.

"The Prime Minister has picked up a new Left. He is sitting with a different constituency from the one he had and, in that sense, I believe that closer co-operation between the private and public sectors is going to be facilitated.

"With Mr Botha setting the pace there will be a better understanding which will eventually be beneficial to the country as a whole.

"There must be an understanding on the part of big business that it has a role to play but that it does not have all the answers.

"Those answers will have to be worked out with civil servants and politicians. In that way it will be easier to draw on all the skills available in this country."

An imposing figure at almost two-metres tall, Mr Maree has compiled an impressive business record since graduating from the University of the Witwatersrand and the Harvard Business School in the United States.

He started his career with Union Free State Mining and Finance Corporation and currently serves on the boards of 10 major organisations. In 1981, he was selected by the Sunday Times as one of the country's five top executives.

He is a keen golfer and gardener and makes a point of keeping himself physically fit.

While serving as executive chairman of Rand Mines Properties in the early Seventies, Mr Maree arranged for RMP to to donate the historic village of Pilgrims' Rest to the Transvaal Province.

"'Pilgrims' Rest was never proclaimed as a town. It belonged to RMP.

"The Administrator of the Transvaal at the time was Mr Sybrand van Niekerk and I got hold of him, took him to the town and asked him if he would like to take it for the country.

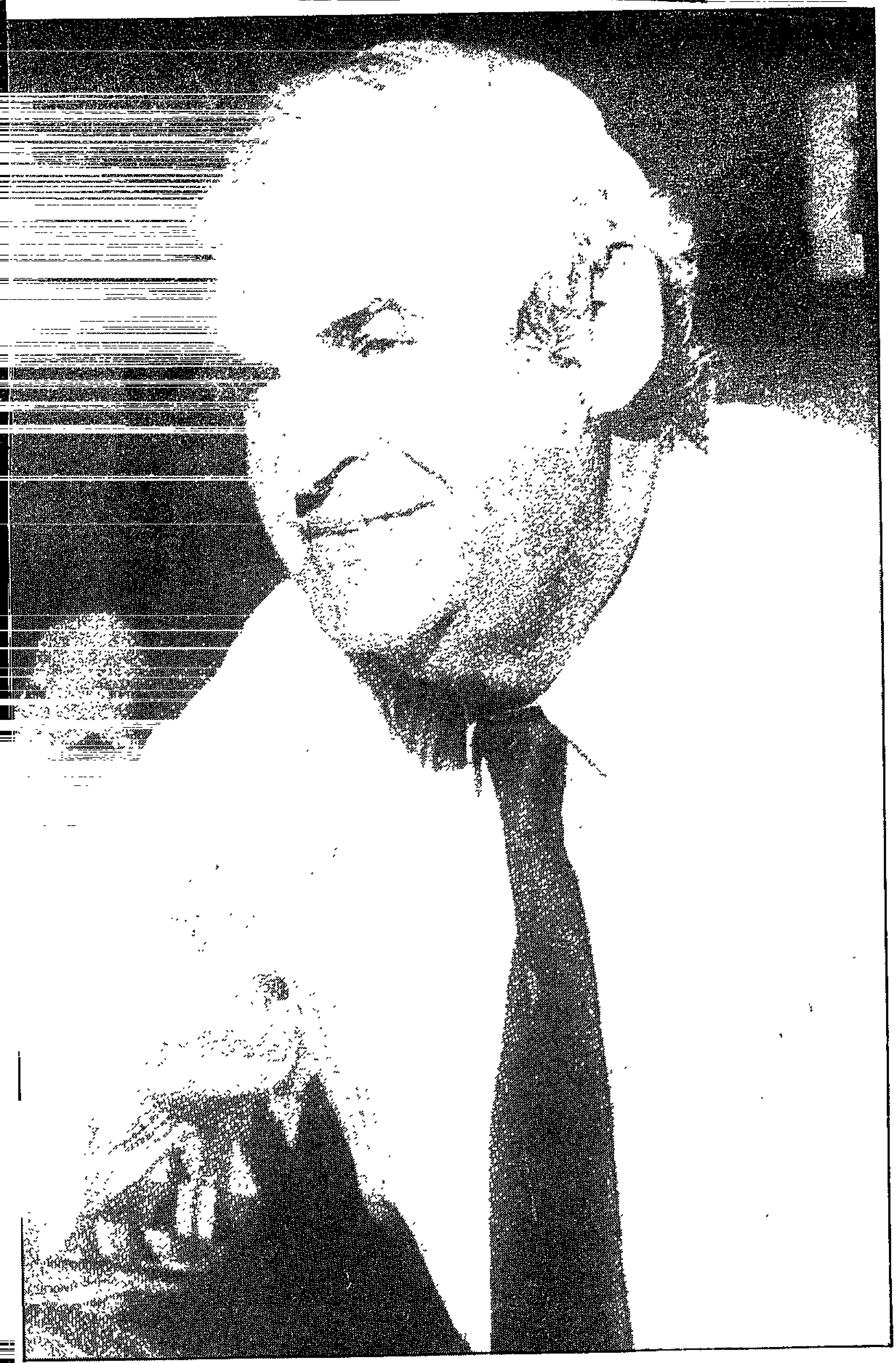
"He accepted the offer, and since then a lot of money has been spent preserving and restoring the place."

Referring to South Africa's growth potential, Mr Maree said he believed the country — because of its raw material wealth — had the ability to grow faster than any other country in the world.

However, there were two major problems which had to be overcome.

The first was the need to increase productivity.

"For human and social reasons it has always



JOHN MAREE ... "We'll have to pull together all our resources, and I believe this is going to happen"

"How do you change that? People will just have to realise that you have got to work to eat and that higher income comes only out of higher effort."

The other major problem identified by Mr Maree is inflation.

If South Africa continued to have higher inflation than its trading partners, if it continued to have escalating electricity costs, transport costs and wage costs, it was going to price itself right out of the world market.

"I have a concern that the Government is not going to be tough enough to take the steps really required to curb inflation.

"They are the only ones who can do it, but the measures they will be required to introduce have serious political implications ... like unemployment and the detrimental impact that tough, anti-inflation measures will almost certainly have on the black workforce."

On the question of a handful of major business conglomerates controlling most of the financial and industrial activity in South Africa, Mr Maree said he was aware that there was concern about the development of certain organisations which got bigger and bigger.

What had to be understood, however, was that while in some instances one could say that to become bigger could have a negative effect on competitive situations, there were other areas where the big corporation played an important role in the development of the country.

"If you are going to start a gold mine or a Sasol you have got to be big.

"While we must ensure that the competitive situation in the country is not being detrimentally affected, there must be an understanding that we need big business.

"They are the only people able to generate the capital and skills required to do big things."

Mr Maree said he believed there was a general shortage of skilled people at the same time that the country was experiencing a flood of black matriculants.

This was material that would have to be used to fill the skills gap and when this happened the composition of the total workforce would change rapidly.

"It is essential that we bring non-white people quicker and further into our management structures, and we will also have to devise, managerially, new ways of tapping all the skills that are available.

"At the higher level we tend to do this. We get people together, we plan together and we think together. But I believe that we have to take this process a lot further than we do at the moment."

One way of doing this, Mr Maree said, was to make use of Japanese management techniques and start involving the worker, skilled and semi-skilled.

This was a source which could provide a great deal of input, but to achieve such an objective a different atmosphere would have to be created.

It was vitally important, particularly where an advantage was held on a particular commodity, that methods were devised to utilise every conceivable skill that the country possessed.

"Generally speaking, I believe South Africa is on the point of moving down a completely new track. When you get a fork in the road, initially the two roads run very close together.

"But we have now passed the fork and the changes are going to come very quickly ... a lot faster than either we or the Government realised.

"For example, if we are going to give the vote to coloured and Indian people, how can we possibly restrict them in other areas?

"There is no doubt that we will see a rapid dismantling of apartheid in so far as it affects those two groups."

...ial we bring non-whites quicker, ...r into our management structures ❞

FINANCE

NGCS 25/1/84 (49)

The national budget and the economy

Dire warnings of Government overspending and tax increases combined with gloomy prognostications about the economy surely serve a useful purpose, writes PROFESSOR BRIAN KANTOR, head of the School of Economics at the University of Cape, in the first instalment of a two-part article.

THE economic authorities and economic commentators are again engaged in what can best be described as budget foreplay. It is not, nor is it intended to be, a pleasurable experience for the company treasurers and high income earners vulnerable to tax increases.

Dire warnings of Government overspending and inevitable tax increases, combined with gloomy prognostications about the state of the economy, surely serve a useful purpose, at least as far as the Ministry of Finance is concerned. They help prepare the ground for a popular budget. The objective features of the budget are much less important than the comparisons between the actual and the expected budget. The secret of a politically successful budget is to provide one that is better than expected.

The concern for higher taxes is also surely meant to be shared by all members of the Cabinet and Government. The unpopularity of taxation and the threat of an unpopular budget is the most important weapon in the armoury of the Minister of Finance. Cabinet Ministers in charge of the departments that spend the proceeds of taxes or loans make themselves very popular when they are able to say "yes" to this or that undoubtedly worthy cause. There are an infinite number of such causes and an infinite amount of money that could be justifiably spent on them — if only somebody else could be encouraged to pay for them. Politicians inside and outside the Government are naturally subject to continuous pressure to indulge the causes with more money.

Invidious task

It is the invidious task of the Minister of Finance to make the painful connection between popular spending and unpopular taxation. While some kinds of taxes are, or more particularly taxpayers, are less popular than others — which is why the top 14% or so of income earners pay over 90% of the personal income tax — there are limits to which the burdens of taxation can be concentrated on the few.

There is also the consideration that the few capable of earning high incomes and thus who play a critical role in the economy are also the most mobile group who can easily escape the tax net by living and working in some other part of the world.

Fundamentally, the only way to limit the growth in taxation is to limit the growth in government expenditure. It is this message, vital for the health of the economy, that the Minister of Finance has to deliver to the community and to his Cabinet colleagues one way or another.

The budget for the 1984/85 financial year will have as its foundation the pattern of revenue and expenditure established in this 1983/4 financial year. It will also depend on the performance of the economy expected by the Ministry of Finance in the year to come.

Foundations

Let us look at the foundations first.

Any gloom about the revenue side would appear vastly exaggerated. The Reserve Bank reported in its December Quarterly that revenues in the first half of the financial year were some 14% higher than in 1982 and well ahead of the 9,6% increase budgeted for. The growth in revenue would appear to have been sustained in the final three months of the year.

Total revenue collected by December 31, including the statutory earmarked funds, was some R14 747-milion compared with R12 269-million for the same period in 1982, an increase of about 20%.

Lower imports

Receipts from customs and excise are some R344-milion down on last year, largely the result of lower imports and the reduction in the import surcharge. However, income from other taxes, including personal income, sales, company and gold mining taxes, is up.

Given the higher rand price of gold, receipts from gold mines are holding up well above budget estimates. Last year I had calculated that the estimated Government revenues from the gold mines, both taxes and leases, were predicted on an average gold price of R440 an ounce.

The average gold price between April and October was, in fact, R468. The current gold price of about $370 is equivalent to R462, at an exchange rate of $0,80. Interestingly enough, the gold price in 1980 averaged $613, which was then worth only R477.

Government expenditure is also running above last year and above budget. By December 31, R17 236-million had been spent by Government departments, including statutory expenditure, compared with R15 090-million in 1982. This represents an increase of 14,2% and can be compared with the budget of R21 703-million for the full financial year. The budgeted increase was about 11%. Thus, both expenditure and revenues are running at about just over 3% more than budget.

If both revenues and expenditure continue to run some 14% above last year's levels, then the fiscal deficit for the full financial year will turn out very much as budgeted for. Thus I find it very difficult to credit reports of huge and embarrassingly large fiscal deficits in 1983.

Expected revenues of nearly R20 000-million for the financial year as a whole should provide a very satisfactory basis for the 1984 budget. This budget, as in the recent past, will fall within the following by now established parameters. They will also fall within the parameters established as sound by the International Monetary Fund and conditional for South Africa's borrowing from it. The main condition is an expected additional borrowing requirement of less than 3% of gross domestic product and ideally close to 2% of gross domestic product.

GDP estimate

Planned Government expenditure will be equivalent to between 23 and 24% of estimated GDP. Having regard to these budget constraints and given the knowledge of revenue and expenditure to date, what is then required to make reasonably accurate forecasts of the budget and the likelihood of tax changes is an estimate of GDP.

The Ministry of Finance will estimate GDP to grow by about 3% in 1984. Such an estimate would seem to be entirely conservative, given the low levels of output in 1983 and the strong prospect of better harvests and also the clear indication that economic conditions, outside of agriculture, while not buoyant by the standards of 1980 and 1981, are clearly showing signs of recovery, again from low levels of activity.

Mr Horwood has also told us recently that he would be disappointed if inflation were more than 8% in early 1985. Again, this would appear an entirely realistic assumption to make. Producer prices are now only 7% higher than they were a year ago and, while it is not likely to decline much further, there is every prospect that the consumer price index, currently 10% higher than a year ago, will decline in the year ahead. The prospect for lower inflation is real and will inform plans for Government expenditure. Three percent growth, combined with 8% inflation, would bring GDP very close to R100 000-million in 1984, which is a nice round number to work with.

Let us assume, therefore, that the Government share at 23½ — 24% would mean the spending of nearly R24 000-million, which would represent an increase of nearly 13% over budget in 1983 — 1984 and R2 000-million more than will be actually spent in 1983 — 1984. This would represent a satisfactory increase in the real level of Government spending of 1,6%, assuming inflation of around 8%, and might be regarded as rather on the high side, were it not for the buoyant state of revenue previously referred to.

Current revenues, which are running at the annual rate of approximately R20 000-million, can be expected to rise conservatively by 10% without any major changes in tax rates, but with inflation and economic growth. Thus, without any significant change in the rand price of gold, revenues of R22 000-million would seem possible, without significant changes in nominal tax rates.

It should be understood that personal income tax rates rise automatically with the inflation of wages and salaries. The sales tax is obviously indexed to inflation, and also imports and import duties are both bound to rise, with higher levels of rand imports, inflated as they will be by the recent depreciation of the rand.

Popular budget?

Thus a fiscal deficit of about 2,5% of GDP would seem very possible, without resort having to be made to major changes in tax rates. We could therefore be presented with what will surely be regarded as a popular budget in 1984. That is, one that did not impose any major increases in tax rates. What is therefore required for popularity and our economic welfare is Government expenditure restricted to about R14 000-million in 1984 — 85. It is not at all too much to expect Government departments to contain themselves within such limits.

The volume of Government spending is much more significant for the health of the economy and its growth potential than the precise method of its financing. Quite simply, resources are scarce. The more the Government spends and so uses resources for it own purpose, the less will be available for other purposes. More Government spending inevitably means less private spending.

Private spending in general is more helpful to economic growth prospects than Government spending, though some types of Government spending are much better than others in this regard. Government spending on roads is better for the health of the economy than its spending on petrol. The distinction between Government consumption and investment spending, is not always easy to make, but is whithin broad limits still usefully drawn.

Tomorrow: The outlook for the economy.

Spending spree catches up with SA consumers

(49) Star 16/1/84

By Michael Chester

South African consumers have toppled into unprecedented levels of debt that have resulted in R14 000 million in bank overdrafts and hire purchase commitments.

A leading bank warned today that 1984 threatened to bring the problem to a head with the number of families being sued by creditors almost certain to hit new peaks.

"Consumers will now have to start paying the penalties for a splurge of spending that has bordered on recklessness", said Mr Adam Jacobs, senior economist at Volkskas.

24 HOURS
MICHAEL CHESTER

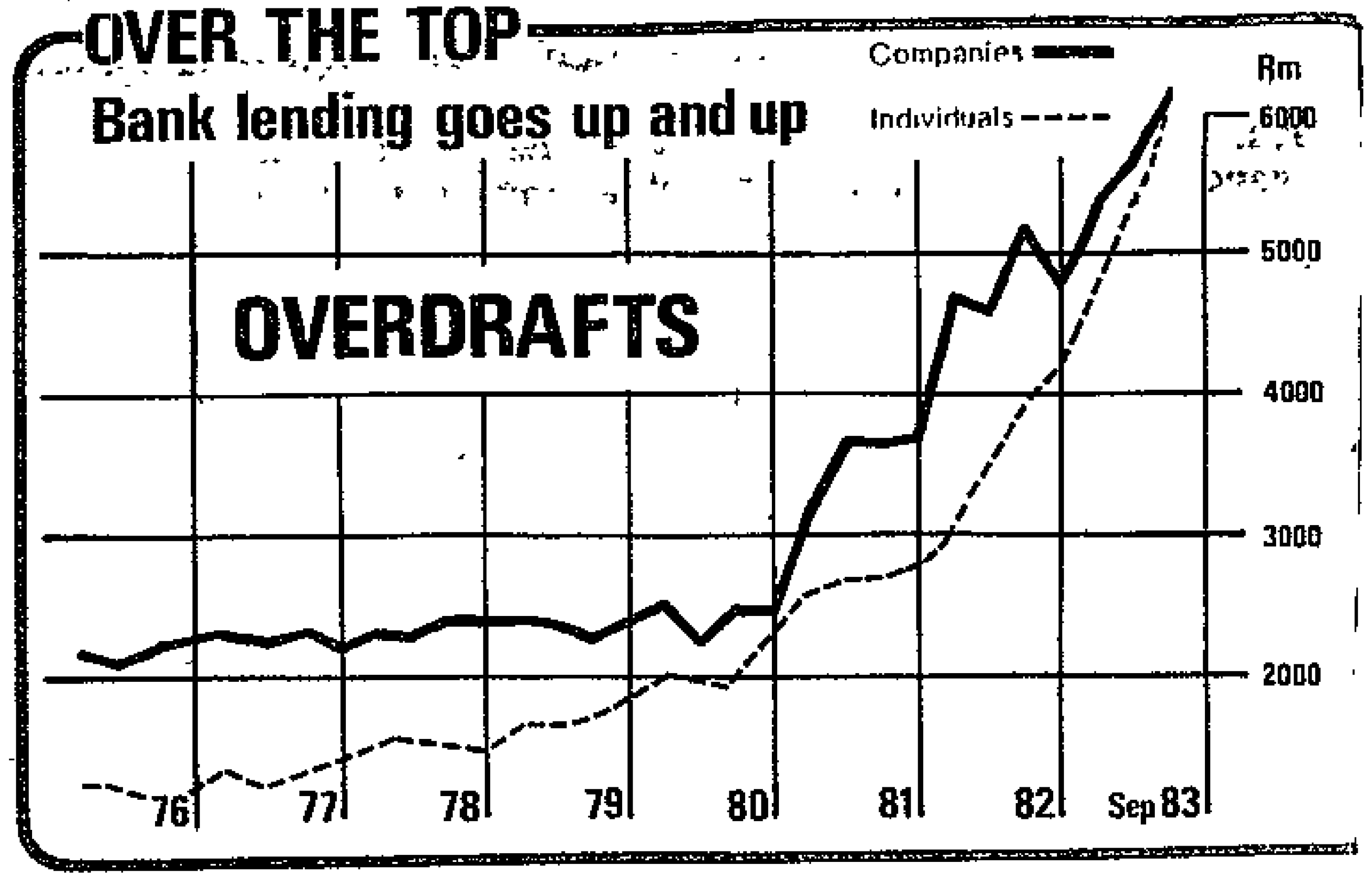
"Thousands of families have ignored two years of recession and preferred to wallow in credit rather than adjust their living standards to economic realities.

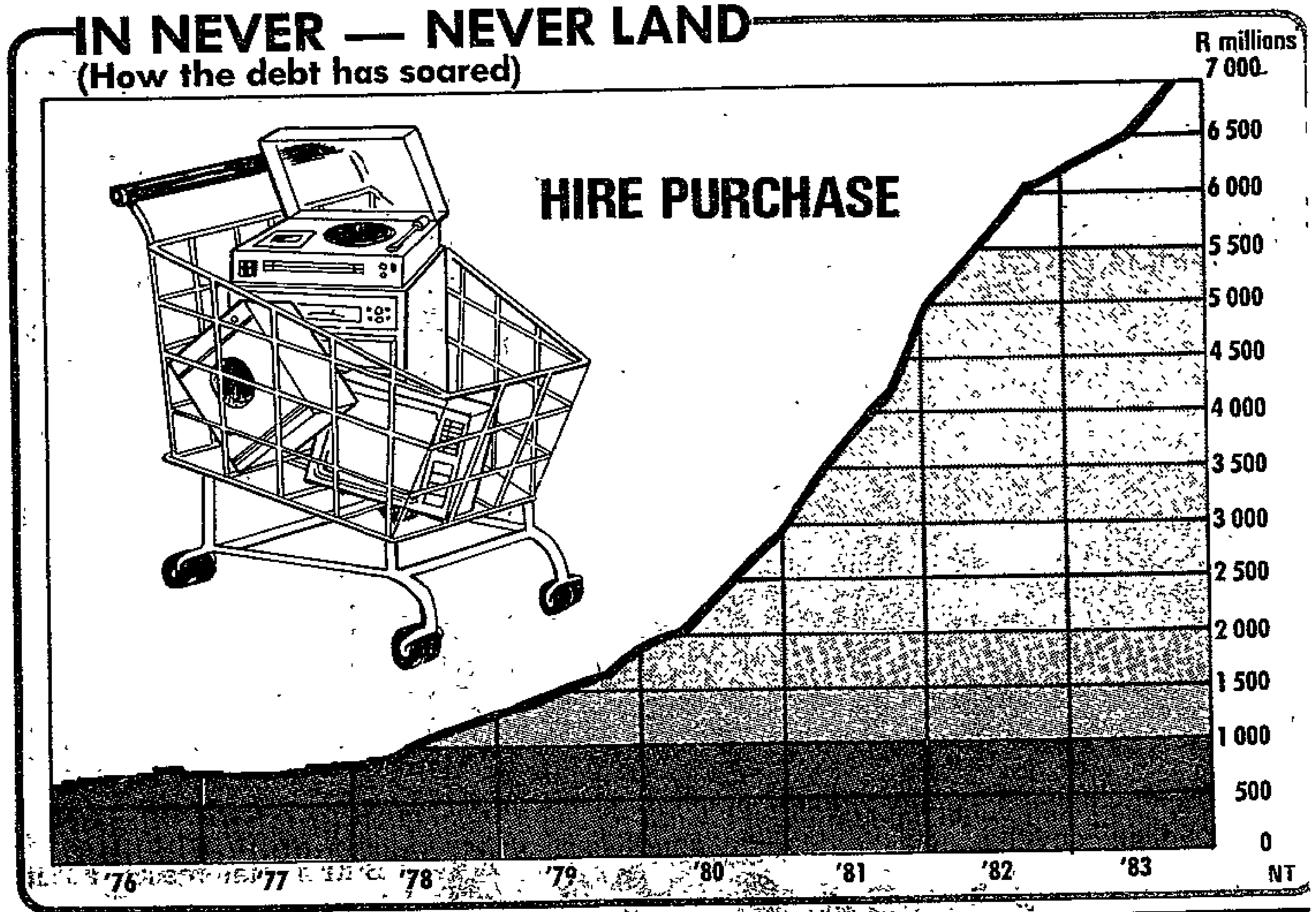
"Now the party is over. They have found themselves trapped with debts carrying higher and higher interest rates — way above 20 percent a year — precisely at a moment when family budgets are going to be more hamstrung than ever."

An analysis by the economic division of the Standard Bank shows:

Overdrafts

● HP debts have soared more than fourfold in the past five years to be pushed above R7 000 million in the recent Christmas shopping spree.





● Bank overdrafts by individuals are fast approaching another R7 000 million — nearly treble the level five years ago — and are running neck-and-neck even with corporate borrowing, which has never occurred before.

Investigations by the 24 Hours team also show the number of credit cards issued by the main commercial banks has rocketed from around 100 000 in 1975 to about 1,2 million.

Plastic cash

Nearly 750 000 bank card holders — not counting families spending on even more credit cards issued by hotels, department stores, restaurants, car hire firms and so on — have been buying goods and services with their plastic cash at the rate of well over R2 000 million a year.

The banks are inclined to keep details secret but it seems likely that far fewer than half of credit card holders settle their accounts in full at the end of each month and put off the day of reckoning by resorting to what the banks term "revolving credit".

This means they pay a minimum of only 10 percent of overall credit card bills every month. Outstanding balances on variations such as budget accounts can stretch for as long as five years.

"Even if the inflation rate in 1984 is held at between nine and 10 percent, the slowdown in pay increases will mean wage levels will barely keep pace in real terms," cautions Mr Jacobs.

"And if there is heavier taxation in the pipeline, which seems likely, spending power will decline.

"The best advice to consumers is to halt the blind rush into credit, do without all the extras and stick to a rigid budget," he said.

● See Page 2 Metro section.

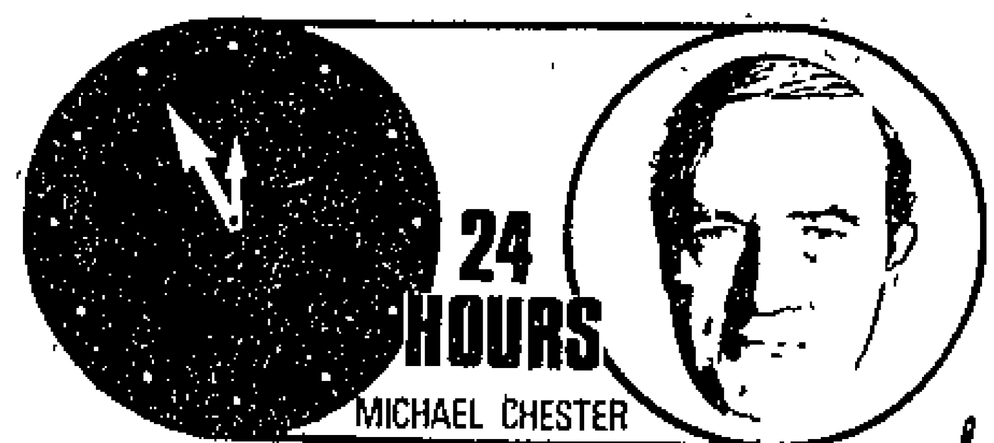
Cash squeeze, high interest rates bite hard

Debt summonses hit new record

49

Star

13/1/84

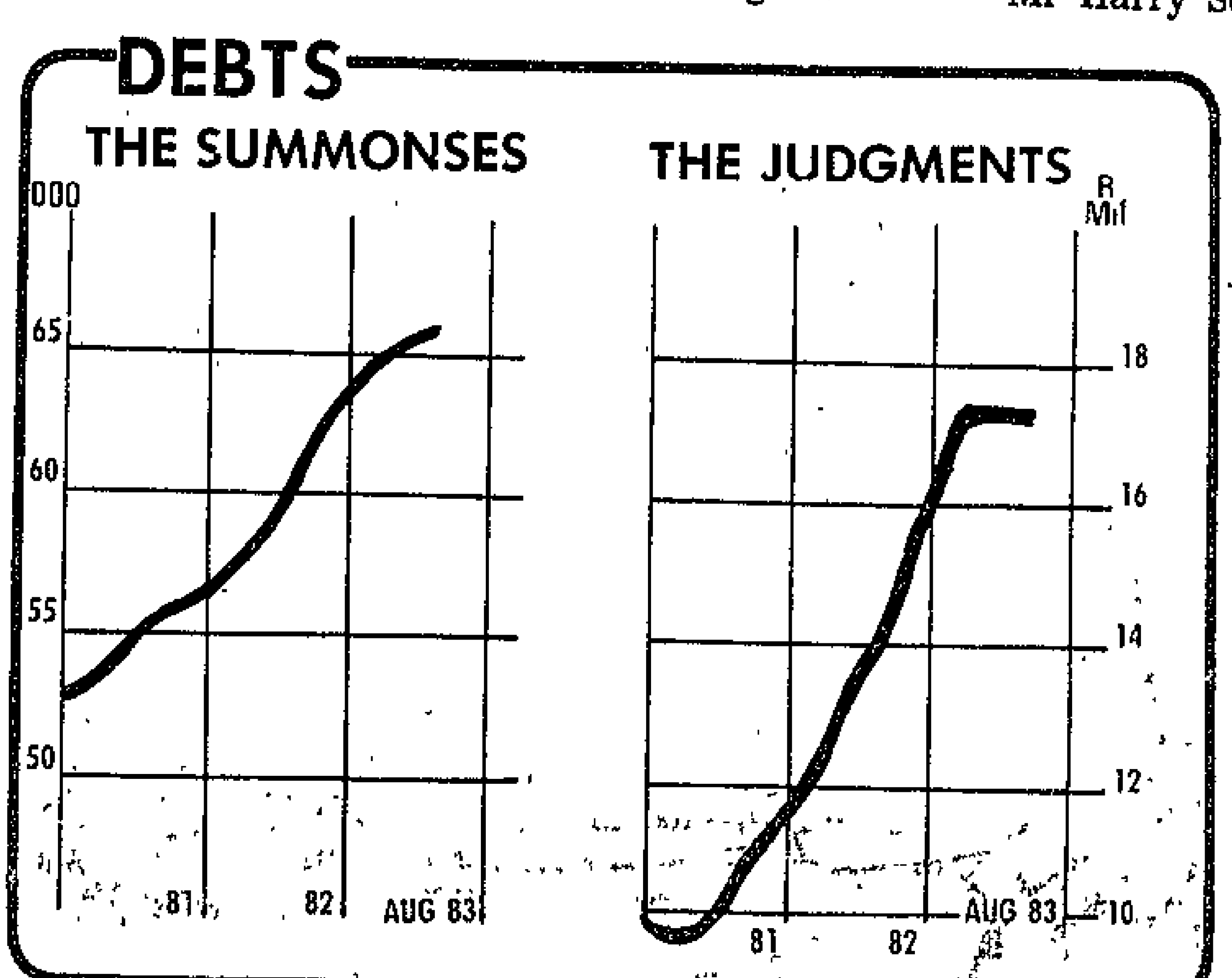


South African families are being hit by summonses for debt at the record rate of more than 64 000 a month. The cash squeeze is caused by the recession and higher interest rates on credit.

The overall amount involved in court orders to settle civil debts has soared above R18 million a month — 28 percent more than a year ago and double the toll in 1980 when the economic boom came to the rescue of household budgets.

The extent of the growing debt problem has been revealed in a quarterly review of civil cases carried out by Central Statistical Services, the government section which keeps a running record of economic trends.

Analysis of the final count for 1983 has yet to be completed but trends indicate that the number of debt summonses issued last year is likely to have hit a new peak at about 750 000 or even higher.



Moreover, the debt problem is steadily worsening as more and more families dip into their savings to meet their bills.

Mr Nico Czypionka, of the economic division of Standard Bank, reports that the level of savings out of overall income has slumped to its lowest since World War 2.

From double figures in most post-war years, it has now plunged to only 3,6 percent and threatens to stay on a downward curve.

Mr Adam Jacobs, at Volkskas, said still higher interest rates, plus the possibility of heavier taxation, were almost certain to cause an increase in the number of consumers falling into arrears on credit repayments.

"Indications are that consumers will sink even more deeply into debt during 1984," he said. "The number of bankruptcies will also increase."

Economists expect the slide into debt will be worsened by the across-the-board 1,25 percent rise in mortgage bond rates to be introduced from February 1.

Mr Harry Schwarz, PFP spokesman on financial affairs, said the new year was bound to bring "an almighty hangover of unpaid bills".

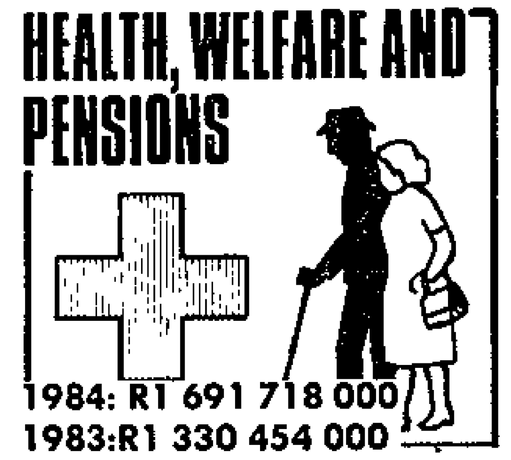
Mr Ivor Jones, managing director of Kreditinform, adds: "The debt problem will get worse before it improves with an economic recovery. The full impact of two years of recession has not yet worked through the system and the 1983 toll of insolvencies among small firms without the experience to steer round financial problems will be the worst on record."

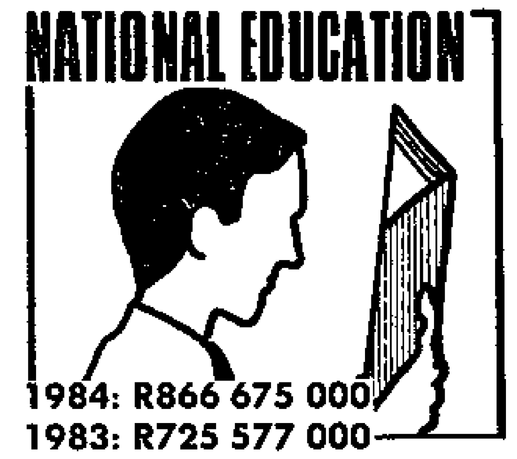
Dun and Bradstreet, which monitors the credit standing of about 70 000 firms in South Africa, confirmed it was being called in by more and more creditors.

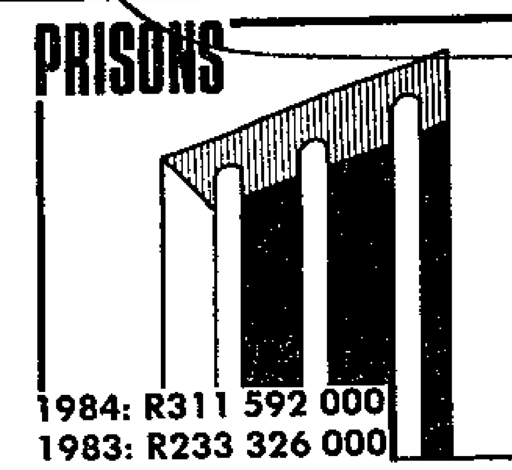
● See Page 6: What if the gold price plummets by 300 dollars?

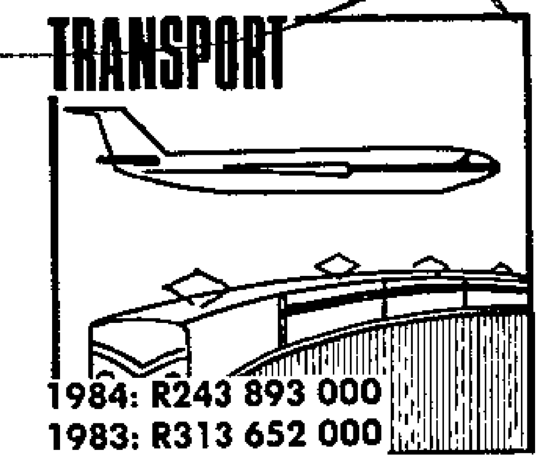
Economy - 1984

JANUARY - DEC.









Mixed reaction to the Budget

PFP critical that pensions fall below inflation rate

Political Staff

THE ASSEMBLY — Pensions were increased by about 10 percent from October 1 in the Budget yesterday.

In the case of social pensions whites will receive 9,2 percent more — R14 to R166 a month, Asian and coloured people will receive 10,8 percent — R10 to R103 and blacks 14 percent — R8 to R65.

There will also be a bonus for social pensioners and other social beneficiaries in the form of a single payment in May — R36 for whites, R29 for Asians and coloured people and R22 for blacks.

For this purpose R305 million has been set aside.

Allowances for children, maintenance grants and other forms of assistance including old age homes are also being adjusted.

Military and civil pensions will go up by 10 percent.

Public service pensioners who retired after July 1, 1973 and before April 1981 will receive a further increase of 10 percent, with a minimum of R50 a month.

The Public Servants Association (PSA) which represents thousands of Government employees has welcomed the latest budget and is delighted with the pension increases announced by the Minister of Finance.

Dr Colin Cameron said the PSA was grateful for the 10 percent increase in all civil pensionsfrom April 1. Those drawing pensions from the Government Service Pension Fund would also receive a further 10 percent increase with a minimum increase of R50 a month.

The PSA was thrilled with the 10 percent increase in military pensions effective on April 1.

INCREASES CANVASSED

Ordinary people and small businesses would bear the brunt of this year's Budget, the PFP spokesman on finance, Mr Harry Schwarz, said yesterday.

Replying to what he called Mr Horwood's "ad hoc" Budget, Mr Schwarz said there was hardly anything Mr Horwood was leaving untaxed, "even credit cards".

The basic rate of tax on companies other than gold and diamond mining concerns had been increased from 46,2 percent to 50 percent and this would have a serious effect on small businesses.

"I am terribly concerned with the financial plight of the small companies in South Africa which everyone pretends to foster," Mr Schwarz added.

He added that, although he was glad social pensions had been increased, their average 8,4 percent rise was still less than the inflation rate.

Senior economists have expressed their satisfaction with yesterday's Budget, noting it was conservative and fair in the light of inflation and balance of payments problems.

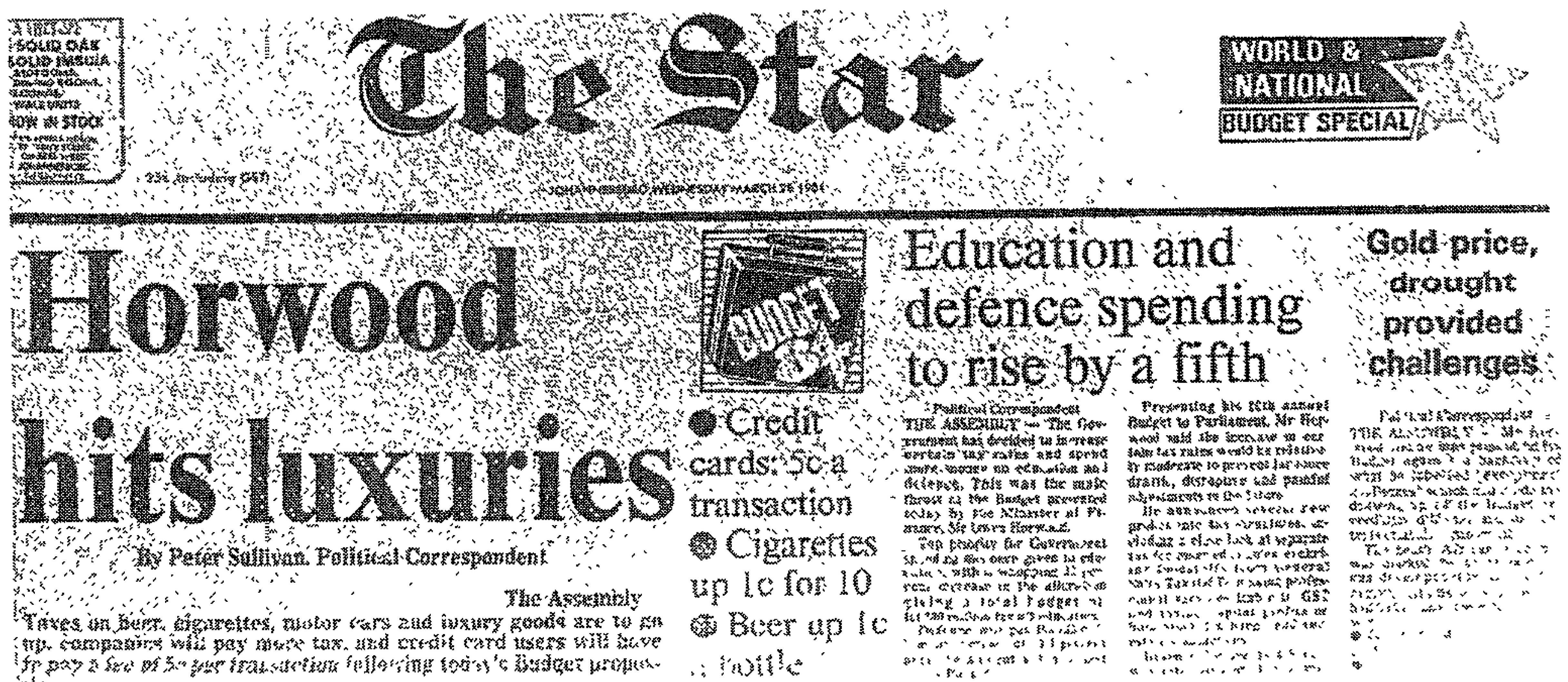
But they warned that further taxes were inevitable unless the Government stuck to its guns and maintained its spending targets.

Mr Rudolf Gous, a senior economist with Nedbank, said he welcomed the Government move to close tax loopholes through training and equipment subsidies and the decision not to raise personal taxes or GST.

"However, its success depends on whether the Government limits spending increases," he said. "Personally, I have little doubt they will be overshot."

Dr Conrad Strauss of Standard Bank said there were few surprises and the Minister seemed to be marking time until there could be improvements in the gold price, the agricultural sector and inflation.

He said that the Government's tight monetary policy would not lessen pressure on capital market interest rates.


The Star
WORLD & NATIONAL BUDGET SPECIAL

Horwood hits luxuries

By Peter Sullivan, Political Correspondent

The Assembly

Taxes on beer, cigarettes, motor cars and luxury goods are to go up, companies will pay more tax, and credit card users will have to pay a fee of 5c per transaction following today's Budget propo-

● Credit cards: 5c a transaction
● Cigarettes up 1c for 10
● Beer up 1c ... bottle

Education and defence spending to rise by a fifth

Gold price, drought provided challenges

First with the news . . . yesterday's edition of The Star's Budget Special.

Mr Divaris said he was very pleased Mr Horwood had finally woken to the fact that certain allowances enjoyed by companies to reduce their rate of tax were costing the Government a fortune.

In London, the Financial Times commented that a "harsh reality" of economic life not mentioned by Mr Owen Horwood in his Budget speech is that South Africa "can take no cue from Mrs Thatcher in controlling government spending" and must hope for a gold-price rise.

The reason is that "the country's political system and pronounced economic disparities create a remorseless appetite for funds which cannot be denied", the paper said.

Defence spending and the housing programmes for urban blacks have to continue and the need to improve black education is "an imperative".

In view of this, the Financial Times concluded, "the gold price had better rise. It is hard to conceive of any other adequate source of the wealth and

defence in the 1984/5 financial year and the amount would barely maintain existing expenditure levels in real terms.

The Defence Force faced cost escalations mainly because of substantial salary increases for its staff.

The Defence Budget amounted to about 15 percent of the Government's total expenditure in the last financial year and remained about the same for the coming one.

Mr Fourie, of the department of political science at Unisa, said the Defence Budget looked impressive but in real terms would be swallowed up by maintenance of equipment and higher salaries and would leave little for largescale building programmes or arms acquisition.

Spokesmen for organisations with largely black membership showed little relief that personal income tax will not be increased — they stressed that pre-Budget tax, tariff and price moves had already crippled large sections of the community.

The chairman of the Black Consumer Union, Mrs Ellen

SAB hopping mad over that increase on beer

Yesterday's budget increase on cigarettes and beer had the South African Breweries foaming at the mouth.

The duty on all malt beers, excluding sorghum, is to be increased by 2,4 cents a litre or about 0,9 cents per 375 millilitre container.

Mr Peter Lloyd, managing director of SAB's beer division, said: "Placing additional excise on beer and not on spirits and wine is the most blatant form of discrimination against the working man.

"The Minister has picked on the lower income groups to pay for the pleasure of the priveleged. "Beer is now paying a higher rate of excise than brandy and the Government is pocketing 37c of every rand of beer sold.

"Each year SAB keeps its increases well below the rate of inflation through better productivity."

Mr Lloyd said South African beer drinkers would get a good idea of how unfairly they were being treated when they realised that, up to December, they paid R439 million in tax, spirits paid R247 million, and wine drinkers paid nothing.

"The increase in the wholesale price represents 1,83 cents a quart (750ml) and 92 cents a pint (375 ml)," he said.

Mr Peter Savory, SAB's general marketing manager, said the retail price of beer would be decided by licensed liquor retailers.

"There's nothing to stop bars increasing the price," he said.

News that tax on beer will be used to raise R29 million toward closing the Budget shortfall has not warmed the hearts of local shebeeners.

"It seems we're going to have to be millionaires to drink in a couple of years," said Taverners' Association chairman Mr Lucky

Fringe benefit tax to start on September 1

Political Staff

THE ASSEMBLY — A fringe benefit tax will start on September 1, the Minister of Finance, Mr Owen Horwood, announced.

He tabled a report of a parliamentary commission along with the Budget and said the main purpose was to establish uniform rules for a tax which, in principle, already existed.

The cost to the employer will be the basis for the valuation of benefits in kind.

The provisions will be included in the Income Tax Bill.

Organised commerce, industry and labour will have the opportunity to comment on the practical application of the measure.

The tax is expected to yield R50 million in the 1984-85 financial year.

In its report, the commission deals with benefits affecting areas such as housing, the use of motor vehicles and interest-free loans.

Government employees, Cabinet Ministers and politicians are all to fall under the net of the tightened-up fringe benefit taxes.

Even mayors of towns are going to find their allowances taxed in terms of the law, which will be implemented over a seven-year period from September 1.

Until now the public sector, Cabinet Ministers and members of Parliament have been specifically excluded by law from paying tax on fringe benefits.

One of the prime targets will be the enormous housing-loan benefits, with extremely low comparative interest rates, available to people employed in the Public Service.

Cabinet Ministers will also be taxed now on their many perks, including housing rentals as low as R45 a month, on luxury mansions and the use of prestige cars.

The possible exclusion of the public sector from the ambit of the tightening up of the laws caused considerable controversy and division in Government circles after notice of the move was given by

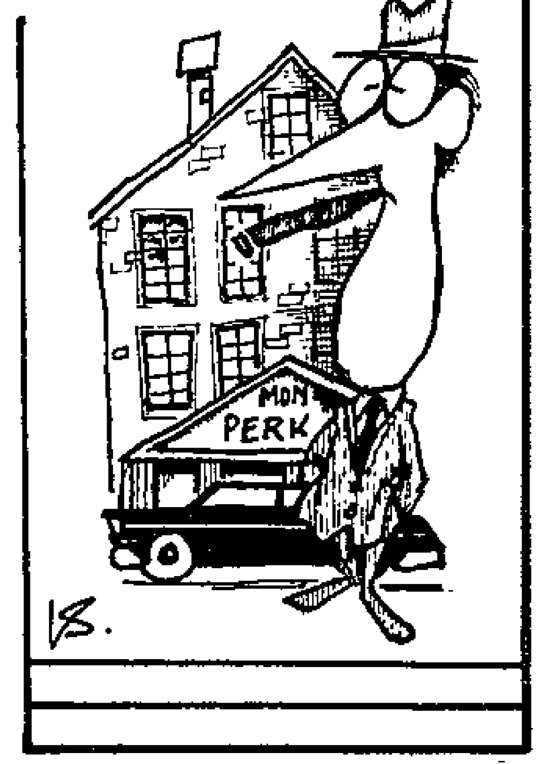
office cars, housing loans or bonds subsidies and bursaries are among the perks that will also be affected.

Apart from a few recommendations, the provisions of a draft legislation on fringe benefit taxation were supported by a parliamentary commission of inquiry.

Mr Horwood emphasised that the value of such fringe benefits has always been subject to tax.

The main purpose of the inquiry was to establish uniform rules for the determination of such values, as well as

PERKS TAX



to ensure equal treatment for all.

The draft legislation lays down that cost to the employer should be the basis of the valuation of benefits in kind but, with a view to cost-effectiveness, no value should be placed on certain less cost-effective benefits.

Entertainment allowances equal to five percent of the taxable income up to R2 500 will be allowed annually.

This amount must be in the form of a reimbursive enter-

Dr Cameron said the association had been pushing for pension increases for a number of months. Representations made to the Government had now been fruitful.

He said the PSA was not opposed to fringe benefits being taxed as long as civil servants were not worse off at the end of the day. Any fringe benefit taxation being considered by the Government should be offset by compensation for civil servants to maintain their standard of living.

"In general we are well satisfied with the budget," said Dr Cameron.

As regards the Minister's warning that salary demands should be kept at a reasonable level, Dr Cameron said he did not think public servants had ever made unrealistic wage de mands.

Although the civil service had received only a 12 percent salary increase in the past 21 months, the Government's programme of job and salary differentiation had adequately compensated civil servants in many job categories.

Considering the responsibilities of the Prime Minister and senior cabinet ministers, Dr Cameron said it was not out of order that they should receive salary increases of between 27 and 42 percent.

The Prime Minister's new salary of R114 000 a year compared favourably with the salaries of top businessmen.

The official Opposition has welcomed the 9,2 percent increase granted to pensioners.

In a statement Mr Brian Goodall, PFP spokesman on pensions, said pensionersneeded these increases in the present economic climate.

"However, with an average increase of 9,2 percent and an inflation of more than 10 percent, most pensioners will be worse off in real terms," he said.

ABSURD SYSTEM

It was also regrettable that the anomalies in the means test had not been removed.

It was an "absurd" system where people were penalised for providing for their retirement, Mr Goodall said.

For example, a married couple who received R321 a month from a pension fund would not qualify for a social old age pension. But a couple who had made no provision whatsoever would receive a combined old age pension of R332 a month.

"We should be encouraging people to provide for their retirement, not penalising them for doing so," said Mr Goodall.

nent tax consu..ant,, sa.c the Budget was one of the best in a long time.

"I think the Minister is putting an extra burden where it belongs — hitting the people who have enjoyed concessions.

"He is redressing the imbalance where a few people were taking up the bulk of the burden while certain companies enjoyed undue benefits. That was the major feature of the Budget."

buy the time and make the investments needed to reform its doomed political system".

South Africa still has a long way to go before it enters the league of the world's big defence spenders despite the announcement that defence spending will rise by 21,4 percent this year, says military expert Mr Deon Fourie.

The Minister of Finance said R3 755 million would be spent on

ciation in Johannesburg, Mr Ben Nteso, said the two recent rises in GST, the introduction of equal taxation and price rises of controlled commodities and services had taken a heavy toll.

They welcomed Mr Horwood's announcement that the possibility of reducing or abolishing GST on some foodstuffs was under consideration. — Staff Reporters, The Star's Foreign News Service and Sapa.

Total of R4 200-m to be spent on education of all population groups

THE ASSEMBLY — The large increase in Government spending on education to a total of R4 200 million is spread among all races and involves several State departments.

Trying to discover who gets what is difficult.

National Education, the department responsible primarily for white tertiary education, has had its budget increased from R725 million to R866 million.

Education and Training, responsible for black education, has had its budget increased from R560 million to R709 million.

This is an increase of R148 million compared to R141 million for National Education.

The Department of Internal Affairs, responsible for coloured and Indian education, has had its overall budget increased from R1 083 million to R1 265 million, but much of this goes towards carrying out the department's other functions such as immigration, citizen services and administering the Constitution Act.

This department's budget for "administration and development of the coloured group" has jumped from R744 million to R881 million, an increase of R137 million.

This can be further broken down into an increase of R116 million for education, of R4 million for tertiary education, R16 million for welfare promotion and R1 million for auxiliary services.

The budget for administration and development of the Indian population group has risen by R40 million from R300 million to R340 million.

Indian education has risen by R28 million to R221 million, tertiary education by R6 million to R37 million, welfare by R5 million to R81 million, and auxiliary services have about the same budget as last year.

Educationists have warmly welcomed the 23 percent increase in education spending as a strong sign that education will now get more of the attention it deserves.

"At last education is being seen as a priority. If we can improve the state of education we are building for the future," said the president of the Transvaal Teachers' Association, Miss E Niemeyer.

However educationists expressed concern as to how the grand education budget of R4 200 million is to be spent.

"Higher white education is still being given priority. This imbalance underscores preferential treatment for whites," said the former president of the non-racial National Education Union of South Africa, Mr Michael Gardiner.

Farming community happy with Horwood's solutions

The farming community has expressed general satisfaction with the Budget.

The president of the South African Agricultural Union, Mr Jaap Wilkens, said the Minister of Finance had found practical solutions to the very difficult problem with which he had been faced.

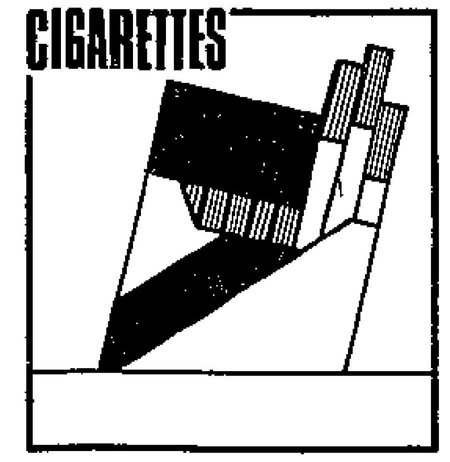
SAAU noted with appreciation the principle of an increased interest subsidy on carryover farm debts and new production credit as well as a reduction in the interest rate on agricultural credit board loans having been accepted by the Government.

Details of the relief measures decided on would be announced by the Minister of Agriculture tomorrow.

Mr Johan Willemse, chief economist of the SAAU, said the total cost of new drought relief measures might exceed R300 million.

More drought relief measures were needed, but there were serious misgivings about some State subsidies, Mr Horwood said.

put the price up by 2 cents for a pack of 20, Black Consumer Union spokesman Mrs Ellen Khuzwayo said: "If the taxes deter people from using harmful commodities like liquor and cigarettes they might be of some benefit.



Cigarette sales drop forecast

Tobacco companies were disappointed that the customs and excise duties on a packet of 20 cigarettes had been increasedby two cents, said Mr Bruce Edmunds, managing director of the United Tobacco Company.

"We are obviously disappointed, but the increase is moderate.

"Senator Horwood did not change the duties on pipe tobacco and cigars, a pleasant suprise as we produce both.

"Tobacco farmers were hard hit by the drought which has been a factor for the decline in the industry," he said.

Mr Edmunds said he did not expect retailers to increase the price of cigarettes by more than two cents following recent increases in the price of cigarettes.

"We do expect a slight drop in sales," he said.

But not everyone was dismayed. Said Mrs Betty Hirzel, chairman of the Consumer Union: "I'm delighted with the increase. It should have been higher."

blamed for the delays in the introduction of the new law.

Entertainment allowances,

fit some professional people, who up to now were allowed only R300 a year.

Probe into separate taxation is welcomed

The announcement that the Standing Commission of Taxation has begun an investigation into separate taxation for married couples has been welcomed by women's organisations.

Mrs Adele van der Spuy, president of the Southern African Women's Foundation, said the move proved that the matter was now being taken seriously.

"I am particularly encouraged by the wording of Mr Horwood's statement that refers to 'married people', showing that the question is no longer regarded as being only of concern to women."

Mrs Roberta Johnston of the Women's Legal Status Bureau spoke out in favour of the investigation and said she hoped it would bring about change.

Professor June Sinclair of the department of law at the University of the Witwatersrand said she was pleased to hear the unfavourable findings of past investigations had not closed the Minister's mind to further investigation.

A dangerous and dirty way to live

Wheelchairs: a disabling experience

A Star reporter, MAUD MOTANYANE, recently took to the streets of Johannesburg and Soweto to find out what facilities existed for disabled people. Two days spent with two disabled friends, wheeling herself through the streets, gave her a remarkable insight into the difficulties they face.

Being in a wheelchair in Johannesburg can be dangerous, humiliating and exhausting. As a disabled friend said: "It's an ongoing nightmare."

Wheeling myself through streets under the hot sun, sweating, my hands bruised and every muscle in my body aching, I thought: "What a way to exist."

I intended to complete my wheelchair assignment in one day, halfway through the first day I could not take it — either physically or emotionally.

Although the Johannesburg and Soweto city councils have undertaken to make their environments more accessible to the disabled, buildings and streets are still hazardous.

Whereas a few streets in Johannesburg have ramps, most Soweto streets are not tarred and the potholes which damage cars, ruin wheelchairs.

Except for a few city supermarkets and offices, most banks, restaurants and theatres are completely inaccessible to wheelchairs. Parking for disabled people's cars is limited.

Narrow doors and many stairs rule out most public places, like post offices, clinics, rent offices, police stations and football stadiums.

Although public toilets are provided for all races, disabled people rarely seem to be given a thought.

Lift buttons are too high. Often, people in wheelchairs can reach only up to the third button. Unless they are with someone who can help them, they will not be able to go beyond the third floor.

Door handles are often round, making it impossible for people with disabled hands to clasp them. Public phones are too high and entrances to buildings too narrow for wheelchairs to go through.

With bumpy and rampless pavements, the only place left is the street, where you run the risk of being run over.

* * *

My wheelchair day started on a Friday when I picked up Wits lecturer Kathy Jagoe and a self-help centre member, Jabu Tshaka, who were to accompany me.

They have been in wheelchairs for several years. Kathy had a swimming accident and Jabu was shot.

My first first wheelchair disaster was when I skidded down a ramp at Kathy's home. With no guard-rail to hold on to, I was stopped by a car at the end of the ramp, hitting my shin against it and bruising my leg.

In Soweto, it took me five minutes to learn how to get out of the wheelchair into the car. For paraplegics with no mobility in lower parts of their bodies, that is a special skill.

Our first stop was Eyethu Cinema in Mofolo. Being lifted up the stairs was a terrifying experience.

Once there, we asked to be shown to the toilet. The toilets were impossible. I wheeled myself through the door, but then I was not able turn the chair to help myself on to the toilet seat or close the door. I gave up and wheeled myself out.

The lack of special toilets poses a serious problem for the disabled and preparing a day's programme involves planning it around an appropriate route or not drinking and eating before leaving home.

While getting ready to leave the cinema, my wheelchair got a puncture. Were it not for the repair shop at the Self Help Association for Paraplegics (SHAP) in Mofolo, that would have been the end of my assignment.

Locally made wheelchairs, which are inferior to those made overseas, can last only six months if used daily in Soweto.

With my wheelchair fixed, our next stop was the Meadowlands Police Station. Our visit ended at the main gate, which was to narrow for us to get through. What if there had been an emergency?

Last September, the city ramps. Council offices being built in Jabulani will be completely accessible.

* * *

Day Two dawned and I awoke to aching arms and bruised legs, not to mention the emotional strain.

Kathy and I took off from the Jorrisen Street entrance to Witwatersrand University. Driving on the bumpy pavement would have been impossible, so we had to wheel our way down the edge of the road.

Winding our way through parked cars we had to avoid others which were whizzing past — a nightmarish experience.

Crossing Bertha Street, with four lanes of cars facing us, felt like going across a combat zone.

Jorrisen Street has been provided with ramps — dangerous ramps. On more than one occasion I nearly fell off my chair trying to mount a ramp.

The disabled say "like most other facilities provided for us, the ramps were built without consulting people in wheelchairs".

The road up to the university was steep and rough. Sweating, struggling and conscious of stares, I pushed the wheelchair with all my remaining strength.

Secretly I wished someone could come to my assistance, but I could not gather enough courage to ask for help.

After passing dozens of students, one finally offered to push me the rest of the way.

Kathy Jagoe and Maud find living in the wheelchair fast lane no fun at all.

'Mild' proposals for fringe benefit taxation

Political Staff

HOUSE OF ASSEMBLY. — The long-awaited proposals to tighten up taxation on fringe benefits were presented here yesterday and proved to be milder than many businessmen had feared.

The proposals were contained in the report tabled by the Minister of Finance, Mr Owen Horwood, of a parliamentary commission of inquiry which spent more than two years investigating the determination for tax purposes of the value of fringe benefits.

Mr Horwood said in his Budget speech that the government had already accepted the commission's recommendations, and that legislation to implement them would be incorporated in the Income Tax Bill due to be considered by Parliament. He said the legislation would become effective from September 1 this year.

Businessmen would be given the opportunity to comment on the practical application of the draft provisions before the Bill was finally drafted.

Mr Horwood said that the introduction of fringe benefits tax was expected to yield an additional R50 million in the 1984/85 tax year.

The commission pointed out in the report that there were already provisions for tax on fringe benefits — the problem was how to value them.

For the purposes of its recommendations the commission worked on the principal of what fringe benifits were worth to the company as opposed to the individual.

The main recommendations for the taxing of fringe benefits were:

● Tax deductions for entertainment allowances will be permitted at a rate of 5 percent of taxable income up to a maximum of R2 500 per year including the membership of two clubs.

● Subsistence allowances will be permitted up to R100 a day, or R50 a day if the employer provides accomodation.

● Bona fide bursary schemes — which must be available to all employees — will be tax deductible up to a maximum of R750 per year for secondary schools and unlimited for teritiary education. Employers will not be permitted to take away the bursary if the employee leaves the company.

● The provision of company cars will be taxed on two bases: Those provided fully by the company and those for which the company pays only part of the costs. The commission estimated that cars were used on average for 16 000km a year, of which 10 000km were for private use, and calculated the value of the car to the employee on a scale starting at vehicles priced below R6 000 and rising to those priced at a maximum of R40 000.

Examples of the the two bases were:

□ A car between R8 000 and R9 000: Base A = R130 per month, Base B = R100 per month.

□ A car valued at between R17 000 and R18 000: Base A = R212pm, Base B = R176pm.

□ A car valued at between R24 000 and R25 000: Base A = R275pm, Base B = R235pm.

□ A car valued at between R35 000 and R40 000: Base A = R389, Base B = R345.

● Housing benifits will also be taxed on two bases. Those provided in situations such as mines and where the income of the employee did not exceed R20 000 a year would not be taxed.

Other housing benefits would be taxed on three bases:

□ Unfurnished houses where the employer provided no part of the running costs would be calculated at 15 percent of the employee's income.

□ Furnished houses where the employee paid for some of the running costs would be calculated at 16 percent of the imcome.

□ Furnished houses in which the employee paid for no running costs would be taxed on the basis of 17 percent of the employee's salary.

□ Subsidised bonds would be taxed on the basis of the difference between the rate the employee was paying and 8 percent.

□ Interest-free loans would be taxed on the basis of what the employee was paying and 14 percent.

The housing provisions have a seven-year phasing in period and Civil servants will be included in the tax scheme.

One of the Progressive Federal Party's finance spokesmen, Mr Brian Goodall, who also served on the commisson, said he believed businessmen would breathe a sigh of relief at the recommendations.

Schwarz slams 'ad hoc' Budget

Political Staff

HOUSE OF ASSEMBLY. — The 1984 Budget presented by the Minister of Finance, Mr Owen Horwood was "an ad hoc presentation without a solution for 1984's problems, or plans for the future", Mr Harry Schwarz, Opposition spokesman on finance said yesterday.

Mr Harry Schwarz

It was a Budget which was directionless and which failed to deal with the real problem of South Africa and imposed undue burdens on the ordinary citizen.

The Budget, he said, failed to deal with the real problems of inflation and unemployment and the "shrinkable disposable incomes of the ordinary South African are reduced further".

Mr George Bartlett

Points

In a stinging point-by-point attack on the Budget, Mr Schwarz said:

● Inflation, now at 10 percent, would take off and was far too high in relation to price increases in the economies of our trading partners.

● The abolition of exchange control for non-residents has cost a billion rand in equity investments which have been sold. The timing of the move was in question.

● The lower value of the rand, while helping some like the gold mines, has had a redistributive effect...

● The ad valorem duty would have adverse effects on many South African industries already suffering because of low consumer demand.

● The increase in the beer price, when imported spirits were not affected, was discriminatory...

Minister had also 'totally failed to recognize and accommodate the real needs of social pensioners and those people on fixed incomes who are suffering severely from the effects of inflation and the soaring cost of living".

"To have only increased social pensions by 8,4 percent is nothing short of a disgrace," he said.

Mr Bartlett said he welcomed the news that a review of government expenditure priorities would be conducted, but he believed current expenditure should also have been reviewed "with a view to achieving greater economic effectiveness".

'Ironic'

Commenting on defence expenditure, Mr Phillip Myburgh, the Opposition spokesman on defence, said it was ironic that there was an increase in real terms in defence spending for the first time in some years — shortly after the signing of the Accord of Nkomati.

The PFP, he said, believed in a well-armed and well-prepared defence force but believed that a balance should be reached "between the objective threat facing the country and the money the Minister of Defence requires for the country's defence".

Mr Roger Burrows, ...

BUDGET 84

'Face up to harsh reality'

Political Correspondent

HOUSE OF ASSEMBLY. — Tax increases in this year's Budget were inevitable, the Minister of Finance, Mr Owen Horwood, said as he announced a variety of higher charges in his Budget speech yesterday.

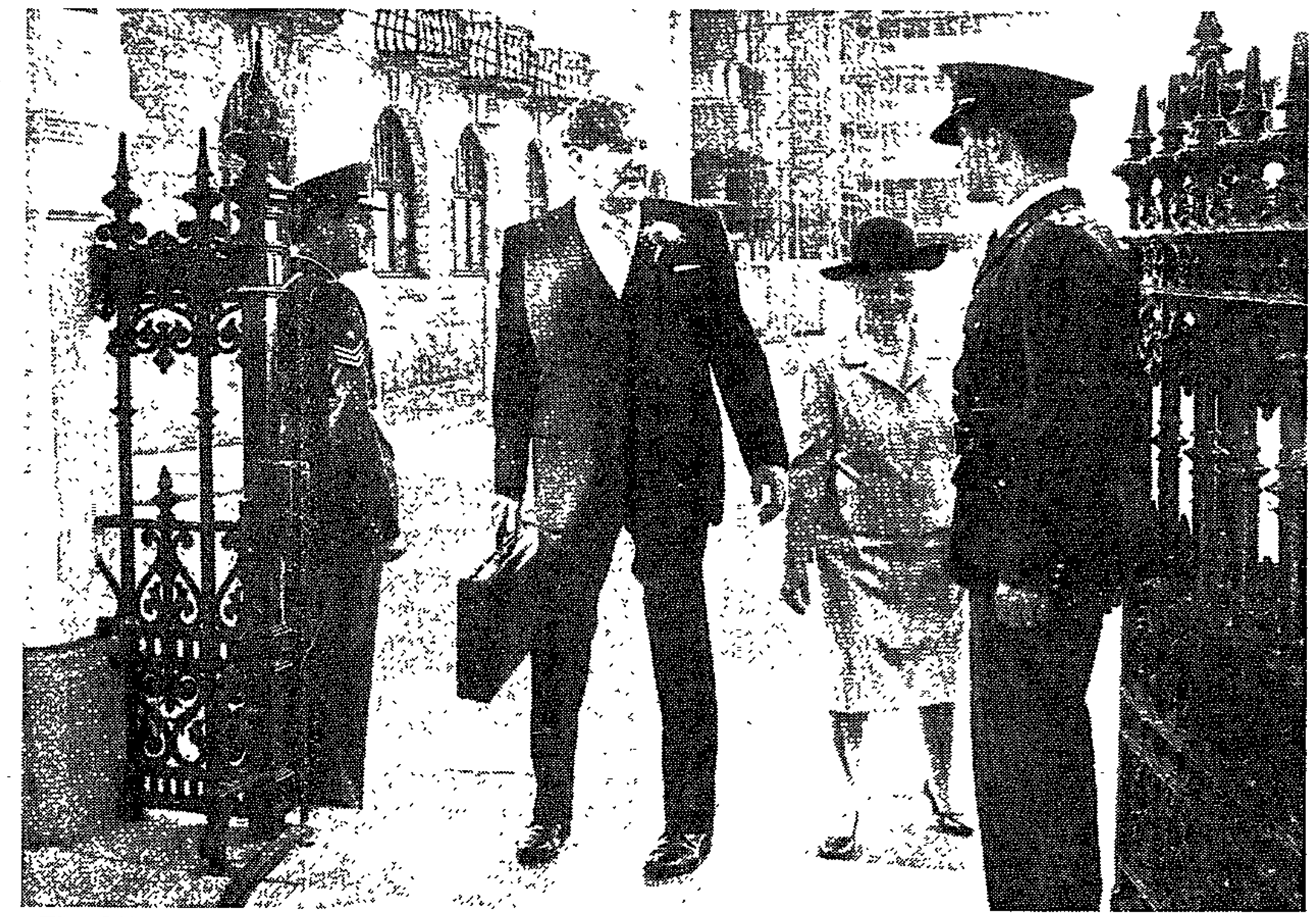
He warned of further tax increases later in the year, should government spending exceed the Budget estimates.

"We must face up to certain harsh realities," he said, although he was pleased with the economy's performance under the most difficult circumstances since the great depression of the 1930s.

Mr Horwood said the government was redoubling its efforts to curb government spending.

'The key'

The total of departmental budgets was R5 000 million lower than the R30 000 million for which departments had originally asked. Success in keeping ad...



The Minister of Finance, Mr Owen Horwood, arrives at Parliament with his wife Helen yesterday.

Pension rise, bonus in May

Political Staff

HOUSE OF ASSEMBLY. — Social pensions will increase by between 9,2 and 14 percent from October 1, and military ...

The Budget at a glance

Political Staff

THE Main Points of yesterday's Budget:

● No increase in GST or income tax rates;

● Excise duty on beer and cigarettes increased;

● Beer up by one cent per pint and cigarettes by 2c for 20;

● No increases on wines and spirits;

● Fringe benefits tax to be introduced from September 1;

● Taxes on cars and luxury goods to rise;

● Cash- and credit card users will pay a fee of 5 cents per cash withdrawal;

'Why pick on the drinkers of beer?'

By HILARY VENABLES

THE government has been accused of discriminating against the working man by singling out beer for increased taxation.

Reacting to the one-...

Education gets more than defence

Political Staff

HOUSE OF ASSEMBLY. — An amount of R4 200 million is to be spent on education during the 1984/5 financial year — R446 million more than is budgeted for defence.

This represents an increase of 23 percent on the previous year and means that a total of R16 136 million has been spent on education in the past five years — an average increase of 18,3 percent a year.

About R1 600 million of the R4 200 million is to be spent on education for Africans, coloureds and Indians.

Delivering his Budget yesterday, the Minister of Finance, Mr Owen Horwood, said the provision of this amount indicated the government's "resolve to accord a very high priority to education".

He indicated that with regard to the government's aim to be competitive or near competitive with the private sector, further attention was being given to the situation of the fully qualified teacher and an announcement could be made in due course.

A total of R709 257 000 is to be spent by the Department of Education and Training during the 1984/5 financial year — R147 939 000 more than last year.

The main areas in which the increases may ... primary education — R75 880 000;

● Secondary education — R34 070 000;

● Supporting and associated services — R21 012.

Overall expenditure on coloured education other than tertiary, rises by R115 883 000 to R534 876 000 — an increase of 27,6 percent, while the sum allocated for coloured tertiary education increases by R3 902 000, or 12,3 percent, to R35 645 000.

The major areas in which there are increases are:

● Primary education — R64 645 500;

● Secondary education — R30 758 000;

● Teacher training — R5 017 000.

While proposed expenditure on the University of the Western Cape is down by approximately R1 million, approximately R5m more is allocated to the Peninsula Technikon.

An increase of R28 442 000 or 14,7 percent is budgeted for Indian education other than tertiary, bringing the total for the 1984/5 financial year to R221 992 000. Spending on tertiary education rises from R31 902 000 to R37 342 00 — an increase of 14,5 percent.

The major increases are:

● R10 774 600 on primary education;

...ue .ec ..n. a. on, ma... ..ng some richer and others poorer.

● The GDP is much lower now in real terms and with a 2,6 percent per annum population growth, the average South African has become much poorer in just 24 months.

GST

● Social pension increases were welcomed but the present increases for whites were below the inflation rate and had serious implications for many pensioners.

● There was no real effort to trim government expenditure.

● To say there would be no GST increase was misleading as the increase earlier this year was obviously part of the budgetary process. The warning that that there might be a tax increase later this year could mean GST.

... qu red by the State Oil Fund should not go into general revenue but go to lowering the price of petrol or for road-building.

● The tax proposal for credit cards was unacceptable, increased living costs and appeared petty.

● A differentiated tax system should be increased to bring relief to small companies, particularly as company tax was now 50 percent.

The New Republic Party spokesman on Finance, Mr George Bartlett, said it was obvious the Minister had been caught unprepared and without contingency plans by the drought and continuing recession.

"Obviously this Budget has been designed to cope only with the short-term effects of these problems."

Mr Bartlett said the ... the fact that spending on education was greater than that on defence, as he believed education was the first line of defence in South Africa.

'Peculiar'

It was notable, he added, that expenditure on education had reached such a level.

The Conservative Party spokesman on defence, Mr Koos van der Merwe, said his party was obviously in favour of a strong defence force, and recognized the need for more money.

"But it seems a bit peculiar to us that the R662 million extra on last year's Budget comes at a time when the government is apparently having so much success with its peace drive.

"It looks as if the government is talking peace and preparing for war."

... to avoiding further tax increases.

Nevertheless, tax revenue had to be increased to meet increased expenditure on education, defence, security, housing, food and transport subsidies and drought relief.

"To avoid making appropriate and, as it happens, relatively moderate tax adjustments now would therefore be asking for trouble.

"We would simply be storing up problems for next year. In the end, the adjustments required would have to be much more drastic, disruptive and painful."

Mr Horwood believed the Budget would show that the government had the will and ability to deal effectively with current problems and to ensure the long-term prosperity of a remarkably strong, versatile and resilient economy.

These and other forms of pension relief were announced by the Minister of Finance, Mr Owen Horwood, yesterday.

The minister said the concessions for social pensions and allowances alone would cost R102,3 million in 1984-85 and R174 million in a full funancial year.

From October 1, 1984, all monthly social pensions, parents' allowances and maintenance grants payable to persons in single care or in licensed institutions will increase as follows:

● For whites from R152 to R166 (up R14 or 9,2 percent);

● For coloureds and Indians from R93 to R103 (up R10 or 10,8 percent);

● For blacks from R57 to R65 (up R8 or 14 percent);

Bonus

Monthly allowances payable in respect of children will also increase with effect from October 1:

● For whites up by R3 (with a maximum of R43 per child);

● For coloureds and Indians up by R2 (maximum R25 per child);

● For blacks up by R1 (maximum R15 per child).

The minister also said that R30,5 million would be spent on a single-payment bonus to social beneficiaries during May 1984. Whites will get R36, coloureds and Asians R29, and blacks R22.

The 10 percent increase in civil pensions by the Department of Health and Welfare will apply to all those who qualified for a pension before April 1, 1984, or whose last working day will be March 31 1984.

Apart from this increase, payments to pensioners of the Government Service Pension Fund who retired after July 1, 1973, but before April 1, 1981, will be increased by a further 10 percent, provided that the amount of this increase will be at least R50 a month.

These increases are expected to cost R74 million, but all except R1,7 million of this will be defrayed from the Civil Pensions Stabilization Account.

The 10 percent rise in military pensions will cost R3 million.

● Company tax up to 50 percent except for gold and diamond mining companies who have their 15 percent surcharge raised to 20 percent;

● Defence expenditure up 21,4 percent to R3755 million;

● Education expenditure up 23 percent to R4,200 million;

● Total expenditure is up by 9,4 percent to R24,945 million;

● Money will be diverted to the Exchequer from the State Oil Fund;

● More drought relief measures promised;

● Police spending up 41 percent.

Cash, credit cards hit by 5c charge

Political Correspondent

HOUSE OF ASSEMBLY. — Credit-card and cash-card transactions were hit for the first time in yesterday's Budget with a 5c charge on bank withdrawals or transfers by cardholders.

This includes withdrawals from the proliferating automatic tellers but excludes all savings accounts, whether they are at banks, building societies or the post office.

The Minister of Finance, Mr Owen Horwood, announced that the scheme, which comes into effect on July 1, would replace the present 5c stamp duty on cheques, which is to be abolished.

"During the past few years, credit cards have increasingly replaced cheques as a method of payment for individuals," he said, and his department had to adjust to this development.

He said the new 5c stamp duty would apply to all debit-banking entries, including those done by credit card or through automatic tellers, relating to payments for goods and services, transfers of money to third parties and cash withdrawals.

It seems that as withdrawals from savings accounts are exempt, the new charge will probably only apply to credit-card cash advances and cash-card withdrawals from bank current accounts.

However, finance officials are still working out the finer details of the scheme.

Mr Horwood said the scheme was expected to bring in R15 million this financial year.

... nounced by the Minister of Finance in his Budget speech yesterday, the managing director of SA Breweries beer division, Mr Peter LLoyd, said the government was treating beer drinkers unfairly.

"Instead of asking all users of alcohol beverages to make a contribution, the Minister has picked on the lower-income groups to pay for the pleasure of the privileged," he said.

The chairman of the Hotel Association of the Cape, Mr Steven Rom, said that although his association was not happy with the increase, it was not as serious as they had feared.

Mr Rom said the association had recommended to its members that the price increase be absorbed by bars, and that the increase in off-licenses be restricted to 24c a case of cans, dumpies or pint bottles as from Monday, April 2. Quart bottles will cost two cents more each at off-licences from Monday.

Cigarette manufacturers reacted philosophically to the one-cent-per-10 tax increase announced yesterday.

"Under the circumstances, we feel it is fair," said the managing director of United Tobacco, Mr Bruce Edmonds.

The increase will push the recommended price of a packet of 20s up to 75c.

White university subsidies

Political Staff

HOUSE OF ASSEMBLY. — The eleven white universities in South Africa will, after all, get a R51 million increase in government assistance during the 1984-5 financial year.

They have been allocated R497,9 million, compared to the R426,9 million last year.

Of this amount, R421,5 million has been allocated in terms of the new subsidy formula.

Apart from the University of South Africa, which will get R62,9 million, the University of the Witwatersrand will receive the largest amount (R69,2m), followed by Pretoria (R68,6m), Stellenbosch (R54,7m), Natal (R55,3m), Cape Town (R51,6m), Free State (R39,1m), Potchefstroom (R31,2m), Port Elizabeth (R19,4m) and Rhodes (R17,9m).

It will cost more to have a good time

Political Staff

IF YOU want to smell good, get dolled up in jewels, have a cigarette, take a picture of your girlfriend, watch Dallas, listen to the news, crack a beer, join the Hell's Angels, shoot somebody, or just be laid back in a new car, it could cost you more from today.

The Minister of Finance, Mr Owen Horwood, has increased duties on a whole range of goods — some of them by five percent and some by one percent.

Goods with duties upped by five percent are: Beer, cigarettes, perfumes, cosmetics, toilet preparations, photographic films and plates, leather goods, furs, artificial furs, jewellery, gold and silver ware, other articles of precious metals or rolled metals, semi-precious stones, microphones, televisions, radios, motorcycles, tape-recorders, clocks and watches, sunglasses, cameras, movie cameras, projectors, gramaphone records and fire-arms.

Up by two percent are duties on certain motor cars with a value, for duty purposes, exceeding R11 500.

Up by one percent are duties on certain motor-cars with a value, for duty purposes, of less than R11 500 — tractors, mini-buses, light delivery vehicles, goods vehicles and chassis.

Security bill rockets

Political Staff

HOUSE OF ASSEMBLY. — Government spending on security services, apart from defence, is to rocket by more than 40 percent during the current financial year.

It will spend R895,2 million during the 1984-5 financial year, compared to R640,1m last year.

For the first time, the Department of Co-operation and Development will have a R2,6-million security services budget.

Government spending on secret services under the Department of Finance vote will increase from R84 million to R67 million.

The purpose of this item under the Estimates of Expenditure is described as financing "secret services undertaken by state departments".

The Prisons vote is to increase to R12,9 million from R8,9 million while the Police vote will go up to R795,6 million from R564,2 million.

The police estimates of expenditure on detained people will increase by more than 53 percent to total R4 768 000, compared to R3 106 400 in the previous financial year.

Trade unions welcome GST food probe

By RIAAN DE VILLIERS
Labour Reporter

TRADE union spokesmen yesterday welcomed Mr Owen Horwood's Budget announcement that the lifting of General Sales Tax on foodstuffs will be investigated.

The announcement follows sustained pressure from organized labour on the government to exempt food and other basic necessities from GST, and has come barely two weeks after a group of independent trade unions representing 300 000 workers demanded lifting of GST on foodstuffs in an open letter to Mr Horwood.

However, other features of the Budget — especially increased defence expenditure — were sharply criticized.

'Discontent'

The huge increase in defence spending was condemned by the United Democratic Front, which, it said, showed the government was still "pursuing its policy of militarization the face of massive poverty".

Mr Terror Lekota, the UDF's national publicity secretary, said in a statement that the increased military expenditure had "come as no surprise", following the Nkomati accord.

"Whereas the Prime Minister spoke of peace and good neighbourliness, he did not address the internal problems that have put South Africa on a war footing."

He said the budget showed yet again the "high price South Africans had to pay for the maintenance of apartheid", and warned it could "only serve to fuel the fires of discontent and anger of the dispossessed, voteless and exploited majority".

● A spokesperson for the General Workers' Union expressed the union's disappointment that Mr Horwood had not seen fit to lift GST on basic commodities such as food.

However, it "noted with interest" that this was being considered.

"We wish to reiterate that the workers represented by the GWU, as also the other independent unions, believe they bear the brunt of the hardship caused by both sales tax and massive and continuing price rises," she said.

Workers would await the outcome of the probe with "interest".

The union noted that companies were going to pay increased taxes, but that the additional revenue appeared to be intended largely to finance the spiralling defence bill.

'HP budget'

"We do not believe that the majority of South Africa's people support this expenditure," she added.

Mr Arthur Grobbelaar, general secretary of the Trade Union Council of South Africa (Tucsa), welcomed the probe into lifting GST on foodstuffs.

However, he said the government could have done more for pensioners and the announced increases were "clearly inadequate".

Mr Grobbelaar expressed dissatisfaction with the budget, saying one could label it as a "hire-purchase budget falling into the category of fly now, pay later".

There was also little indication that government spending would actually be curtailed.

Millions to go to homelands

HOUSE OF ASSEMBLY — The Government will spend a whopping R1,7 billion on the independent and non-independent homelands during the 1984/5 financial year.

Excluding their share of the customs income and other taxes, the four independent homelands will receive R6?7,8 million while the six non-independent

BUDGET BUDGET BUDGET 84

State subsidies 'under review'

Political Correspondent

HOUSE OF ASSEMBLY. — The Minister of Finance, Mr Owen Horwood, announced yesterday that the whole question of "ever-increasing subsidies" was being reviewed.

He said in his Budget speech that state subsidies had come to be accepted as a way of life without the reason for their existence being reviewed regularly.

"I have serious misgivings about the problem of ever-rising subsidies."

This would be evident from his action last year on initial and investment allowances, steps taken recently to stop tax-concession malpractices and the current investigation into the bread price.

Mr Horwood said direct subsidies during the current year for the departments of agriculture, transport, finance, mineral and energy affairs, commerce, industry and tourism, and community development had exceeded R1 300 million.

Indirect subsidies, especially tax concessions or so-called tax expenditures, had come to more than R1 000 million.

"The Cabinet recently decided that an in-depth study be made of housing subsidies, their magnitude, distribution and impact on the property market.

"I feel this study could be supplemented by an investigation into all other unsatisfactory aspects of the present system of subsidies and hidden benefits.

"It would clearly be inappropriate to anticipate the outcome of that investigation."

Earlier in his speech, Mr Horwood announced a 35 percent increase to R112 million in state subsidies on National Housing Fund loans. He said this underlined the government's earnest commitment to housing.

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Rethink on GST on food

Political Staff

HOUSE OF ASSEMBLY. — Food may be exempted from General Sales Tax in future but the government is considering applying GST to doctors' bills and other professional services.

Announcing this in his Budget yesterday, the Minister of Finance, Mr Owen Horwood, said the government was considering a capital gains tax, which would include profits on house sales, and was giving serious attention to revising the highly controversial separate taxation on working wives.

However, he warned against assumptions that it would be changed.

Having just increased GST by one percent to seven percent, Mr Horwood said he did not intend increasing it again now.

However, he had asked the Standing Commission on Taxation to advise him on the possibility of removing GST from food and applying it to professional services.

Mr Horwood said he had asked for advice on "the extent to which it may be desirable and practicable for a limited number of basic food items or, alternatively, all foods to be excluded from GST or be taxed at a lower rate, and also to advise on the resultant loss of revenue as well as the administrative problems that would arise".

He had also asked for advice on "the extent to which this tax should be extended to services presently untaxed, such as professional services".

Earlier, he said the commission was already engaged in a major exercise to reassess the advisability of the separate taxation of married persons.

He hoped to receive the report early next year.

The commission was also investigating several other matters.

"There is a hiatus in our tax structure relating to the taxation of capital transfers and of so-called unearned income, such as capital profits on real estate and share transactions," Mr Horwood said.

"I have asked the commission to investigate the desirability and the practicability of taxing the gains made on such transactions and to report to me as soon as they conveniently can."

BUDGET 84

41pc more for police

Political Staff

HOUSE OF ASSEMBLY. — The police budget for the 1984/5 financial year is more than 41 percent higher than last year.

The total amount earmarked for the police in yesterday's budget was R795 640 000, some R231 358 000 more than last year.

The major increases fall under the maintainance of law and order, with the cost of police services rising by more than R160 million to just under R500 million.

Police services include the prevention and investigation of crime and the tracing of criminals, the control of riots and riotous assemblies, the combatting of urban terrorism and other activities "which threaten the security of the state and individuals", policing national borders and the performance of court duties.

Just under R30 million more than last year — R164 340 000 — has been allocated for logistic support which includes stock and equipment, structures and radio and technical support.

Scorn, surprise over defence spending rise

By ROBIN PARKER

OPPOSITION defence spokesmen in Parliament have questioned yesterday's massive hike in defence spending while a retired naval officer has heaped scorn on the "agricultural mentality" shown towards maritime defence spending.

In addition, a strategist has pointed to the dangerous situation of allowing defence expenditure a "predominant place" in the economy.

Official opposition spokesman on defence, Mr Phillip Myburgh, has said that "recent easing in tensions on the subcontinent — demonstrated in the signing of the Accord of Nkomati — would indicate that the objective threat to South Africa from our neighbours is lessening. It is therefore ironic that for the first time in some years, there has been an increase in real terms in defence expenditure."

He added that the PFP would await with considerable interest the explanation of the Minister of Defence during his vote, as to why an increase in defence expenditure was necessary, as well as his projections for the future.

Mr Phillip Myburgh

The Conservative Party spokesman on defence, Mr Koos van der Merwe, said his party was in favour of a strong defence force and the money to finance it, but found it "peculiar that R662-million increase on last year's budget comes at a time when the government is apparently having so much success with its peace drive".

The Director of Research for the South African Insititute of International Affairs, Dr Peter Vale, said that the allocation seemed "excessively high". It entrenched the power of the defence force in the economy which was a dangerous situation. Questions would have to be asked as to what was being promoted to research and development and what this would bring in foreign earnings through Armscor exports.

The SADF's paramount place in the budget set it up as a "resource eater". However, he accepted that while most strategists would have preferred a downturn, the momentum built into the system could not stem the defence expenditure tide.

Retired senior naval officer and PFP candidate for Simon's Town in the 1981 general election, Commodore Andrew McMurray, criticised the Department's "agricultural mentality".

"They have not bothered to read history," he said in reaction to the drastic decrease in funds allocated to maritime defence. He asked: "How on earth do we get through to them that we are operating an island economy?"

Where money for defence goes

By ROBIN PARKER

HOUSE OF ASSEMBLY. — South African defence expenditure for 1984/85 has been pegged at R3 755 million, an increase of almost R662m over the figure budgeted for the 1983/84 fiscal year.

The 21,4 percent increase, which represents 14,8 percent of the overall estimated expenditure announced yesterday by the Minister of Finance, Mr Owen Horwood, is broken down into seven priority areas.

The record defence budget is an indication of ongoing commitment to the defence of South Africa in spite of recent accords and must also be seen against the background of the price this country is paying in the face of international military isolation brought about by the 1977 United Nations arms

How the cake was sliced

Political Correspondent

HOUSE OF ASSEMBLY. — Despite the 21 percent increase in defence spending, the Department of Constitutional Development has been granted the largest increase in cash terms.

The budgetary allocation to Mr Chris Heunis's department is 769,6m higher than last year, while General Magnus Malan's Defence Department has the second highest increase of R661,9m.

Only two departments — Transport and Agriculture — have lower allocations than last year. The other large drop is the R141 m decrease in money spent to improve conditions in the public service.

The full list of departmental allocations, with increases or decreases over last year in brackets, is:

State President	R1 469 000 (plus 123 204)
Parliament	R15 739 000 (plus 3 669 000)
Prime Minister	R10 313 000 (plus 5 390 492)
Co-operation and Development	R1 882 781 000 (plus 248 189 000)
Transport	R243 893 000 (minus 69 759 000)
Finance	R4 332 675 000 (plus 611 630 000)
Audit	R10 883 000 (plus 1 273 000)
Constitutional Development	R4 559 413 000 (plus 769 638 000)
Foreign Affairs	R772 144 000 (plus 36 124 000)
Internal Affairs	R1 265 408 000 (plus 182 450 000)
Commission for Administration	R46 329 000 (plus 17 026 000)
Improving service conditions	R109 000 000 (minus 141 000 000)
Law and Order (police)	R795 640 000 (plus 231 358 000)
Health and Welfare	R1 691 918 000 (plus 325 420 000)
National Education	R866 675 000 (plus 141 098 000)
Defence	R3 754 667 000 (plus 661 967 000)
Manpower	R92 285 000 (plus 21 195 000)
Industries, Commerce, Tourism	R570 757 000 (plus 61 143 300)
Justice	R140 905 000 (plus 33 624 000)
Prisons	R311 592 000 (plus 78 266 000)
Community Development	R1 269 904 000 (plus 250 124 000)
Environment and Fisheries	R392 204 000 (plus 51 922 000)
Agriculture	R459 778 000 (minus 7 570 000)
Mineral and Energy Affairs	R557 637 000 (plus 26 571 000)
Education and Training	R709 257 000 (plus 147 939 000)

Drought relief

embargo.

Although landward defence still demands a fairly sizeable share of the final total it is down on last year, which is indicates a rescheduling of priorities and the commitment to seek peace on the sub-continent.

Mr Horwood said "it would be unrealistic to expect an immediate drop in expenditure on defence as a result of the Prime Minister's recent peace initiatives". He said these initiatives might raise premature hopes that defence expenditure would immediately fall.

"But, if, as we all fervently trust, the initiatives prove to be enduring, a downward trend in real and proportional defence expenditure may certainly be expected in due course."

Defence expenditure has been broken down into seven areas (1983/84 figures in brackets):

- **Overhead command and control** (the provision and maintenance of a co-ordinated higher command-and-control structure): R247 393m (R271 408m).
- **Overhead support** (the training and acquisition of personnel and logistics): R986 018m (R1 220 081m).
- **Area defence** (providing specific area protection against insurgency by land, sea or air forces): R342 941m (R1 005 709m).
- **Landward defence** (to counter a landward conventional threat by the employment of combined air and naval forces): R275 463m (R481 604m).
- **Air defence** (to safeguard this country's strategic airspace): R34 833m (R179 489m).
- **Maritime defence** (to safeguard this country's maritime areas by the employment of combined air and naval forces): R43 270m (R153 553m).
- **Provisioning** (to purchase stock and equipment for eventual utilization by other programmes): R2 224 749m (R2 155 089m).

The discrepancy in total between 1983/84 budgeted figures and those for the current financial year due to transfer payments (R189 195m) and estimated under-expenditure in conjunction with estimated cash requirement and funds available.

for farmers

Political Staff

HOUSE OF ASSEMBLY. — Various financial relief measures for farmers hit by three years of drought were announced by the Minster of Finance, Mr Owen Horwood, in his Budget speech yesterday.

The minister said the interest subsidy on carry-over debt of farmers to their co-operatives would be increased for the 1984-85 season.

In addition, a reduction in the rate of interest payable on production credit extended to farmers by the Agricultural Credit Board would be effected.

Agricultural financing for the 1984/85 financial year would be increased by 45 percent over last year's figure — from R71,6 to R104-million.

Mr Horwood also announced that the Minister of Agriculture, Mr J J G Wentzel, would be making an announcement on additional funds for drought relief within the next day or two .

"What is at once clear is that the continuation of the serious drought is going to require more funds in the form of drought relief, over and above the substantial amount so far provided," he said

Justifying the relief measures, the minister said the drought had severely affected agricultural output and many farmers had depeleted their financial resources, and were no longer able to finance production inputs.

Furthermore, most co-operatives had reached their upper lending limits and were unable to grant further credit unless financial guarantees or other forms of assistance were forthcoming from the State.

R3,8m given to labour relations

Political Staff

HOUSE OF ASSEMBLY. — Government spending on industrial relations "to bring about and maintain industrial peace" will increase by 59,4 percent during the current financial year.

The Department of Manpower will spend R3,8 million during the 1984/5 financial year compared to R2,4 million last year.

The largest amount — R1,3 million — has been allocated to "settlement and prevention of disputes".

Control of labour organizations and industrial councils has been allocated R189 000, "regulating conditions of employment for unorganized labour" R938 000, "handling labour conflict in general" R181 000, exemptions, appeals, inquiries and complaints R143 000, industrial inspections R743 000 and administrative auxiliary services R300 000.

In the programme description for the settlement and prevention of disputes, the Estimates of Expenditure lists negotiation by conciliation boards, mediators or the department, the Industrial Court and arbitrators, "demarcation between industries and the determination of alleged unfair labour practices by the Industrial Court".

Spending on SA's black areas boosted

Political Staff

HOUSE OF ASSEMBLY. — Nearly three-quarters of the budgetary allocation for the Department of Co-operation and Development is destined for the homelands and self-governing states.

The total budget requirements of the department are R1 655 796 000, an increase of R248,189 million on last year.

The budget includes R786 045 000 earmarked for assistance to governments of self-governing states — nearly R145m more than last year. An additional amount of R226 985 goes to the self-governing homelands in terms of statutory grants.

A further R414 548 000 is required for the development of black areas towards self-determination. This is nearly R39m more than last year.

In addition, an amount of nearly R4m is allocated for the repatriation of Africans who are citizens of other states.

A further R101,986m is earmarked for the settlement of people — over R20m more than last year, while just over R87m is allocated for employment creation and income generation.

Kwazulu is the chief recipient among the homelands, with a total of more than R494m.

Incentives for industry

Political Staff

HOUSE OF ASSEMBLY. — Government spending on promoting decentralization will reach its highest level ever during the current financial year.

An amount of R267,6 million will be spent on incentives for industries which move to decentralized areas, and the development of infrastructure.

A further R19,4 million will be spent under the Foreign Affairs vote as an "incentive scheme for industries" in the independent homelands of Transkei, Bophuthatswana, Venda and Ciskei.

SWA subsidy cut by R30m

Political Correspondent

HOUSE OF ASSEMBLY. — Warnings by the Prime Minister, Mr P W Botha, that South Africa can no longer bear the full burden of supporting SWA/Namibia, appear to be having results.

The Minister of Finance, Mr Owen Horwood, said yesterday that he had decided to prune the planned R348-million budgetary aid for the territory by R30 million.

This would "reduce the pressure on the South African Exchequer", he said during his Budget speech.

In spite of the reduction, budgetary aid to SWA/Namibia is still R78 million higher than the R240 million provided last year.

Luxury goods, cars, beer and cigarettes to cost more

By Peter Sullivan,
Political Correspondent

THE ASSEMBLY — Taxes on beer, cigarettes, cars and luxury goods are to go up, companies will pay more tax, and credit-card users will have to pay a fee of 5c a transaction following yesterday's Budget proposals.

The extra revenue will be channelled mainly to education and defence, with education getting the lion's share.

Fringe benefits are to be taxed to yield an extra R50 million a year but personal income tax and General Sales Tax (GST) remain unchanged.

Presenting his anti-luxury Budget to Parliament, the Minister of Finance, Mr Horwood, also announced Government inquiries into several tax structures, including a closer look at separate tax for married couples, taking foodstuffs out of the ambit of GST, making professional services liable to GST, and taxing capital profits on Stock Exchange and property transactions.

Mr Horwood has budgeted for a surplus of R125 million, balancing his books by diverting money from the State Oil Fund to the Exchequer and through the sale of the State's share in Sasol 2.

Mr Owen Horwood

The tax on beer goes up by about 0,9c a beer, meaning a rise of 1c to consumers.

Cigarettes will cost an extra 2c a packet of 20 and cigarette tobacco an extra 1c for 50 g. Duties on pipe tobacco and cigars are unchanged.

An effective increase of two percent on the retail price of luxury goods has been budgeted for by raising ad valorem rates by five percent. This will bring in R41 million.

Motor vehicles will be taxed at one or two percent, with cars under the retail value of about R15 000 plus heavy vehicles, kombis and minibuses taxed at one percent, and higher-priced cars at two percent.

All increases in customs and excise duties take effect immediately, but sellers should only adjust their prices once old stocks have been sold.

Company tax will go up from a basic rate plus surcharge of 46,2 percent to a basic rate of 50 percent with no surcharge. This is expected to garner an additional R203 million.

Gold and diamond mining companies will have their 15 percent surcharge increased to 20 percent of basic tax, giving R59 million.

Mr Horwood proposed several measures to close loopholes in the system through which companies were eluding the tax net, including changes to incentive allowances on machinery, wear-and-tear allowances, last-in first-out stock valuation, and provisional tax regulations.

The stamp duty on cheques is to be abolished but it will be replaced by a stamp duty of 5c on debit banking entries, including credit-card transactions and automatic-teller operations, transfers of money to third parties and cash withdrawals. This comes into operation on July 1.

New proposals on fringe benefits contained in the report of the parliamentary commission of inquiry into fringe benefits — tabled yesterday — come into effect on September 1 and will yield an estimated R50 million.

Features of the Budget

The main features of the Budget were:

- No increase in income tax rates.
- The thresholds at which income tax starts are raised.
- Excise duties on beer and cigarettes are increased.
- Beer is up by 2,4c a litre and cigarettes by 2c on a packet of 20.
- Fringe benefits will be taxed from September 1.
- Taxes on cars and luxury goods go up.
- Credit card users will have to pay a fee of 5c a transaction.
- Increases in taxes on companies and gold and diamond mines.
- Defence expenditure up by 21,4 percent to R3 755 million.
- Expenditure on education up 23 percent to R4 200 million.
- Pensions up by about 10 percent.
- Huge salary increases for the Prime Minister and other parliamentarians in the estimates.
- More drought relief measures promised.
- Government expenditure to rise by 9,4 percent to R24 945 million.

Defence and education get lion's share

Political Staff

THE ASSEMBLY — Government expenditure would rise by 9,4 percent in 1984/5 to R24 945 million, Mr Horwood said. But expenditure on education, defence and manpower would rise by far more.

Spending on education would rise 23 percent to R4 200 million. This emphasised the Government's resolve to accord education a high priority, Mr Horwood said.

In the past five years expenditure on education had risen by an average of 18,3 percent a year and in this period R16 136 million had been spent on education.

Defence spending would rise 21,4 percent to R3 755 million.

In the light of the particular problems of rising defence costs, as well as those of the effect of the recent adjustment in staff salaries, the increase in spending would barely maintain the existing levels of expenditure in real terms.

Defence's share of total expenditure was 15 percent in 1983/4 and would remain at that level next year.

The peace initiatives might have raised premature hopes that expenditure on defence would immediately fall, Mr Horwood said. But such a view hardly accorded with the need in the modern world for effective national defence.

"But if — as we all fervently trust — the initiatives prove to be enduring, a downward trend in real and proportional defence expenditure may certainly be expected in due course."

Mr Horwood said that, on the current basis of taxation, revenue in 1984/5 was estimated at R20 761 million — an increase of nine percent on the revised estimate for 1983/4.

Inland revenue would contribute 92 percent or R19 125 million of this sum — 11,5 percent more than last year.

Customs and excise receipts were expected to fall 13,6 percent to R1 636 million.

Only personal income tax and general sales tax were expected to show meaningful improvements. Personal tax was expected to rise 26,3 percent to R7 265 million and general sales tax 30,1 percent to R5 010 million.

Company tax receipts were expected to fall 10,1 percent to R2 900 million while revenue from gold mines was expected to fall 20,2 percent to R1 786 million.

Revenue for 1983/4 was estimated at R19 048 million with R17 155 million coming from Inland Revenue.

Gold mining tax and lease payments were 23,6 percent above Budget estimates at R2 237 million. Personal income tax payments rose 8,7 percent above estimates to R750 million while transfer duties collected increased 72,2 percent to R320 million.

General sales tax receipts were estimated at R350 million, which was 2,7 percent shy of the original estimate.

Company tax amounted to only R3 225 million, which was 21,3 percent less than the original estimate.

Expenditure in 1983/4 totalled R22 803 million.

How the R4 200-m is being dispensed

Political Correspondent

CAPE TOWN — The large increase in Government spending on education to a total of R4 200 million is spread among all races and involves several State departments.

Trying to discover who gets what is difficult.

National Education, the department responsible primarily for white tertiary education, has had its budget increased from R725 million to R866 million.

Education and Training, responsible for black education, has had its budget increased from R560 million to R709 million.

This is an increase of R148 million compared to R141 million for National Education.

The Department of Internal Affairs, responsible for coloured and Indian education, has had its overall budget increased from R1 08 million to R1 265 million but much of this goes towards the department's other functions such as immigration, citizen services and administering the Constitution Act.

This department's budget for "administration and development of the coloured group" has jumped from R744 million to R881 million, an increase of R137 million.

In his Budget yesterday, Mr Horwood announced that the Government would place all universities on the same basis for subsidy purposes, involving a shift away from emphasis on the number of enrolments to the quality of research and academic activity.

The vice-chancellor and rector of the Rand Afrikaans University (RAU), Professor J Poolman, welcomed the move.

It would mean universities would place more emphasis on academic activity, achieving good results and encourage research.

Horwood's handouts

This is how the money is allocated in Mr Horwood's R25 billion Budget:

- To enable the State President to fulfil his Constitutional functions and to manage his household: R1 385 000.
- To enable Parliament to fulfil its functions: R9 173 000.
- Prime Minister and President's Council: R10 240 000.
- Co-operation and Development ("to administer matters pertaining to black people in white areas and promote the development of the various black national units"): R1 655 796 000.
- Transport (road, sea and air, and the weather service):R243 893 000.
- Finance department: R842 554 000.
- Audit: R10 833 000.
- Constitutional Development and Planning: R4 559 413 000.
- Foreign Affairs: R651 632 000.
- Internal Affairs: R1 265 408 000.
- Commission for Administration: R46 329 000.
- Improvement of conditions of service for people employed by the State: R109 000 000.
- Police: R795 640 000.
- Health and Welfare: R1 691 718 000.
- National (white) Education: R866 675 000.
- Defence: R3 754 667 000.
- Manpower: R92 285 000.
- Industries and Commerce: R570 757 000.
- Justice: R134 782 000.
- Prisons: R311 592 000.
- Community Development: R1 269 904 000.
- Environment Affairs: R392 404 000.
- Agriculture: R459 778 000.
- Mineral and Energy Affairs: R557 637 000.
- (Black) Education and Training: R709 257 000.

Old, disabled get new tax concessions

THE ASSEMBLY — Tax concessions for the disabled, senior citizens and people with retirement benefits were announced by the Minister of Finance, Mr Owen Horwood.

He said these concessions would come into force in the 1984/85 tax year.

His proposals were:

- Physically disabled persons — the limit of R2 400 on the deduction of expenditure necessarily incurred by a taxpayer for a physical disability suffered by himself, his wife, his child or his stepchild, be increased to R3 000.
- Medical expenses — the present ceiling of R2 000 on the deduction of medical expenses incurred by a married person over 60 be increased to R3 000, and the corresponding limit of R1 500 in the case of an unmarried person over that age be increased to R2 250. Furthermore, there should be no ceiling for the deduction of such expenses for taxpayers over 70.
- Pension fund contributions for backdated pensionable service — the present ceiling of R1 500 on the deduction of such contributions be increased to R1 800.
- Contributions to a retirement annuity fund for reinstating membership where the member had previously discontinued his contributions, at present qualify for a R1 500 deduction from income. He proposed this be increased to R1 800.
- Annuity payable by a taxpayer to a dependent of a former partner or employee was deductible by the employer from his income up to an amount of R2 000 a year. He proposed this be raised to R2 500. — Sapa.

The Budget: 'distributing misery fairly'

Political Staff

THE ASSEMBLY — As usual, Mr Owen Horwood laced his Budget speech with the wit and wisdom of a galaxy of quotable people.

On the risks of economic forecasting he called up Laurence Peter, who said: "An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today."

Discussing the choice between a cut in Government spending and an increase in taxes, he drew on Oscar Wilde's definition of a pessimist: 'A man who, when faced with a choice between two evils, chooses both."

Mr Horwood borrowed from Robert Lowe, Viscount Sherbrooke, who said: "The Chancellor of the Exchequer is entrusted with a certain amount of misery which it is his duty to distribute as fairly as he can."

His sources included Saint Augustine, C J Langenhoven and Francis ("opportunity makes a thief") Bacon.

The Minister even went into fairy-tale land to quote from Lewis Carroll.

Getting back to hard economics Mr Horwood quoted from Arthur Motley: "If the nation's economists were laid end to end, they would point in all directions."

Mr Horwood ended his speech with Abraham Lincoln's words which he obviously felt applied to him: "I always do the best I can, the best I know how, and I mean to keep on doing so to the end. If the end brings me out allright, what is said about me won't amount to anything. If the end brings me out all wrong, 10 angels swearing I was right will make no difference."

Financial Mail

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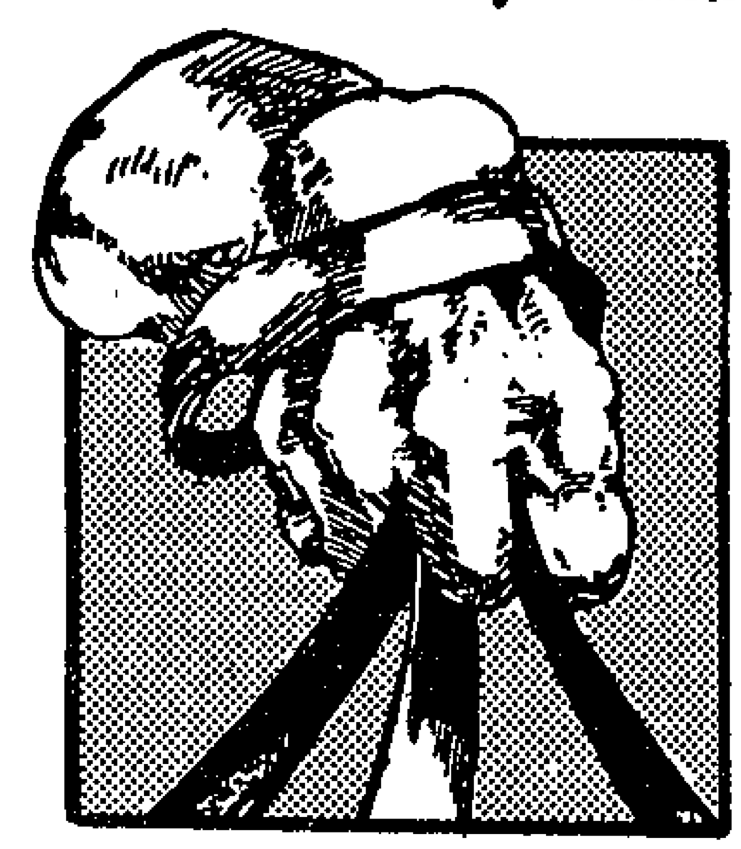
THE BUDGET

There's no free lunch

Owen Horwood raised a laugh in Parliament this week with his reference to St Augustine's prayer as a young man for chastity — he wanted it, "but not yet".

In the event, Horwood emerged from his 10th Budget address with his economic chastity relatively intact. He was not seduced by the siren call of the Keynesians to stimulate; and his feat in funding a complex Budget in difficult circumstances, with a deficit of 3% of gdp, is considerable.

The Minister made no reference to suggestions that this Budget was his swansong. But he did leave the observer with an impression of a great deal left undone, changes which will demand the expenditure of vast intellectual energy. An air of uncertainty lingered over precisely what will happen in the field of investment allowances, capital gains, the phasing in of perks taxation, the tax status of married people, privatisation and so on.



This is not like Owen Horwood. His is an orderly mind and he is a conservative thinker. We suspect he sees vast changes in SA tax law ahead, not least in the need, to which he referred, to cater for our new political structure. It is likely, in our view, that he would not be inclined to preside over an era of such rapid, and far-reaching, change.

In any event, this Budget dealt realistically with the problems posed by the effects of drought, a weak gold price, a slow recovery among our major trading partners and historically high rates of interest — which are necessary, but painful, if inflation is not to undermine our economic health.

But, as Milton Friedman reminds us, there is no such thing as a free lunch. What Horwood had to do was to spread the burden as widely and as fairly as possible within a politically acceptable framework. He succeeded in this aim, and it was particularly pleasing to see education receive a 23% increase to R4,2 billion, placing it above defence in the total allocated.

There was the usual fiscal sleight of hand. While personal tax rates remain unchanged, the take from individuals rises 26% to R7,3 billion, reflecting the effects of "fiscal drag," or what we like to call taxation by stealth.

And individuals should not delude themselves into thinking that the increase in company taxes means a shift in the burden. Companies are inanimate pieces of paper. The personal welfare of the vast bulk of the workforce is tied directly to the health of the enterprises which employ them. A "them and us" attitude, reflecting satisfaction that companies are being soaked, would be sadly misplaced. If profits are to be made, so that new investments can be generated and more jobs created, then companies must recover their costs — and taxation is one of them.

Horwood's stress on control of the money supply (down to a welcome growth rate of under 9% in the second half of last year), and on the need to discipline Pretoria's spenders, serves the interests of all South Africans. He disclosed that claims on the Exchequer totalled a massive R30 billion, which he pared down to R25 billion. The bureaucrats will also, in future, be required to spend their allocations in smooth monthly instalments. This will assist in the application of discipline and will help to cut down on the disruptive seasonal flows which bedevil our money and banking systems.

It was interesting to learn that a serious look is being taken at the taxing of capital gains from share and property transactions. The present basis of classifying revenue as capital or income is incoherent and needs an overhaul. But government should tread warily, heeding the maxim that if you want less of something, then tax it. Thus, if we want less capital formation and risk-taking, we should go ahead and tax the rewards that sometimes result. Is that what we really want?

The Treasury's proposed "close corporation" system, to combat the abuse of private companies by taxpayers, makes sense. But, as with the problem of perks, what the State seeks to do is to garner from the individual an appropriate share of what is earned. However, what is earned is largely spent, and this brings us to the point that it is in indirect taxation, via gst, that we believe the best path for tax reform lies. Shift the emphasis to a tax on spending, rather than on earning. The exclusion of basics would make a higher gst of, say, 15%, palatable even to the far Left — and direct taxes could be concomitantly eased.

We agree with the Minister that indirect taxes, such as gst, should, as in other countries, be excluded from the basket of items making up the consumer price index.

The significant *direct* income tax relief of recent years was not reflected in the inflation rate. It makes eminent sense, therefore, to exclude gst, and other one-off forms of indirect taxation, from the measurement of inflation.

Inflation tends to be self-perpetuating. Government departments, no less than trade unions, will use it to argue for a greater share of the cake.

Thus, the more realistic and conservative the measure is, the better will be our chances of controlling the whole spiralling process.

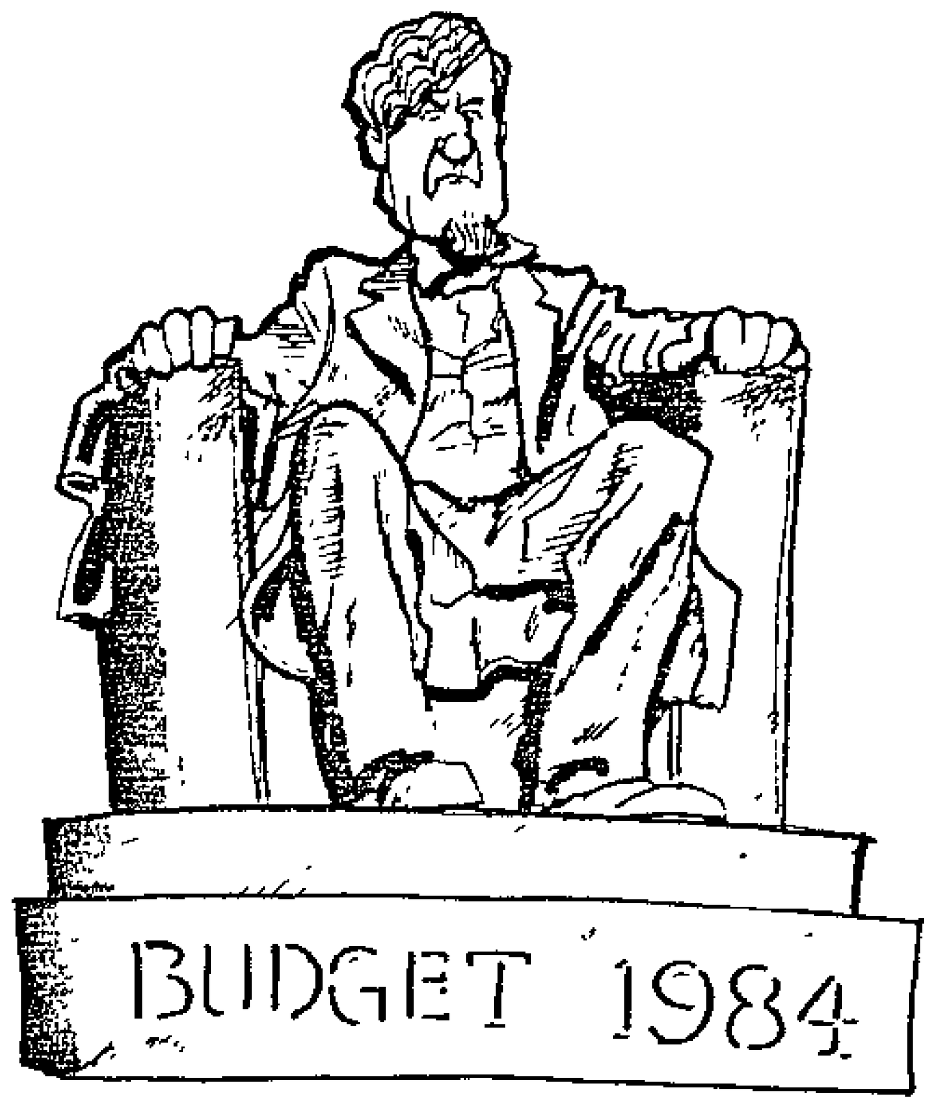
What worries us is the upward slope in the measure of government's share of the economy. It is now of the order of 25%, several points up on the levels achieved at the start of this decade. That share must be screwed down.

First-aid for the economy

Finance Minister Owen Horwood dispelled most of the lingering hopes and fears about his Budget long before he laid it on the Parliamentary table on Wednesday afternoon.

His preamble was a gloomy account of the current state of the economy. It cited all the expected elements: the low gold price, the sluggish recovery, the drought — and excessive government spending. Some compliments were handed out, notably to the monetary policymakers, for their success in cutting consumption spending. In fact, Horwood took pains to point out that private consumption *per capita* has declined in recent years. This was an important clue to what was to come. For among the things the Budget was designed to achieve, changing this consumption pattern was not one.

Instead, Horwood made it quite clear that fiscal policy in 1984-85 is to continue to impose a necessary degree of discipline on the economy. On the face of it, this is what his figures suggested. Once again, a low rate of growth in government expenditure was forecast — effectively, little more than 9% up on last year's actual figure after accounting adjustments. (However, this itself was more than 5% higher than provided for. So the actual budget-to-budget increase is in the order of 16%.)



Predictably, but not comfortably, the defence vote rose by 21% to represent almost 4% of gdp; in terms of the total Budget, however, it remains at about 15%. Education, a far more productive input, went up 23%.

By contrast, total revenue for 1984-85 is planned to rise by over 15% both on last year's Budget, and the actual outturn, which was pretty much the same There is a hint of the contractionary here, especially as Horwood's budgeted borrowing requirement — at R5,3 billion — is lower than last year's actual R6,1 billion.

At existing tax rates, about R20,8 billion would have flowed into Pretoria's coffers in 1984-85. This was after the only handout in the Budget — some R30m from raising tax

BUDGET IN A NUTSHELL

Revenue: The total revenue for the coming financial year is forecast at R21,98 billion, an increase of 15,4% on the revised Budget estimate of R19,05 billion for the previous financial year.

Expenditure: The total rises to R24,95 billion, an increase of 9,4% on the previous year's revised estimate of R22,8 billion. (This excludes accounting adjustments for government bonds sold at discount.)

Financing: This leaves an estimated deficit before borrowing of R2,97 billion, which is just under 3% of gross domestic product. Adding expected loan redemptions of R2,18 billion, it brings the total to be financed to R5,14 billion.

Education: Spending rises by more than 23% to R4,2 billion.

Manpower: An increase of almost 30% brings the provision to R92,3m. The training allowance is to be reduced from 100% to 50% effective September 1 1984, and limited to employees earning up to R15 000/year.

Housing: The National Housing Fund is to receive R8m plus an interest subsidy of R112m.

Defence: An increase of 21,4% brings proposed spending to R3,75 billion.

Agriculture: The interest subsidy to farmers on carry-over debt with their agricultural co-operatives is to be increased, and interest payable on production credit extended by the Agricultural Credit Board reduced. An important announcement regarding increased drought relief is expected shortly.

Pensions: From October 1 1984, social pensions will be increased by R14 to R166 for whites, by R10 to R103 for coloureds and Asians, and by R8 to R65 for blacks. They are also to receive single bonuses this May of R36, R29 and R22 respectively. From April 1 1984 military and civil pensions will rise 10%.

Customs and excise: Duty on malt beers increases 2,4c/litre. There are no increases on wines, spirits, petroleum products or pipe tobacco and cigars. Cigarettes, however, go up 1c/packet of 10, and cigarette tobaccos by 1c/50 grammes.

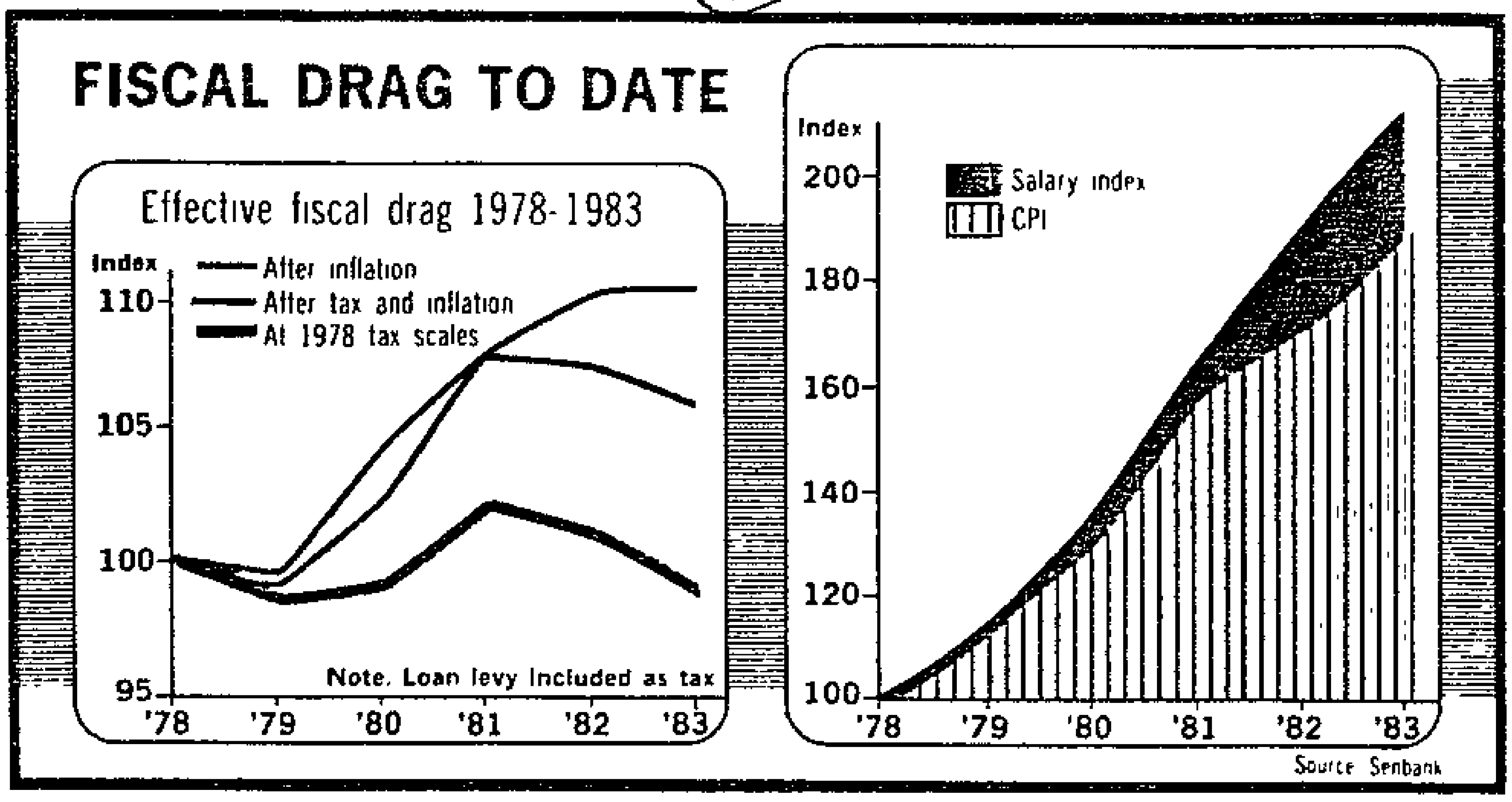
Existing *ad valorem* customs and excise duties on imported and locally produced goods are increased by 5%. New *ad valorem* duties of between 1%-2% are to be imposed on motor vehicles.

Company tax: The 15% surcharge on gold and diamond mining companies is raised to 20%. For all other companies the effective rate is increased from 46,2% to 50%. The investment and initial allowance on industrial plant and machinery is to be spread over two years. The amount allowed as an initial allowance is to be reviewed. The tax concession associated with the valuation of stock under the last-in-first-out (lifo) basis is being withdrawn. Provisional tax may no longer be based on previous years' assessments.

Stamp duty: The 5c duty on cheques is abolished and is replaced by a stamp duty of 5c on all debit banking entries, excluding entries on savings accounts, but including credit cards and cash withdrawals.

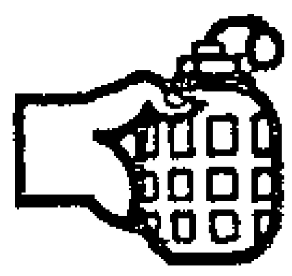
Fringe benefits tax: This is planned to be implemented from September 1 1984, with the cost to the employer forming the basis of benefit valuation.

Personal taxes: The rates stay the same. Separate taxation of married couples is under investigation, together with consideration of a capital gains tax. Deductions from income are increased for disabled persons, and persons over 60 in respect of medical costs. The ceilings for tax concessions on arrear contributions to pension funds, and in reinstatement of retirement annuities, are increased from R1 500 to R1 800.



thresholds last year and increasing some ceilings this year. And Horwood included the State's clawback from Sasol's big rights issue last year, about R259m. But that still left him looking for almost R1 billion, if the deficit before borrowing was to be kept at a prudent 3% of gdp.

His choice was a fairly obvious one. He estimated that fiscal drag — the effects of



salary rises pushing individuals into higher tax brackets — would raise the personal tax take by 26% to R7,3 billion in 1984-85. This is a built-in contractionary factor. Revenue from gst was estimated to rise over 30% to R5 billion, another contractionary factor.

On the other hand, Horwood reckoned that company tax at existing rates would fall in 1984-85 by about 10%. So, well before he started on his deficit-reducing measures, it seemed clear where one axe would fall.

As it turned out, this was the main axe. And although it was also the one most widely predicted, reaction has already been sharp. As one tax consultant put it: "Horwood delivered some nasty shocks to the corporate sector."

Most people had been expecting a higher basic company tax rate. So there was little surprise when it rose from the present 46,2% to 50% for non-gold and diamond mining companies.

But (correctly) Horwood travelled further down the road of raising effective corporate tax rates. He pushed training allowances further down the skills hierarchy. This is getting the emphasis right; but it represents a general squeeze which is prob-

THE STATE OF THE ECONOMY

Faced with a further decline of the dollar price of gold, the drought and a sluggish recovery of non-gold exports, government had to decide on one of three options.

It could have opted for old-style deflation, contra-cyclical stimulation, or steer a middle course between the two. Finance Minister Owen Horwood chose the third. In the year ahead he will follow a conservative course to keep inflation down and maintain a sound payments position.

Although in 1983-84 government financed a larger-than-expected deficit without new money creation, Horwood suggested there were limits to this financing policy. Although efforts would be made to keep government spending down, certain taxes would have to be raised. The point of the whole exercise is to keep the deficit as small as possible.

However, the Minister said, it might mean that government would finance current expenditure by borrowing (from capital). Secondly, if the deficit is financed by new money creation, it would not be highly inflationary, but depress the external value of the rand and create new balance of payments problems. Thirdly, even if an unduly large deficit were to be financed through increased government stock issues, it would raise interest rates and crowd out other deserving borrowers in the private and public sectors. This would exacerbate the plight of farmers, create problems for housing financing and retard the recovery.

Horwood said that to avoid making "appropriate and relatively moderate tax adjustments now" would be asking for trouble. It would merely store up problems for next year.

"I believe that today's Budget will demonstrate that the government has both the will and the ability to deal effectively with the problems currently confronting the country and thus ensure, on a longer run view, the prosperity of what is basically a remarkably strong, versatile and resilient economy."

The backdrop to the Budget was a marked decline in the dollar price of gold. After reaching a peak of over $511 on February 15 last year, it averaged only $424 during 1983 as a whole, and $384 so far in 1984.

Real gdp declined 3% in 1983 and real gross domestic expenditure by 4,5%, but the cyclical downswing ended in June last year to go into "modest but meaningful recovery."

Inflation fell from 16,5% in May 1982 to 10% in February 1984.

Despite the gold price fall and the drought, there was a current account payments surplus of R275m in 1983, compared with 1982's deficit of R3,21 billion. A moderate surplus is forecast for 1984.

On capital account, an outflow of R1 billion was largely offset by inflows of loan capital of about R700m.

The rand in 1983 held up well and fell 11,6% against the dollar and only 4,3% in terms of a weighted basket of foreign currencies, including the dollar.

During the first half of 1983 monetary policy was more expansionary "than intended" and broad money supply (M2) rose at an annualised 27%. During the second half of 1983 the authorities succeeded in slowing down the increase to an annualised 8%.

The result was that over 1983 as a whole M2 increased by 16,5%, compared with 17,4% in 1982, 25,1% in 1981 and 27,4% in 1980.

The acceptance by the Treasury and the Reserve Bank of higher interest rates contributed to successful financing of the higher deficit before borrowing — by means of tender and tap issues of government stock. This was done without net new creation of money.

As a result, real private spending showed a decline in the second half of 1982 and the first quarter of 1983 and only increased moderately in the subsequent three quarters.

It rose only 1% last year (2,4% in 1982) and present indications are that it will only rise 1% in 1984.

Despite heavy borrowing, SA's external debt service ratio (of interest payments to export proceeds) is about 6%, which is low by international standards.

(49)

STATE REVENUE ACCOUNT

	Sub-totals	1984/85 Budget	Revised 1983/84 Budget	Change %
		Rm		
EXPENDITURE				
Estimate		24 863	—	—
Plus: supp. apps	82	—	—	—
Total expenditure		24 945	22 803	+9,4
REVENUE				
Inland Revenue (existing rates)		19 125		
Customs & Excise (existing rates)		1 636		
Plus: Tax increases	961			
Sasol proceeds	259			
Less: Tax concessions	34			
Total revenue		21 977	19 048	+15,4
Deficit before borrowing		2 968	3 280	
Loan redemptions		2 175	2 367	
TOTAL FINANCING:		5 143	6 122*	−16,0
Supplied by:				
Public Investment Comm	2 400			
Rollovers	1 155			
New Issues	915			
Non-marketable debt	355			
Foreign loans	425			
Loan levy arrears	15			
Surplus 83/84	3			
		5 268	6 125	
SURPLUS:		125	3	

* Financing figure includes accounting adjustment for discount loan stocks. For comparison, percentage change excludes it.

withdrawals. This is not as serious as it looks, since it will only net him R15m.

More startling than all these, however, was the expected introduction of a fringe benefits tax. With government having accepted the parliamentary commission's recommendations on valuation techniques (by costs to employers), the necessary legislation was promised for September this year, after yet further consultation with the

private sector.

About two-thirds of the billion Horwood needed is made up from bigger revenues from companies. This is a heavy burden on companies, since it turns the total company tax take in 1984-85 from a projected 10% decline to an 11% increase. Individuals, however, especially the middle-income group, bear more than their share of the burden through the operation of fiscal drag.

Again, as widely predicted, Horwood gathered the rest of his billion in miscellaneous ways — small excise duty increases on beer (but notably, not wine) and tobacco; a diversion of petrol levies (with no price

ably barely balanced by the 30% increase in the manpower budget.

Horwood took a curtain call to his recent closing of the door on companies spreading leasing losses through investment allowances to other income. This took the form of forbidding them to claim the full allowances in the first year — again, with almost immediate effect — to realise about R285m this fiscal year. And he stopped companies using previous years' assessments in paying provisional tax.

Horwood abolished the 5c stamp duty on cheques. He replaced it with a new 5c stamp duty on all debit banking entries, including credit card transactions and ATM

WHAT YOU WILL PAY

Taxable income	Unmarried 1985	Unmarried 1984	Married No children 1985	Married No children 1984	Married One child 1985	Married One child 1984	Married Two children 1985	Married Two children 1984	Married Three children No change	Married Four children No change
	R									
2 000	—	—	—	—	—	—	—	—	—	—
5 000	234	282	110	150	10	50	—	—	—	—
6 000	378	402	230	250	130	150	30	50	—	—
7 000	522	522	350	350	250	250	150	150	50	—
8 000	666	666	470	470	370	370	270	270	170	70
9 000	834	834	610	610	510	510	410	410	310	210
10 000	1 026	1 026	770	770	670	670	570	570	470	370
11 000	1 242	1 242	950	950	850	850	750	750	650	550
12 000	1 482	1 482	1 150	1 150	1 050	1 050	950	950	850	750
15 000	2 346	2 346	1 870	1 870	1 770	1 770	1 670	1 670	1 570	1 470
20 000	4 170	4 170	3 390	3 390	3 290	3 290	3 190	3 190	3 090	2 990
25 000	6 306	6 306	5 170	5 170	5 070	5 070	4 970	4 970	4 870	4 770
30 000	8 722	8 722	7 190	7 190	7 090	7 090	6 990	6 990	6 890	6 790
40 000	13 722	13 722	11 870	11 870	11 770	11 770	11 670	11 670	11 570	11 470
50 000	18 722	18 722	16 870	16 870	16 770	16 770	16 670	16 670	16 570	16 470

1) The tax has been calculated on the basis that:
(a) The taxpayer is not over the age of 60 years;
(b) Taxable income has been calculated after standard deductions; and
(c) The taxpayer's wife has no income.
2) Single taxpayers pay 50% on each slice of taxable income above R28 000. Married taxpayers pay 50% on each slice of taxable income above R40 000.
3) The following rebates have been taken into account in calculating the tax payable:

	1984/85	1983/84
Unmarried taxpayers	380	240
Married taxpayer	460	320
Children (per child up to 5)	100	100
Minimum insurance rebate		
— Single	25	25
— Married	30	30

6) No loan levy is payable.

(49)

VIEWS ACROSS THE SPECTRUM

Organised commerce, labour, consumer groups and industry — with the notable exception of brewers — generally viewed Wednesday's Budget as mild.

It was neutral, if not boldly deflationary, most spokesmen agreed. And from wage and salary earners, relief at no immediate hikes in personal income tax, gst or fuel prices was a predominant feeling. Among the comments:

"Horwood has balanced his books without further hurting the man in the street too much and deserves praise for this effort," says Afrikaanse Handelsinstituut (AHI) spokesman Martin van den Bergh, MD of Interbank.

Budgeted government expenses will, in real terms, be only 9,4% higher than real, not budgeted, expenses for last year, he says. Government seems "serious" in its undertaking to keep departmental expenses down this time — "which was not the case in previous years. The provision of monthly returns on expenditure by government departments is a fantastic improvement — the Budget's most significant factor."

Where in previous years budgeted amounts for departmental expenditure "were sometimes not worth the paper they were written on," he says, government now clearly intends to keep expenses in check.

This change is "very significant," especially in view of the new constitutional dispensation, where overspending by three different parliaments could create major problems.

An Association of Chambers of Commerce (Assocom) spokesman says there is cause for "particular concern that one result of the Budget is that government spending will have increased over two years by more than 33%." Indeed, it could be even larger, he says, because Horwood "hinted at the possibility of another spending overrun leading to further tax increases." The increase in government spending came during a period when the real output of the economy was contracting.

"This means a huge transfer of national resources from the private sector to the public sector and thus from the productive sector of the economy to the non-productive sector," the spokesman added.

Federated Chamber of Industries (FCI) director Johan van Zyl says that in terms of fighting inflation, the Budget could turn out to be "too permissive." SA Agricultural Union president Jaap Wilkens notes "with great interest" Horwood's announcement of increased interest subsidies on carry-over debts and new production credit, as well as the interest rate drop on credit board loans." The union now awaits the details.

African Bank MD Moses Maubane says Horwood "generally has tended to be neutral as far as Africans are concerned, in that he hasn't raised gst, which we feared would happen.

Also "heartening," Maubane says, is that "government has come round to realising the regressive nature of an indirect tax like gst to lower income groups by committing itself to looking at amelioration of this tax on food. Africans feel strongly that basic foodstuffs should be totally excluded from taxation."

But a disappointing aspect of the Budget, he says, is social pensions: "Here, the position is simply bad."

Horwood referred to "widespread" and in some cases "gross" abuse of rebates to industry for training. He plans to cut these by 50% or replace them with a cash allowance. Trade Union Council of SA (Tucsa) general secretary Arthur Grobbelaar welcomes this "move in the right direction."

He says: "We've all been aware of the abuse. Companies have been cashing in and manipulating the incentives. A tightening-up has been very necessary. But I don't think this will affect the training of the less skilled or unskilled workers." The possible review of gst on basic or all foodstuffs is "possibly a bluff", he speculates, and pension provisions in the Budget are "inadequate".

Sanlam senior GM (investments) Marinus Daling finds it "significant" that Horwood twice said taxes would be further increased, later in the tax year, should government departments' expenditure exceed budgeted amounts.

P 'n P's Ackerman . . . the gst change is easily made

"With government departments having for the first time to submit monthly returns of their expenses, I expect far stricter control," he says.

All in all, and seen against the general state of the economy, Daling says it was a "neutral" budget, and although companies would have to bear the brunt of the higher tax burden, there were "no unexpected shocks."

Horwood scored no points at all with SAB's beer division MD Peter Lloyd, who sees the excise increase on beer as "the most blatant form of discrimination against the working man. Instead of asking all users of alcoholic beverages to make a contribution, the Budget has picked on the lower income groups to pay for the pleasure of the privileged. Beer is now paying a higher rate of excise than liquor and excise tax represents 37% of the wholesale price of beer.

"The beer drinkers of SA get a good idea of how unequally they are being treated by government when they realised that, to December, they paid R439m in excise; spirit drinkers paid R247m; and wine drinkers paid nothing."

From another consumer front, Pick 'n Pay's Raymond Ackerman says he welcomes the proposal that gst on food could be lifted. "We could make the change in a day, and it would be a great benefit to the public," he says.

"Given SA's social climate, the bread subsidy itself, not just corporate tax, should have been increased as a sign that government and business can work together to help the man in the street."

Ackerman is "disappointed" that corporate fringe benefits are to be cut. "Not only will this affect thousands of people's housing loans, but it will be inflationary. Employees will now ask for salary increases in lieu of benefits."

On raising defence expenditure by 24,4% to R3,755 billion Horwood referred to special inflationary aspects affecting military expenditure. Military sources say the special aspects are largely a result of SA's circumstances — and of the fact that armaments costs everywhere rise faster than the general rate of inflation.

Major military operations, such as December's Operation Askari incursion into Angola, can make nonsense of original budgetary calculations. The fact that the defence expenditure really consists of two related budgets — a normal approved budget and a higher "authorised" one which sets limits by which the SADF may exceed the approved budget — makes it difficult to work out precisely what is occurring in defence expenditure.

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CONTROL DATA

FW&R 11477

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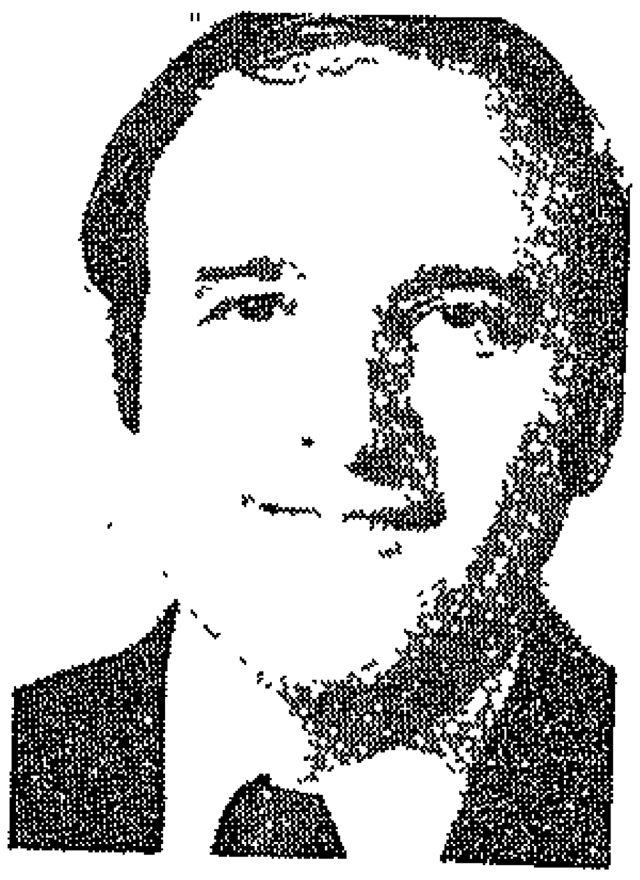
PARLIAMENT

3uilding industry n need of attention

ARGUS 3/4/84 949

Government would to give serious at- .. to the building in- y if it wanted to economic and po- l problems, Mr ies Heyns (NP) said during the : debate.

..ending the Min- of Finance, Mr Horwood, on his istic and disci- Budget and the ..ency of his past .. in providing fi- vision for South Mr Heyns added



Mr Theo Aronson

.. Government would have to "re-think" its fi- l policy in certain sectors.

..id the housing market was making increasing .., especially on the country's younger people. ..rols were not introduced local authorities have to consider using their own building to build accommodation and "form a sort of -control" measure.

..g standards at present were too high and, ..as suggested, the Government should consider realistic criteria" for the housing sector.

.. also time to re-evaluate the tariff and cus- ..eement between South Africa, Botswana, and Swaziland.

..etary terms some of these countries were more out of the agreement than they were in. Because this offered little advantage to ..rica, he believed the Government should re- the agreement so that each participant re- ..at he actually deserved.

..yns congratulated the Government on its re- ..erning joint taxation, but said South Africa a completely new tax structure, similar to ..ion reforms recently introduced in the US ..ain.

..o Aronson (NP elected by members) said and the PFP had "no understanding of the circumstances" under which the Mr Hor- ..i done his best to draw up the Budget.

a fact that the Republic had lost thousands ..s of rands due to the drop in the gold price it was in the grips of one of the worst re- combined with the drought.

..Opposition is out of touch with these reali- said.

..onson challenged the PFP to suggest what ..nment could cut in defence and agricultur- ..ture.

..'t they tell us exactly what we overspend ..partments?"

high inflation rate, he said everybody .. should be reduced, but pointed out that .. best ways of doing this, drastically reduc- ..ey supply, would result in massive unem-

..ew Savage (PFP Walmer) said there was a a "quantified statement of objectives" by ..er.

"He should spell out the inflation rate and the growth rate he is aiming for and explain the methods he intends using to achieve these goals so that the business sector can plan around them."

At present, however, the Budget was presented on a "year-by-year" basis. No attention was paid to the medium or long term and the country's financial sector could not plan according to the Budget.

Mr Horwood's management of the economy amounted to "keeping the show on the road until the price of gold goes up".

This was a "sweepstakes" approach which ran contrary to the "economy of purposeful initiative", Mr Savage said.

"The economy should be run as if the price of gold was never again going to rise higher than the inflation rate," he added.

The debate was adjourned until today. — Sapa.

SA spending beyond its means, says Bartlett

Parliamentary Staff

SOUTH Africans' extravagant expenditure and the proliferation of fringe benefits were beyond the means of the country as a whole, Mr George Bartlett (NRP Amanzimtoti) warned.

Speaking during the Budget's second-reading debate, he said some people were "getting away with murder" in abusing the tax laws and this was throwing the tax laws into disrepute.

There was no better example of the lack of control over the collecting of taxes than the tremendous growth of so-called tax-free fringe benefits.

"The fact is that as legislation presently stands most such benefits are in fact taxable," he said.

"The minister has just not been able to police this form of benefit effectively. The net result has been a great proliferation of so-called fringe benefits."

These had been estimated to be costing the Exchequer R700-million a year in lost taxes.

BROAD BASE

It was absolutely essential that taxes be collected on as broad a base and in as equitable a manner as possible in order for the public to retain any respect for the taxation laws.

"What has been happening in recent years is that the abuses have enabled some people to get away with murder.

"It has encouraged extravagant expenditure way beyond the normal means of the individual concerned and certainly beyond the means of the country as a whole.

"We are spending money on fringe benefits as if money is going out of fashion," he said.

"It has thrown our taxation system into disrepute and as a result the average South African has very little respect for the system."

The public as a whole had suffered because some had to carry more than their fair share of the tax burden.

'Govt must inclde West in peace)lan'

Parliamentary Staff

Mr Philip \yburgh

THE Government had to try to include the West in its search for peace in Southern Africa, said the Opposition's chief spokesman on defence, Mr Philip Myburgh.

Speaking during the Budget debate, Mr Myburgh said South Africa had to encourage involvement of the United States and the EEC countries in the development of Mozambique and other frontline states.

"This demonstrates to our neighbours that we are prepared to put our money where dr mouth is, and that we are prepared to act as an hnest broker in their development.

In this way the non-aggression pact, 'ke the Accord of Nkomati, could be extended int something more substantive, he said.

South Africa would have to be prepred to sink larger amounts of money, material ad expertise into the economies of neighbouring stat..

"If we want an enduring peace we wilhave to pay for it, and in looking at the Budget I fid no indication whatsoever that provision has beermade for a financial commitment by the Governmet."

Earlier Mr Myburgh said South Afria had tried since 1948 to involve the West in the ountry's defence, but the possibility of co-operatin had been eliminated after South Africa had left ie Commonwealth and after Sharpeville.

HAD INCREASED ENORMOULY

As a result of this the country's expeniture on defence had increased enormously. In 196(the defence budget was only R44,9-million. By 19? it had increased to R264,6-million and at the el of 1980 to R1 890-million. This year Parliamen was being asked to vote R3 754-million for defenc..

This represented an increase of 296percent, he said.

Turning to South Africa's search ..r peace in Southern Africe, Mr Myburgh said polical changes in the country were needed "first and fremost".

"This will result in the entire South ..frican community, including the blacks, being supprtive of our search for peace.

"I believe it must be made quite cler that for as long as South African blacks are dcriminated against and are denied full participatio in the land of their birth, they cannot view the pece initiative with anything but suspicion.

"The Government will have to move apidly to resolve the issue of blacks' political rigts, as well as rooting out all statutory discriminatioi in all areas of our existence.".

Mr Myburgh said he believed South ..frica had to put its own house in order and reach an accord with its own black citizens.

RDM 5/4/84 (49)

World finance needs rethink

NEW YORK. — Only by implementing radical new solutions will the international financial system be able to avert recurrences of the emergency which prompted last week's rescue package for Argentina, bankers and economists believe.

Unless the lesser-developed countries' debt-servicing burden is reduced to a more manageable level — which would leave more funds available for investment than is now the case — the system is destined to continue lurching from crisis to crisis, they said.

"I always thought that by stretching the system we'd muddle through," said Mr Jeffrey Garten, of investment bankers Lehman Brothers, Kuhn, Loeb.

"But it's no longer the case. We've pushed the existing mechanisms to the limit and are at the end of the road. The situation is getting worse, not better."

Mr Garten, addressing a conference on international debt at New York's Columbia University, said the relative optimism of the Reagan Administration and the International Monetary Fund was based on four unrealistic assumptions.

Firstly, the US economic locomotive was supposed to pull the rest of the world with it, but had yet to do so.

Secondly, lending to lesser-developed countries had not continued at the relatively high level that was assumed. Indeed, there were net transfers to the banks of $7bn in 1982 and $21bn in 1983.

Thirdly, it was hoped that lesser-developed countries could make a gigantic leap and export their way out of crisis. Trade balances had improved, but mainly by the unsustainable expedient of slashing imports to the bone.

Fourthly, interest rates look set to shoot up dramatically, rather than remaining stable as was projected.

"There is an imperative to do something radical," Mr Garten said.

Among the ideas to be explored, he cited the conversion of bank loans into long-term bonds paying escalating interest, and partial capitalisation of interest in a loan's early years.

He said a new approach was needed because lesser-developed countries could endure only so much austerity, the IMF has used up its resources and the banks were exhausted.

"They can't continue 11th-hour rescue efforts," Mr Garten added.

Another investment banker, Mr Richard Weinert, of Leslie, Weinert & Co, agreed. "Most smaller banks will be reluctant to go through more rescheduling exercises."

Mr Weinert said a lesser-developed country's interest burden must be lightened to a smaller percentage of its export earnings, perhaps 15% to 25%, or IMF adjustment programmes would be undermined.

Some countries were demoting as much as 70% of annual export earnings to debt service.

"This would permit recovery and growth, which is ultimately the only solution. The debt crisis can't be solved through recession," Mr Weinert said.

Since this would erode interest earnings for commercial bank lenders, he proposed that they should be offered a partial guarantee from the World Bank or regional development banks.

A guarantee of repayment at an annual interest of, say, 5% would limit the banks' losses and improve the quality of their loan portfolio, Mr Weinert said.

This proposal was vigorously rejected by Mr George Clark, an executive vice-president of Citibank. "We don't want guarantees. We'll collect the loans on our own and we don't want any international organisation to bail us out," he said.

Mr Clark also turned down the idea of concessionary interest rates because it would deter wide participation in loan packages. "Continued progress does not need any dramatic ideas," he said.

Mr Clark praised Mexico as an example of what can be achieved by belt-tightening within the framework of an IMF programme.

"Mexico has had to apologise to Citibank for not using all its bank lines," he said, noting that in less than two years since it triggered the international debt crisis, Mexico had built up $5bn of reserves." — Reuter.

Bankruptcies snowballing, report says

Argus 9/4/84 K9

Argus Correspondent

JOHANNESBURG. — Snowballing personal and corporate bankruptcies are the grim legacy of the continuing recession plaguing South Africa.

More than 25 000 companies voluntarily closed their doors last year at a cost of R24 800-million — up 28 percent from 1982, the Government has reported.

The courts ordered the liquidation of 2 275 others — up 16 percent — involving an undisclosed amount of money.

Voluntary personal bankruptcies rose by 12 percent to 335 246 but their cash debt rose a staggering 33 percent to nearly R200-million. The courts ordered 1 201 others into liquidation — up 20 percent from 1982 — for an undisclosed amount.

The figures were released by the Government's Central Statistical Services, the agency which recently revealed that South Africans have been passing rubber cheques in record numbers and defaulted on R200-million worth of hire purchase payments and other commitments last year.

CHRISTMAS SPREE

The number of defaulters being taken to court was reported to be rising in record numbers and the prognosis for the balance of 1984 was dismal.

The figures may worsen in the aftermath of a spree by Christmas shoppers and the gamble by retailers who hurriedly stocked up — at enormously high interest rates — in the hope of making a quick buck.

First-quarter figures will be available in about four weeks. They may show that some consumers have overspent and now cannot afford to pay up.

That will pressure companies with severe cash-flow problems to turn the screws on anyone trying to delay payments. More defaults could also force up the price of loans, goods and services.

GOLD PRICE

Matters have worsened because of the Government's failure to lower inflation and its helplessness in the face of low gold prices. Economic forecasts for the rest of the year are gloomy, heightening speculation that bad cheques, personal bankruptcies and the number of liquidated companies will continue to rise.

Statistics also showed that 335 000 people were taken to court last year after defaulting on R200-million worth of payments — up 34 percent from 1982 — on such things as rents, loans and HP payments.

In 1982, 299 800 people defaulted on payments amounting to R148-million.

BIGGEST INCREASE

The biggest increase was in the HP category, where the rand-value rose by 63 percent to R31-million — up from R18-million the previous year.

The number of bad cheques and reneged-upon promissory notes rose sharply, topping the R27-million-mark — an increase of 50 percent over 1982.

On the business front, the number of judgments were up 32 percent in 1983 — reaching 25 000 — and defaults are getting bigger. The value of defaults rose 62 percent to R26-million, up from R16-million in 1982.

BLACK CONSUMERS

The figures do not break down into white and black sectors but observers note that black consumers are often lured by high-powered advertising into long-term financing deals for cars and furniture — many of which are out of their reach.

● The United States Central Bank's latest increase in its main lending rate will make headlines but should not have much of an impact on other US interest rates, according to money market economists.

They say the health of the economy in general will largely determine whether the rate goes up any further, Sapa-Reuter reports.

The Federal Reserve Bank, the "Fed" raised its so-called discount rate by one half-point, to 9 percent on Friday. Some analysts see the rate staying at 9 percent for the rest of the year, while others predict more rises to as high as 11 percent.

The bond market closed higher, relieved that the Fed had finally ended weeks of uncertainty, while the dollar fell on disappointment that the rate was not raised a full point.

MORE AMMUNITION

Thomas Thomson of Crocker National Bank said the discount rate increase would be more ammunition for West European and Latin American critics of high US interest rates, but the impact should be short-lived.

"It will be quickly forgotten. The discount rate is a technical detail affecting some banks, but it does not have much of an effect on other interest rates, especially when it is lagging a lot," he said.

The discount rate, 8,5 percent since December 1982, had fallen well behind Fed funds rates which averaged 10,41 percent last week.

RDM 9/4/84

(49)

Business failures rocket by 21%

Financial Reporter

COURT judgements on debt for the first 11 months of 1983 rocketed 54,1% to R227m compared with 1982.

Judgments against businesses rose 58,3% up during this period.

And, according to the latest Government figures, the number of liquidations and sequestrations of businesses increased by 20,8% to 3 263 compared with the same period of 1982.

Further growth in the number of judgments — and in rand values — is expected, says KreditInform.

The Randburg credit information company adds that outstanding amounts owed in the textile, construction, footwear and electrical industries aggregates more than R100m.

"In the textile industry the worrying factor is the startling upward trend in the number of accounts that are going overdue from a low of 25% in July 1983, to 43,7% in January 1984."

"This factor is cause for grave concern in the industry as it indicates that the small debtor is running out of liquidity after the difficult period over the last two years."

The March KreditReview bulletin says that with stricter credit control the building industry has shown a slight improvement with overdue accounts in the Western Cape dropping from 18,2% in 1981 to 16,2% in 1983.

"But in the latest indices produced by the Standard Bank, it is all too obvious that the amount of building completed has far outstripped the amount of building plans passed," adds the bulletin.

The indication is that building contractors who have been inundated with work will soon be facing fiercer competition and smaller margins.

"A number of them will surely be forced out of business or have to reduce the scale of their operations. There is certainly a mounting air of nervousness in the industry and most suppliers are now taking a far more conservative, or restrictive, view on credit granting."

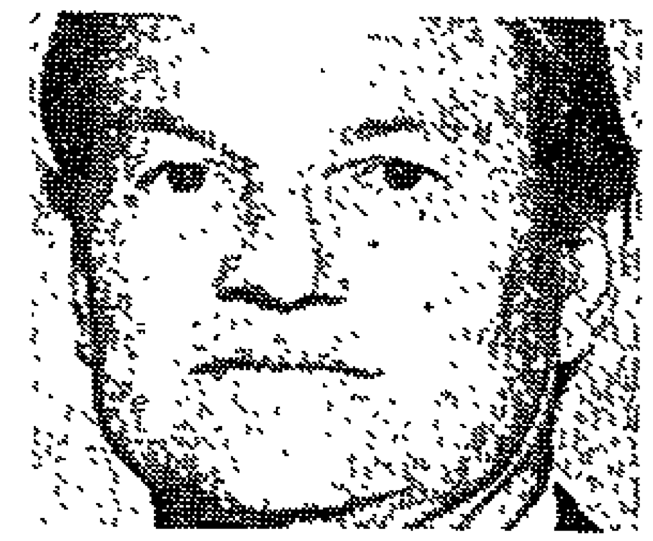
The footwear industry is another where attitudes to debtors are hardening as overdue accounts have gone from an average of 13,7% in 1983 to 17,9% in January.

The credit information system for the radio, television and electrical appliance industries has been introduced only recently and "already indications are that 29,6% of the total outstanding in the sector is overdue".

ARGUS 10/4/84 (49)

PARLIAMENT

Budget criticism 'over-hasty, superficial and misdirected'



Mr Eli Louw

Parliamentary Staff

THE Budget would neither contribute to an artificial stimulation of the economy nor would its outcome be inflationary, the Minister of Finance, Mr Owen Horwood, has told the Assembly.

Replying to the second-reading debate on the Budget, he rejected much of the opposition criticism as "over-hasty, superficial and misdirected — if not at times downright irrelevant".

He accused opposition members of living "in a world of dreams and delusion".

Major points of criticism raised by the official Opposition spokesman on finance, Mr Harry Schwarz (PFP Yeoville), were dismissed by Mr Horwood as "a pipe dream, devoid of all reality, but a dangerous pipe dream all the same."

Mr Horwood said the Budget was sound and consistent and entirely appropriate to the unusually difficult economic conditions.

Contrary to opposition claims, it was designed, on balance, to be counter-inflationary.

The Budget deliberately avoided any undue borrowing. Loan requirements were financed in a non-inflationary manner other than by new money creation.

It avoided undue or unnecessary Government spending.

Mr Horwood said it could be justifiably claimed, as stated by the Deputy-Minister of Finance, Mr Eli Louw, that the Budget was formulated to achieve its objectives with "the minimum of discomfort to the public at large".

The Budget was "a normal Budget presented in quite abnormal circumstances".

This could have been achieved only if budgetary policy in the past few years had been sound.

Rejecting opposition criticism of over-spending by the Government, Mr Horwood said that in real terms Government spending had risen on average over the past nine years by just three percent a year.

In real terms, taken per capita of the population, Government spending had actually declined slightly over the same most recent nine-year period.

This had been achieved in even though South Africa had heavy development and security needs and that unceasing and ever-increasing demands were made on the Exchequer "from every conceivable quarter".

Mr Schwarz wanted inflation down, he wanted in-

Mr Owen Horwood

It was a matter of the leisure available to people to enjoy the vastly increased range of options open to them — more and better education, more and better health services, recreational facilities, means of communication and all the other activities in modern living.

"Can anyone who looks about him fail to see that in South Africa there are far more people who are better off today than there are people who are worse off, compared with the past?" the minister asked.

The average increase in pensions as a whole, including the bonus for pensioners, was more than 14

Committee to decide on dining-room apartheid

Parliamentary Staff

A JOINT committee of the three houses in the new constitutional system will decide whether Parliamentary dining-room apartheid will continue or not.

Replying to opposition calls for the opening of the dining-room facilities to all races, Mr Hendrik Schoeman, Leader of the House, said there would be separate facilities for the various race groups at the start of the new system.

There was a "space problem" in the present dining-room, he said.

The issue was raised for the fifth consecutive year during the committee stage of the Budget debate yesterday.

Mr Colin Eglin (PFP Sea Point) appealed to the Government to "ban apartheid and racial discrimination from the precincts of Parliament from the start of the new system".

"How can we, as legislators, give the lead if we still perpetuate a system which is archaic, racist and unworthy of the dignity of Parliament" he said.

While exhorting others to eliminate hurtful discrimination, it was still being practiced in the "holy of holies".

Parliament had to wipe the slate clean so that all MPs could be equal and share facilities on the same basis.

"Whatever the past, we must all have equal access to the facilities that relate to Parliament.

"This Government must now strike a real blow against racial discriminatioon. It is no good MPs saying 'get rid of discrimination', but when it comes to their own facilities they carry on in their racist bigotted way," he said.

Supporting Mr Eglin's call, Mr Brian Page (NRP Umhlanga) said the Parliamentary dining-room had to be available to all members equally and that each member had to be able to invite whoever he wished.

"This cannot come about unless the National Party deals with the matter in its caucus, and I challenge them to do so before it is too late," he said.

Replying, Mr Hendrik Schoeman said it was unnecessary to debate the issue at present.

A joint committee of the three houses would make new rules when the new system came into effect.

He added that it was impossible to accommodate all the groups in the present dining-room because of the lack of space.

There would be separate dining-rooms for the various groups.

US VIEW

Spectrum

Industry integrates SA

Argus Foreign Service

ARGUS 11/4/84 K9

NEW YORK — Industrialisation is beginning to integrate South Africa and move the country beyond racial politics says a senior writer for the Wall Street journal.

In a lengthy article on the newspaper's editorial page, staff writer Suzanne Garment takes a guardedly optimistic look at South Africa's future and, at the same time, says that Western investment in the country is making an important contribution to the process of change.

Garment, an associate editor of the Journal's editorial page, bases the article on wide-ranging talks she held with South Africans of all political persuasions.

An activist

She writes about a long-time political activist, who she says has been "tortured, confined, harassed." but the man wants to talk about something more fundamental than government abuses.

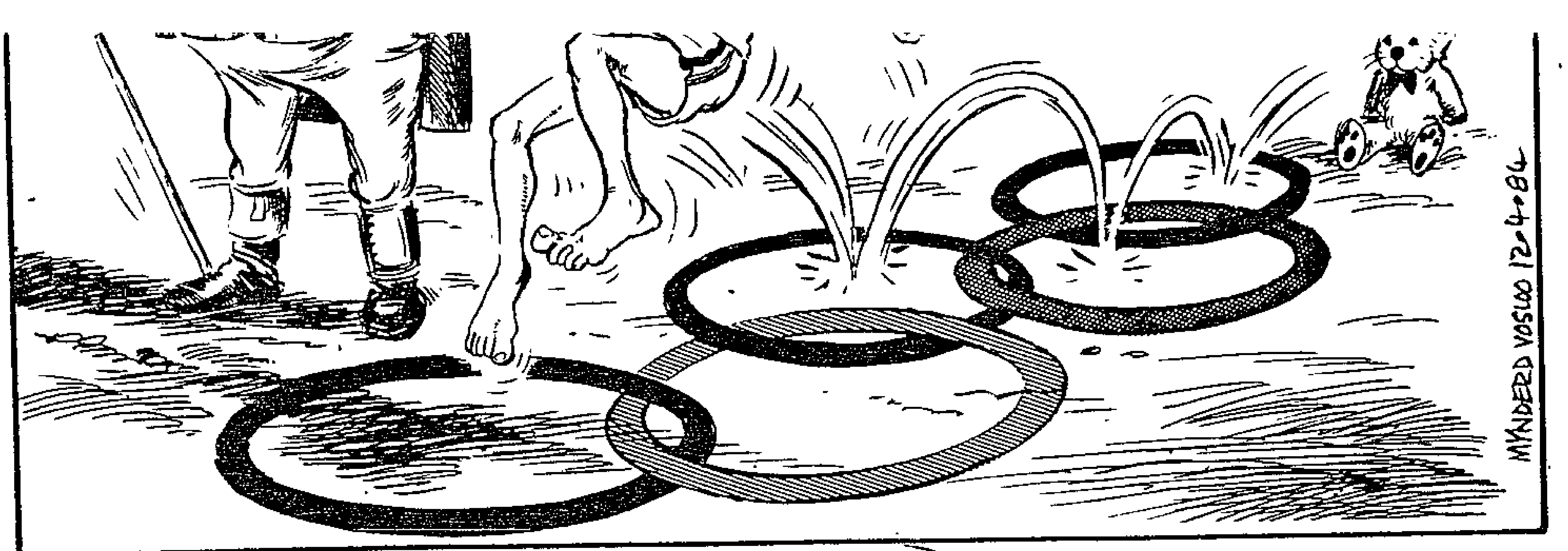
"My friends," Garment quotes the man as saying, "don't understand why I've refused to panic, refused to leave. But there is a huge engine of industralisation here that has been forcing everyone together since the 1930s. It is going to make the next political steps around here peaceful ones."

Writes Garment: "South African activists of widely varying views share this analysis: old-style concepts of nationhood, and each people's old-style attachment to its land, have divided South Africa. By contrast, industrialisation is beginning to integrate the country."

Fascinating

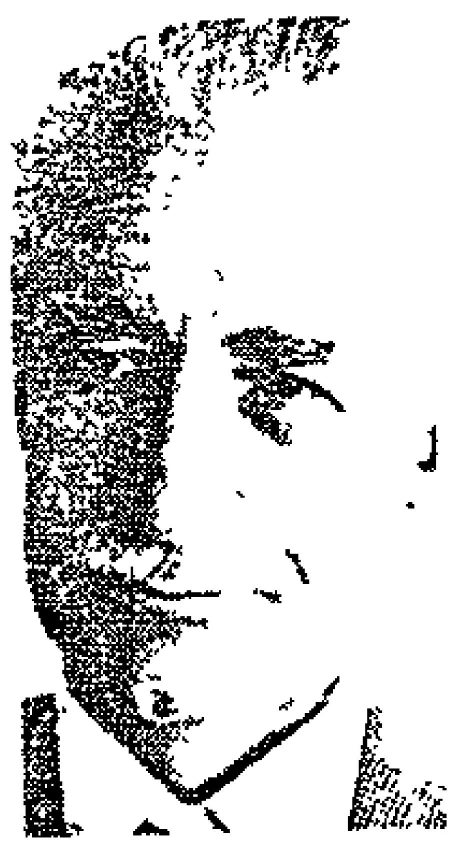
Garment continues: "The hopeful economic determinism you hear in South Africa no doubt is too optimistic a view of the country's political future. But it makes a fascinating country even more so. The most closely held secret about the country, kept from us by those who tell us it is immoral to visit there, is that the place is vastly attractive in the literal sense of the word.

South Africa's spectacular riches, the poverty needing amelioration, the political and moral drama — all these beckon the outsider to become, you should pardon the expression, constructively engaged. But, perhaps even more important, a look at the nation makes it overwhelmingly clear that no good will be done there by the West's withdrawal."



POLITICO-ECONOMICS

ARGUS 12/4/84 (49)



Apartheid is not the only culprit

In this, the first of three weekly articles, Jan Sadie, former Professor of Economics at the University of Stellenbosch, deals with "misconceptions" about the problems of South Africa.

ALL kinds of realities, particularly in the unpleasant category, obtain in South Africa — poverty, squalor, malnutrition, discrimination, inequality, disaffection, apartheid . . .

Of equal reality and importance are the beliefs of people. If these are founded in disinterested observation and fact, their validity ("legitimacy") cannot be questioned.

Some are, however, based on association of contemporaneous occurrences which is transformed into causal connection by presumption, regardless of the nature of the relationship.

In this way many misconceptions, or illusions, or legends have come into being, reflecting beliefs at both poles of the spectrum of socio-political thinking.

The man in the street, the politician and. perhaps, journalists can be excused for succumbing to the temptation, but academicians are equally guilty.

In the interest of reason and objectivity such legends have to be challenged.

An outstanding example of misconstruction in this country is the unquestioning attribution of most unpleasant phenomena to the existence of apartheid. Being all-pervasive, with repeated unhappy manifestations which excite emotions, it has become the natural singular source of imagined causality. We have unemployment and poverty in South Africa and we have apartheid, *et voilà* — such is logica — the latter is the cause of the former

The conclusion. if not spelt out, is there by implication, underscored as a rule by a reference to South Africa as a "rich country" (another legend). The insidiousness of the belief lies in the self-evident solution which it proffers — abrogate apartheid and poverty, squalor and all other economic ills will vanish. This is a dangerous delusion in as much as false hopes are based on it.

Human resources

Apartheid is a determinant of the geographic location of economic ills, not their existence. It is incumbent on the academician to lift the veil of apartheid and look beyond it.

The fundamental fact or truism of economic life in South Africa, as in other countries, is that the economic well-being of the people is a function of the quantity and quality of human resources in relation to the quantity and quality of non-human resources and efficiency of their exploitation. The former category embodies two of the five factors of production: entrepreneurship and labour; and the latter the other three: natural resources, capital and technology.

Dominant group

Apart from exceptional situations as presented, for example, by oil-rich countries — where this one natural resource is quite adequate to provide the community with an affluent level of living even without local effort, since foreigners can always be hired to handle the total process of exploitation — the fount and origin of economic growth and development is human material. This will always be true as long as economic growth is not an abiogenetic process and cannot be initiated by inanimate factors of production.

Differences between countries in economic performance — whether this be between South Africa and Europe, or Germany and the United Kingdom, or Japan and Europe — derive from their populations as economic material.

Part of the misconception of the South African situation arises from an erroneous consideration of the country as a member of the First World, whereas, demographically and economically, its population represents preponderantly a Third World society. The error is caused by the fact that the politically economically dominant group, the whites, do enjoy a First World type of life. When they transmit their own impressions to their acquaintances, friends and colleagues abroad, the latter's understanding of the South African situation is badly impaired.

To characterise the South African population as economic material, without introducing the emotive element involved in the customary classification into four ethnic groups, recourse can be had to a structuring of the aggregate population into four classes, built up round the male members of their labour force whose employment status and skill levels serve as norm, as follows: Class I, the executive (or entrepreneurial) class; class II, the highly skilled; III, the less skilled; and IV, the unskilled, the peasants and the underemployed. The structure of the population can then be presented as follows, in terms of percentages and for heuristic purposes, compared with an approximation of the Canadian population structure:

POPULATION

1980	S African	Canadian
Class I	2%	8%
II	10%	23%
III	35%	53%
IV	53%	16%
	100%	100%

The important aspect of this hierarchy is that the line of dependence runs from the bottom upwards, members of class IV depending for their unemployment on the supply of the other three, III and IV depending on classes I and II and in the last resort, classes II to IV deriving their livelihood from the availability of class I.

Members of the latter are responsible for the decisions which initiate economic growth and employment. An adequate supply of this class — in quantity or quality or both — will mean unemployment, underemployment and low incomes per capita. Of this human material we have too little in South Africa and it is already an over-extended group. Its scarcity is evinced in the comparison of the South African 2% with the Canadian 8% or the 5 to 6% minimum obtaining among the developed countries in the world. Equally striking is the abundance of class IV in South Africa: 53% against the 16% of Canada.

It should not, therefore, come as a surprise that no more than about three-quarters of South Africa's labour force are, in fact, fully employed in the modern sector at any moment; which in the circumstances, must be considered a very creditable performance Hence the squatter camps, poverty, malnutrition and squalor. A cessation of apartheid practices, however, desirable in itself, will not alter this situation.

Treasury calls for R600m loan tenders

CAPE TIMES 12/4/84

49

By HAROLD FRIDJHON

THE Treasury is calling for tenders for two loans totalling R600m — a six-year maturing in 1990 and a 21-year which will mature in 2005.

The short-term loan which will carry a coupon of 11½ percent is planned to raise R200m with the balance of R400m being allocated to the longer loan which has a coupon of 13 percent.

Tenders will close at 11am tomorrow and the final day for payment will be April 30.

The size of these tender issues is not forebidding The Treasury is not looking for R600m in new money. Within the space of a month two loans fall due for redemption.

A small five-year loan for R50m, the 1984 7½ percent, matures next Monday April 15 and a three-year, 1984 9½ percent, for R335m is due for redemption on May 15.

This means that the Treasury is raising R215m in new money which is a very modest essay into the market bearing in mind the Treasury's borrowing requirements this year.

It would seem that the authorities are unwilling to draw too much money out of the private sector at present because of the extreme tightness of current markets

Indeed because of the lack of liquidity and the knowledge that the institutions are far from being flush with cash hazarding a guess at the probable rates outcome of the tenders will be difficult.

Benchmark

Looking at a rate for the 21-year loan is easier than for the short-term. Here one has a reasonable benchmark, the 2003 12½ which is trading around 14,20 percent and the outcome of the tender could be a few points either way of this figure.

In the case of the six-year loan the inverse yield curve makes setting a rate difficult.

Stock with this maturity has been trading around 14,74 percent and a factor which could influence the tender is the attractive discount.

Accepting

No way could the Treasury be made into accepting a rate anywhere near the 17,25 percent which the Land Bank has been called on to pay for its three-year money. Probably the top of the tender range will be about 14,80 percent.

It is most likely that the tenders will be heavily over-subscribed as tenderers submit multiple bids with a wide spread to ensure that they will get the best of all worlds. Allocations should, however, be reasonably close to the rates quoted.

Although the assurance companies and the pension funds have been taking a lot of stock from the market — and from the Reserve Bank and from Escom — in recent months, and although they are said to have allocated funds well into the current year, the long-dated stock should reasonably raise the R400m which is being sought.

This is not, in Government Stock terms, a vast sum of money and although rates are expected to remain high for the rest of the year — unless the price of gold takes off — it can be expected that this loan will be well supported.

The six-year issue, however, is a different kettle of fish. It is an odd maturity. While it will have a certain appeal for short-term insurers it could also have attractions for other institutions particularly as 1990 is not a heavy year for maturities.

It could be regarded as a stock to balance portfolios. The outcome hinges on a rate which is acceptable to the authorities.

The absence of a three-year loan is a little strange.

Requirements

Possibly the Treasury has been influenced by two factors, the reduction of the banks' liquid asset requirements means that they will require less stock of this category than they needed in the past, and the authorities probably feel that at present the banks are short of surplus liquidity and would not give such a loan any significant support.

Other Government Bonds maturing this year are the three-year 12,75 percent for R417m due on September 1, a three-year 13 percent for R257m due on November 1 and seven-year 9⅞ percent for R70m due on December 1.

CAPE TIMES 14/4/84 (49)

RSA loans attract R678m

By HAROLD FRIDJHON

JOHANNESBURG. — The Treasury's effort to raise R600m by means of two tender loans — a six-year and a 21-year — failed by R141m to reach its target.

The total tender attracted R678m but the bulk of the money was directed towards the long-term loan which was oversubscribed by nearly 50 percent, while the short-term loan failed miserably.

The authorities planned to raised R400m on the 21-year loan and a R200m on the six-year bond. The outcome, which was announced yesterday, was that R592m was offered for the long-term loan and only R87m was forthcoming for the other loan and only R58,9m was allocated, presumably because the rates bid were regarded as being too high.

The average rate for the 21-year worked out at 14,61 percent and the market said yesterday that it believed that some tenderers got their stock as high as 14,75 percent — compared with yesterday's trading rate of 14,52 percent for the 2003 12½ percent.

The average rate for the six-year was 15,51 percent which is a good investment for those who see rates easing next year.

The rates for both bonds were higher than I had expected but I failed to take into account the very bearish mood in the secondary market. Institutional cash is scarce, largely because of the heavy forward buying last year and it would seem that the Treasury will have to accept that it will have to pay dearly for its future issues — unless there is a dramatic turnaround in the gold price and in the balance of payments.

An unofficial reaction in Pretoria was that the outcome of the tender was not really disappointing and reflects a current disenchantment of short-dated bonds.

One could hardly expect a different reaction once the Treasury had decided to issue a six-year stock. It is an area which is entirely without support in the secondary market with bonds changing in a very desultory manner.

From the Treasury's point of view, it probably went for 1990 as a redemption year because the maturities that year are relatively low.

From the standpoint of debt management this was the correct policy but the Treasury must reconcile what it wants with what the market wants. It would probably have enjoyed a bigger success with a 10-year loan.

In 1990 total maturities amount to R632m but in 1995 redemptions will be R508m.

Business Day/SPECIAL REPORT Rom 24/4/84

Gold rally only salvation

49

NEIL BEHRMANN, right, European Financial Editor of Business Day, has just returned to London from a three-week working visit to South Africa. This is the second of his reports on the country's economy seen from a London viewpoint.

LONDON. — Unless the gold price rallies considerably the South African economy is in trouble.

Although drought has contributed to the situation blame also rests with the Reserve Bank. While industrialised nations have opted for sound money policies it has allowed SA to live beyond its means.

The result is stagflation, record interest rates and high unemployment.

With the economy out of step with the rest of the world, it is essential that the Reserve Bank recapture its credibility.

For several years it has attempted to shield SA from the unpleasant effects of international disinflation. It has done so by depreciating the rand and by creating excessive credit. These have instilled a sense of false prosperity.

Now, after years of rand depreciation, the internal price of gold is about $600 whereas quotes on world markets are 40% below this level.

Currency depreciation is reasonable provided money growth is controlled.

Instead this false gold price and a credit explosion have generated an unusual property and share boom in sophisticated parts of the economy.

Although the Government and Land Bank have given aid, most of the less-favoured are burdened by economic stagnation and continual price increases.

Even in the sophisticated urban areas many are having a decline in living standards. Although the civil service and many companies subsidise staff mortgages, first-time buyers are faced with huge increases in house prices.

"If Cape Town property prices are higher than those in London, you know something is wrong somewhere," says Mr David Fitzpatrick, an independent London financial consultant who recently visited SA.

The Syfrets group investment manager, Mr Jeremy McEntyre, sums up the state of the economy.

"From an average of 6% in the low-inflation Sixties, growth slowed to 3,5% in the Seventies and may slow to an annual average of 2% in the years to 1988."

Any acceleration in growth cannot be accompanied by a high inflation rate because "the economic consequences could be serious indeed for a mining-based economy".

Mr McEntyre says SA needs solid, non-inflationary growth to achieve economic and political progress.

While the governor of the Reserve Bank and senior officials endorse these views, their words are not followed by firm action.

Responding to a growing band of critics, the Reserve Bank Governor, Dr Gerhard de Kock, blames money-supply expansion on gold price volatility, hot international money flows, drought aid and Government spending.

The Reserve Bank's own statistics show why it has lost credibility with the public.

Loans and advances to the Land Bank have risen 90% to nearly R5bn since 1980. Banking credit to the Government has remained constant at R5,6bn in the same period. Although these amounts are large, the combined total is only a third of private-sector credit, which has doubled from R16bn in 1980 to R32bn this year.

It is hardly surprising that there has been a consumer boom in inflation hedges from art to yearlings.

Banks are still offering more credit to consumers, even though finance costs are well in excess of 20%. They have the leeway because in December and March the Reserve Bank pumped R1,4bn into the banking sector by reducing reserve asset requirements.

Inflationary expectations have also been fuelled by large salary increases, especially in the public sector.

The situation is now critical. Should the authorities listen to the doves and ease credit at the expense of inflation?

The doves believe that South Africans must learn to live with inflation otherwise unemployment will increase and there will be social and political unrest.

Hawks believe the Reserve Bank, like the US Federal Reserve Board, must show it means business. The Reserve Bank is leaning in this direction. High interest rates, an end to the credit boom and the increase in company tax could end up in bankruptcies and lay-offs.

Gold could come to the rescue. It appears to be firm and could rise before the US elections in November.

To prevent inflation, the Reserve Bank must allow the rand to appreciate in line with free market forces. Any inflow of money should be neutralised by open-market operations.

Business Day/SPECIAL REPORT

RAM 26/4/84 (49)

Apartheid hits an economic barrier

NEIL BEHRMANN, Business Day's European Financial Editor, recently spent three weeks on a working visit to this country. This is the third and final report of his series of articles on the SA economy.

LONDON. — Apartheid is rapidly running out of money.

Grandiose Government schemes are ramming against an economic barrier.

With insufficient funds from foreign trade, external borrowings and internal savings, separate development schemes are doomed to failure.

South Africa's detente with its neighbouring states is justifiably hailed as African pragmatism but, had the warring states not run out of money, would peace have been attained?

The parlous financial situation of neighbouring states is well publicised but there was another peace ingredient — SA's own economic difficulties.

This could be the first step. If a precious metals boom fails to materialise during the next few years there will be insufficient finance to fund the Government's separate development policies.

In the 1970s and early-1980s the booming gold price solved the Government's revenue problems but in the past two years it has been forced to resort to inflation.

First, devaluation of the rand kept up mine revenue and mine taxation. Second, inflation boosted individual and company incomes.

Rising incomes drew in extra tax. Easier Reserve Bank credit also eased the funding problem.

It seems, however, that the authorities are beginning to appreciate that inflation is only a short-term palliative with nasty long-term side-effects.

Unless there is a surge in the gold price, and the authorities continue to inflate, grandiose political schemes may be shelved in favour of pragmatism.

The National Party's economic and political strategists talk of several governmental tiers. The white, coloured and Indian Parliament alongside black homeland governments may eventually be joined by another tier — the black urban council.

Economics appears to fit neatly into this grand design. In South Africa, say the strategists, there are two economies, the sophisticated sector and the black sector.

The sophisticated sector, mainly in the industrial urban areas, supports a free economy while urbanised blacks are restricted to their political areas.

There they will have freedom of economic choice, as consumers and as labour. Whites, of course, will remain the dominant force.

The sophisticated sector will help to develop the less-fortunate one. The aid will come in the form of taxes, investment incentives and bank finance, notably through the Development Bank of Southern Africa.

There are some advantages in this strategy.

Decentralised development is a progressive economic approach. Aid to the less-developed sector, especially in the drought areas, is humanitarian too.

Unfortunately, however, the strategists appear to have forgotten that the Government's separate development policies helped create the poor-sector problem. It transported millions of blacks to barren regions.

It remains to be seen whether the Government will appreciate that national development is indivisible and that division is a non-productive exercise, especially in a dynamic economy.

Gross domestic product has grown from R13bn in 1971 to R87bn last year. This much bigger economy must be served by all — black and white.

The huge bill SA must pay for apartheid

26/4/84 E. Post (49)

By a Special Correspondent

THE cost of the two key pillars of the Government's policies for black people — the homelands and influx control — has now risen to more than R3 500 million a year.

South African taxpayers are now paying more than R1 700 million for the 10 homelands — R126,5 million for consolidation and R267,6 million for decentralisation.

They will also pay out a record R130,4 million in subsidies to bus companies for transporting black commuters — and the South African Transport Services (SATS) has estimated it will lose R750 million "rendering socio-economic passenger services".

These huge figures are contained in the recent budget report presented to Parliament by the Minister of Finance, Mr Owen Horwood, and in a SATS information paper released when the Minister of Transport, Mr Hendrik Schoeman, presented his budget earlier this year.

They show that taxpayers are now paying a heavier price for the policies aimed at providing separate political homelands for black people in South Africa and denying them the vote in the rest of the country.

Moreover, the Department of Co-operation and Development is to increase its spending on population control and "settlement" by more than 28% to a total amount of R138,2 million during the current financial year.

The department is to spend R3,1 million on regulation of labour, R3,9 million on "repatriation", R2,3 million on residential control and R128,4 million for "settlement".

During the 1983-84 financial year, it was budgeted to spend R107,2 million on these items.

The only item to have come down during the current financial year was the estimated expenditure for consolidation, which dropped from R160,8 million to R126,5 million.

For the rest, the cost of the homelands and influx control has gone up.

This direct spending on apartheid takes up about 14% of the R25 300 million Budget.

While much of it is taken up with either keeping black people out of the cities, or bringing them into the cities to work, or trying to encourage industries to move to decentralised areas, or the running of the homeland governments (each with their cabinets, parliaments and civil service), some of this money is going to essential services.

For example, when Mr Horwood said R4 200 million would be spent on education during the current financial year, and this did not include the education budgets in the various homelands.

With increasing reports of poverty in the rural areas, it is clear that this type of spending will have to increase in order for basic education and social welfare services to be maintained.

Moreover, with the expectation that the decentralisation programmes will become more expensive as the economy improves — when the demand for labour in the cities increases — it seems clear that these amounts will continue to accelerate in the future.

The South African Government is still committed to the homelands policy, which it sees as the only alternative to one man, one vote. This year's Budget shows that taxpayers of all races are paying a heavy price for that policy.

Where the money goes

Commission for Co-operation and Development	R98 000
Commissioners General	R235 000
Consolidation	R126 500 000
"Development towards self-determination"	R288 223 000
Assistance to governments of self-governing states	R1 013 030 000
Foreign Affairs vote for "Foreign Aid and Development" (Includes aid to independent homelands)	R637 790 000
Regulation of labour	R3 086 000
Repatriation	R3 964 000
Residential Control	R2 309 000
Population registration and identification of persons	R8 233 000
Transport subsidies for public passenger transport	R130 424 000
SATS losses on passenger services	R750 000 000
Decentralisation incentives	R267 600 000
TOTAL	R3 534 500 000

RDM 26/4/84 (49)

High costs, more jobless forecast

Mail Correspondent

CAPE TOWN. — The anticipated low level of economic activity indicated that a further decline in the standard of living and higher unemployment among unskilled workers should be expected, says the Bureau for Economic Research of Stellenbosch University (BER) in its revised forecast for 1984.

And measures to protect the balance of payments and prevent an excessive fall in interest rates are expected to continue, with non-agricultural exports anticipated to rise during 1984.

Growth is projected at a gloomy 2,7%. The author of the forecast, Mr Attie de Vries, explained that the projected 1984 growth rate (Gross Domestic Product — GDP) of 4,9% percent forecast in the last quarter of 1983, was a "statistical artefact", rather than an "economic fact".

The rand value of gold exports is estimated to rise by only 5,7% in 1984, at an assumed selling price of $408.

The outlook for inflation still indicates that it would fall below 10% in the coming months, although it was at 10,16% in March. The decelerating inflation rate is largely due to the continued recesssion, the forecast said. However, inflation expectations have not yet abated and it is expected to be above 10% at the year-end.

A sharp rise in food prices must be expected, and of meat prices in particular, once the rains are back to normal. The drought was expected to push food prices up, but it appears as if the authorities will not allow sharp rises in basic agricultural prices at the moment.

Short-term interest rates will remain at their present rates of 18,1% before they start to decline after June. A prime overdraft rate of between 16% and 17% is foreseen at the end of the year. The prime rate at present is at 21%.

Failure to change the personal tax schedule in the Budget resulted in an increased average tax rate, implying a decline in real per capita income, the forecast said. This will severely affect consumer demand, which would steadily decline during the course of the year. Individual credit already very high, cannot be expected to rise as it did in 1983.

Cape Times 27/4/84 49

Control of inflation does not augur well for gold

Business Report's European financial editor, Mr Neil Behrmann, recently visited South Africa. In a series of three articles, he discusses international economic trends, their impact on the South African economy, and the political situation. The first article covers economic developments of South Africa's major trading partners. This is of vital importance to the performance of South African exports, the balance of payments and the internal economy.

MAJOR industrial nations are reviving from the worst recession since the 1930s. This recovery which has been in progress for more than a year, is different from the sporadic upswings which occurred in the past decade. For the first time since the 50s and early 60s, the United States and other Western economies are experiencing economic growth with minimal inflation.

These developments have created problems for South Africa.

In a disinflationary world it is difficult for the country to make a fortune out of the gold price.

Following hardship and record unemployment in the early 80s, conservative economic policies are beginning to reap rewards.

Institutes

West Germany's five leading economic research institutes, predict that the United States economy will grow by five percent this year, Japan by four percent, West Germany by three percent, Britain by 2,5 percent, Italy two percent and France by one percent.

While economies have slowly improved, inflation of the 24 member nations organization for economic co-operation and development, fell from an average of 10 percent between 1973 and 1982 to five percent last year.

Progress of some individual states was more notable. Britain's average inflation rate was nearly 14 percent between 1973 and 1982. It is currently five percent.

From a nine percent average, United States inflation fell to three percent, although it rose above four percent recently.

The success against inflation has not encouraged policy makers to return to "growth at all costs".

The British electorate backed the Conservative government's anti-inflation aims, even though unemployment rose above 3m.

Confidence

Such is his confidence in the present gentle recovery that the Chancellor of the Exchequer, Mr Nigel Lawson, recently stated that he preferred zero inflation.

Most forecasters expected easy money policies ahead of an American election year.

Instead the Federal Reserve Bank has tightened credit and raised interest rates fearing that brisk economic growth will soon lead to higher inflation.

This change in international economic policies has already affected the movement of South Africa's exports.

The slow international industrial revival is beginning to boost export volumes and prices of non-ferrous and ferrous metals ranging from chrome, manganese, vanadium, antimony to zinc, nickel and copper.

But the disinflationary world economic environment has hindered demand for precious metals and quality diamonds. Platinum is an exception because it is widely used in rapidly expanding industries.

Chart

A long-term chart of precious metals dealers J Aron illustrates gold's problems

With the exception of a brief collapse to $300 in mid-1982 and a spurt to $500 early 1983, gold has been locked between $360 and $430 for well over two years.

Excitement has gone out of the gold market and speculators and investors are trading between a 20 percent band. Physical demand improves when gold falls to around $380 and then abates when it rises above $400.

Besides the lethargic investment interest the metal is suffering from another aspect of disinflation. Huge price increases in the late and early 70s encouraged fabricators to use smaller quantities of gold in jewellery. They are still doing so.

Since supplies continue to outpace fabrication demand, the price finds it difficult to make headway. The diamond industry is experiencing similar problems. Small cheap diamonds are popular while expensive stones are unfashionable.

Economists

Most South African economists are predicting a precious metals and diamonds revival ahead of the election. Their forecast is based on a weak dollar.

This prediction is really a bet on Federal Reserve Board chairman Mr Paul Volcker. Will he or won't he ease money ahead of the election?

History indicates that he probably will.

But unless a Democrat becomes president any ease in credit will be temporary.

In these circumstances, it is hardly surprising that the Reserve Bank is presently raising interest rates, hoping that the country will bite the bullet.

If the gold price remains between $360 to $430 South Africans will have to do so.

Discipline needed in SA economy

Cape Times 29/4/86

K9

UNLESS the gold price rallies considerably the South African economy is in trouble. Drought contributed to the sad situation. But blame also rests on the Reserve Bank. While the major industrialized nations opted for sound money policies, the Reserve Bank allowed South Africa to live beyond its means. The result is stagflation, record interest rates and high unemployment.

Following his visit to South Africa, Mr Neil Behrmann continues with a second article in a three part series.

From NEIL BEHRMANN

LONDON. — The South African economy remains out of step with the rest of the world and it is essential that the Reserve Bank recaptures its credibility.

For several years the bank attempted to shield South Africans from the unpleasant side effects of international disinflation.

It did so by depreciating the rand and by creating excessive credit. The rand devaluation and credit creation instilled a climate of false prosperity.

Today, following years of rand depreciation South Africa's internal price of gold is around $600, while on world markets quotes are 40 percent below these levels.

Currency depreciation is reasonable, provided money growth is controlled.

Gold price

Instead this "false" gold price and a credit explosion generated an unusual property and share boom in the modern "first world" parts of the South African economy. This wealth by-passed the drought stricken "third world" areas.

Although the government and Land Bank have given aid, most of the population are burdened by economic stagnation and continual price increases.

Even in the "first world" urbanized areas, many are experiencing a decline in living standards. Although the civil service and many companies subsidize employee mortgages, first time buyers are confronting huge increases in house values.

"If Cape Town property prices are higher than those in London, you know something is wrong somewhere," says Mr David Fitzpatrick, an independent London financial consultant who recently visited South Africa.

Syfrets group investment manager, Mr Jeremy McEntyre sums up the true state of the economy.

"From an average of six percent in the low inflation 60s (economic growth) slowed to 3,5 percent in the 70s and may slow further to an annual average of two percent in 1982 to 1988", he says.

Any acceleration in growth cannot be accompanied by a high inflation rate because "the economic consequences could be serious indeed for a mining-based economy".

Mr McEntre contends that South Africa needs solid non-inflationary growth to achieve economic and political progress.

In speeches, the Governor and senior Reserve Bank officials expound these aims. Unfortunately, their words have not been followed by firm action.

Responding to a growth band of critics, Reserve Bank Governor, Dr Gerhard de Kock, blamed money supply expansion on gold price volatility, hot international money flows, drought aid and government spending.

But the Reserve Bank's own statistics show why it has lost credibility with the public.

Loans and advances to the Land Bank rose 90 percent to nearly R5 billion in the years 1980 to 1984. Banking credit to the government remained virtually constant at R5,6 billion in that period.

Although these amounts are large, the combined total is only a third of private sector credit which doubled from R16 billion in 1980 to R32 billion this year.

It is hardly surprising that there has been a consumer boom in inflation hedges ranging from art to yearlings.

Banks are still offering more credit to consumers even though finance costs are well in excess of 20 percent. They have the leeway because in December and March the Reserve Bank decided to pump R1,4 billion into the banking sector by reducing reserve asset requirements.

Inflationary expectations were also fueled by large salary increases, especially in the public sector.

The situation is now critical. Should the authorities listen to the "doves" and ease credit at the expense of inflation?

The "doves" believe that South Africans "learn to live with inflation", otherwise unemployment will increase and there will be social and political unrest.

The drawback of this advice, is that inflation is a dynamic disease. It accelerates.

Unemployment

In the late 60s Israel's inflation rate was under 10 percent. It is now 200 percent. Disregarding this extreme situation, the South African experience shows that inflation raises unemployment because resources are diverted into nonproductive investments. The higher the inflation rate, the greater the suffering at a later stage.

"Hawks" believe that the Reserve Bank like the Federal Reserve Board, must show that it means business.

For the moment the Reserve Bank is leaning in this direction.

High interest rates, an end to the credit boom and the increase in company taxation could end up in bankruptcies and retrenchments. So even though the Reserve Bank has postponed the day of reckoning, its policies still end up in recession and unemployment.

Hopefully gold will come to the rescue.

It appears to be firm and could rise ahead of the elections. But that will be a testing time for Reserve Bank discipline. To prevent inflation it must allow the rand to appreciate in line with free market forces.

Any inflow of money should be neutralized by open market operations. If these policies are carried out, the vicious circle of currency debasement and inflation may at last be broken.

8/4/84 (49) S. Times

Industry — the way out of the woods

SINCE 1970, South Africa's economy has barely averaged 2% annual growth in real gross domestic product.

THE REX COLUMN

An independent look at the big picture and the long-term view

That dismal performance is hardly noticeable when one looks around. But most of our 2,8% annual population growth is bottled up in the homelands.

However, it is possible to explain in different terms why most of us in the "modern" sector are relatively unaware of the desperately poor decade that lies behind us.

An important cause is the illusionary impression that has been created by those incredible years, 1974 and 1980. Both gave us 8% real GDP growth. Somehow, we have come to feel invincible through these performances, particularly that of 1980.

These two excellent years are analogous to the athlete who only once or twice in his entire career performs a superb feat. Chances are that the athlete will in his later years remember only the thrill of victory and not the years of preparation and agony that preceded it.

Different picture

A foreign visitor to this country may be forgiven the impression that we have been enjoying one long boom since 1980. The white population especially has kept up the pretence that the boom has not truly ended.

However, a different picture emerges when one surveys the urban black community: the cash economy is down, unemployment is increasing, real living standards are dropping and expectations are low.

The difference between these market segments are two four-letter words: debt and save. Too much of the one, too little of the other. Our personal savings rate is down to 2,4% of disposable income, which is really and truly scraping the barrel. This one statistic should have set into motion warning bells, but it has so far been shrugged off by one and all. Who is fooling whom?

Similarly, we find critics pointing at Third World debt and gleefully proclaiming the impossibility of it ever being paid back to the "rightful" owners. Here at home we are collectively accumulating a per capita burden of debt that is equal to, if not more titanic than, that of Third World nations.

Unfathomable

When the national consciousness becomes unduly influenced by gold, something unfathomable happens. The same observation can be made daily at Sun City and similar venues where otherwise staid and sober citizens can lose control of themselves.

That kind of behaviour is nothing new. But what is remarkable is the sight of an entire economy with little going for it indulging in the same practice. Visions of 1969. The next roll of the dice must mean $450, perhaps $500, so here goes!

Our national objectives should be simple. Driving ourselves into the ground by way of a rapidly declining per capita income should not be one of them.

If our population grows by 2,8% annually and we have unemployment and underemployment, rural as well as urban, of up to 2-million adults, then we need at least a 5% annual growth rate for the next 30 years merely to grant everybody a decent job at our present standard of living, never mind increasing it.

Of course, that is the democratic ideal. There exist others as well, but they are best left unmentioned.

Carrot and greed

The Kleu and Steenkamp reports were interesting attempts to shape SA industry. But, with respect, that is not the way to do it. If you want a child to do something, you don't push it out into the cold and tell it to get on with it or catch pneumonia. Instead, you find yourself the biggest carrot and greed will do the rest.

To displace import control with tariffs is presumably intended to allow the hot wind of international competition to breathe down the necks of our industrialists and labour forces. Increase productivity and export, or perish. No doubt a stirring slogan, but is it adequate?

It would probably be the easiest way to go if there were no vested interests. But the various lobbies (and there are many) have been working over time to have the change in policy watered down — beyond recognition. An old home truth is that well-entrenched interests can only be bribed to change their ways.

SA's economy has been built on two carrots — metals and minerals (particularly gold) and protection, specifically in manufacturing; and the public service.

What SA needs is another carrot — incentives, especially for industrial exports. That is the only way, short of another gold fix, to get us moving again to a higher growth rate.

Mining base

The first carrot was paid for by foreigners who bought our mining products. The second carrot has been paid for by you and me, the consumers. By granting industry protection, the Government created a system of cross-subsidisation. Instead of the few attaining a higher standard of living by buying foreign, they have to pay a substantial premium for the privilege of buying South African and providing employment for the many.

We have had a good century, up to the late 1960s that is. Our mining base provided a high trading income which allowed us to import necessities on a large scale. By granting protection to SA suppliers, we carved out a modern economy and provided employment, albeit expensively.

However, in the course of the 1970s something went horribly amiss. The world economy entered a new long-term phase of slow economic growth. Demand for primary commodities went through the floor. Basic industrial products like steel, textiles and clothing were fenced off by way of regionalised protection measures.

Fabulous price

Yet the fabulous price girations of gold succeeded only in convincing us of the very opposite. This was in no small measure helped by a refusal on the side of the authorities to incur "old-fashioned" depressions. If ever our national virtue is again to be measured by the value of our currency, it could well be that we are found to have none.

We should have one national objective: rapid industrialisation. That would kill two birds with one stone. Those now outside the modern sector would be given the chance of a decent way of life, and it would lift the balance of payments constraint on faster growth through more extensive industrial exports.

The argument will be mounted that an industrial export drive is not the answer. Slow world growth and increasing protectionism are limiting export opportunities everywhere, and eager Third World countries are clogging potential export markets.

Nobody is claiming it will be easy. But not every foreign market is stagnating. Not all have been closed through protectionism. Most international trade remains relatively free, albeit highly competitive.

Toughest challenge

That is the toughest challenge — to face the hurly-burly of international competition with an overpaid labour force in terms of its intrinsic value-added. But challenges are there to be overcome. We should seek out international market niches and specialise.

SA's industrial sector has sufficiently consolidated over the past century to be capable of doing a Taiwan or South Korea. What has been lacking is leadership, the essential cooperation between the Government and the private sector.

Such a national effort would allow us to shift our export base from primary commodities. More stable balance of payments conditions would allow us to attain a better long-term economic growth performance. That would ultimately increase YOUR standard of living in the only sensible way. Credit alone can never compete with true wealth creation.

The cost to you? A lot, mostly in higher taxes to pay for export incentives, and possibly higher domestic product prices to allow cross-subsidisation of "infant" exports.

That, mind you, would be no different from the past. Then, you paid a premium solely for the pleasure of inducing industrialists to create SA employment.

In future, you should only pay them that premium for creating employment AND for reducing the risk posed by our lopsided export mix to our overall long-term economic performance.

To effect such fundamental change in our industrial policy and private sector will no doubt be difficult. But that is what public servants and industrialists get paid for, isn't it?

Free enterprise can do the job of restructuring our economic risk profile, provided it is rewarded properly. The present incentives are hopelessly inadequate.

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TODAY: SPOTLIGHT ON THE MINISTER OF :

Horwood

By Tony Spencer-Smith

WOULD you let this man run your business? That is the question many top people in the private sector are now asking about Mr Owen Horwood.

While Finance Ministers occupy hot seats always subject to much criticism, when Mr Horwood announced a massive sales tax increase only six weeks after his Budget, he did more than send consumers reeling again.

He dealt himself a devastating blow in political credibility from which he will be hard put to recover.

The business community hums with words like "strange", "peculiar" and "unbelievable" when discussing the shock GST hike.

There is speculation about behind-the-scenes "panic" in Government circles over gross underestimates of expenditure in the Budget.

In the words of Opposition finance spokesman Harry Schwarz this week, the increase makes a mockery of the Budget.

"When the Budget came out and we said we didn't accept his figures, he made very rude remarks in reply.

"Six weeks later he proves us right. It is a peculiar situation which has never happened in this country before."

Retailer Gordon Hood — managing-director of OK Bazaars — said that in the private sector "such poverty of plan ning and forecasting would put you out of business.

"Any business has to run itself with

and the economy

Why the 'golden era' of growth and political reform is under severe structural strain

By Dr JEFF McCARTHY
Senior Lecturer in Political Geography, University of Natal

THERE can be little doubt about it. The "golden era" of economic growth and political reform of the early 1980s in South Africa is under severe structural strain. What are the symptoms of this?

On the one hand we see a balance of payments deficit of more than R3 billion, historic consumer debt levels and lending rates still climbing, and the Minister of Finance scrambling for revenues in even the most politically unpopular ways (witness the latest shock increase in GST).

But, on the other hand, all of this is apparently offset by the Government's spectacular demonstrations of diplomatic showmanship in the region (evidenced, for example, by the recent meetings at Nkomati and Lusaka), and by the onward slog of the Government's so-called "reform initiatives" at home. Things may be wrong in the economy, in other words, but the political structures remain intact and even on the offensive.

But despite the immediate appearance of things, I would like to point out that current political and economic tendencies are not unrelated in their origins; and, moreover, that the current trend seems to be leading towards a period of renewed politico-economic crisis. Consider the prospects in this regard.

South Africa is what political geographers would term "a semi-peripheral capitalist state". It would be categorised as such because it manifests the following features:

(i) It has a relatively high degree of dependence upon political, but more especially economic, conditions in the "world core capitalist states" (e.g. the United States, Britain and West Germany).

(ii) It has a highly unequal distribution of income and wealth due, in part, to the uneven spread of capitalist relations of production within its borders. This, in turn, requires an authoritarian state to rule over the indigenous poor through various combinations of co-option and coercion.

(iii) It requires, for the purposes of domestic labour supply and political stability, the subordination of that mass of peasants and proletarians which is subject to weak control in peripheral capitalist and incipiently socialist states on its borders.

States of this kind tend to pass through similar phases of politico-economic crisis and crisis resolution: externally induced economic crisis leads to domestic political crisis which leads to state repression, then co-option during periods of economic recovery. This is, of course, a relatively crude summary of the scenario, but it is remarkable how often it is repeated in peripheral capitalist states.

In terms of recent history in South Africa of course, that state found itself in a period of crisis in the mid-1970s. Specifically, the state faced widespread civil insurrection centred around the living conditions of the urban poor after an externally induced economic crisis. Its response, as we are now well aware, was to reply initially with coercion and then with selective political co-option when the signs of a (once again externally induced) period of rapid domestic capital accumulation were recognised. At the same time it went on the political and economic offensive against weak peripheral states that harboured revolutionaries who had been forced out of South Africa during the period of repression.

In the meantime, however, the domestic economy, partly strained by the costs of the state's co-optive and coercive strategies, and partly a captive of its dependence on uncontrollable economic events in world core capitalist states, has taken some giant steps backwards. How, then, are the resources to be found, for those who in Maputo, and the Houses of Deputies and Delegates, will now be asking "where are the spoils of our compliance?"

The answer, many assume, can be found only in the dreams of those in the SA Reserve Bank and the Ministry of Finance as they gaze hopefully through their crystal balls at other crystal balls in the likes of Wall Street.

But is this the only way the answer can be determined? Let it be clear, the chances of South Africa delinking from the vagaries of international economic forces are remote. The "wild card" of international economic tendencies will be with us for a long time. However, what CAN be managed locally is domestic inequality. Indeed, unless strident steps are taken towards reducing internal income and wealth inequalities, and unless the political disfranchisement of the majority is redressed, pressures towards domestically based popular uprisings and peripherally based insurgency will once again reach boiling point.

Beware of that dangerous illusion in the

As the grass roots political mobilisation that has been occurring over the past few years (in response to the state's "reform initiatives") intersects with worsening poverty and unemployment (brought about by the externally induced domestic capital accumulation crisis), the prospects for a return to the patterns of 1976 heighten. Political shock waves and repression, in turn, will deepen the accumulation crisis we are already facing.

The average white South African, therefore, who now takes fright at the new GST and lending rates might reflect on the deeper problems of which these are merely indicators. The white South African is generally the last to be confronted with signals of a deepening politico-economic crisis and then reacts with right and short-term self interest. Small wonder when he is lulled into complacence by a carefully orchestrated symphony of "political good news" by the SABC and others.

But the bulk of South Africans are not so amenable to ideological placation and have been feeling the effects of the accumulation crisis for some time. For example, despite historically unprecedented rates of black urbanisation and a rate of natural population increase that far outpaces that of whites, Government statistics show that the number of blacks employed nationwide actually declined during the period 1981-1983. The number of whites employed during the same period, however, rose substantially. Similar points could be made about imbalances in the distribution of real

·INANCE AND THE QUESTION

strict financial control, prepare meaningful budgets annually and do its damnedest to live with them.

"Now here we have a Budget requiring very major adjustments virtually as soon as it is presented.

"We in business don't have the luxury of being able to run to the taxpayer for more money."

The Association of Chambers of Commerce (Assocom) has issued a terse statement on GST which is actually a serious indictment of how Mr Horwood and his Government colleagues are riding the economic wild horse.

It expresses Assocom's regret that "State finances have been permitted to deteriorate to the point at which such drastic action has become necessary".

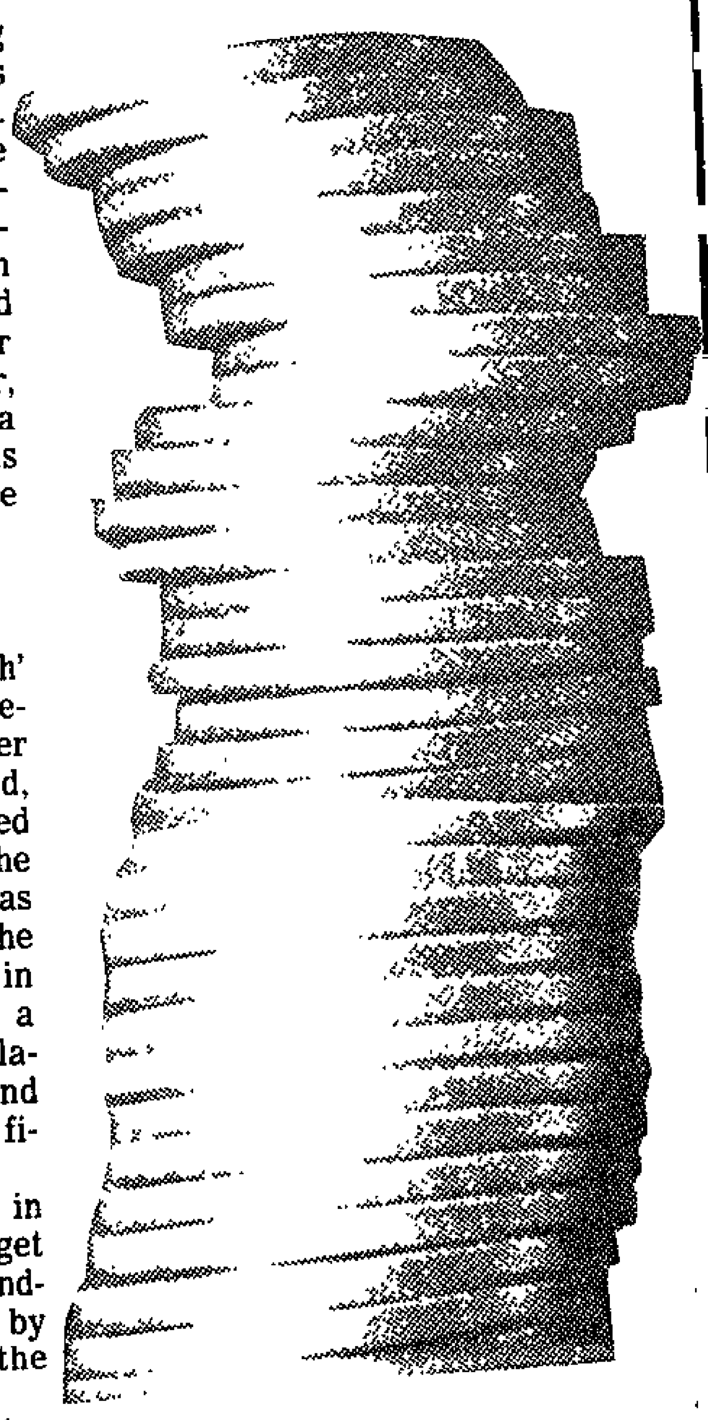
It is known that Assocom is stunned by the GST announcement and was this week making urgent attempts to find out why such a move was thought necessary.

Among the causes of considerable anger and dismay in its ranks is the fact that it appointed a galaxy of experts to study sales tax and advise on possible changes — only to find itself completely undercut by the Government.

Many business and economics spokesmen — like Dr Johan Cloete, the Barclays Bank economist — were reluctant to single Mr Horwood out for blame for the dismal state of the economy, saying many other Government people were also involved in economic planning.

But Dr Cloete did say the GST in-

Hey, big spender



IT'S GOING TO GET TOUGHER FOR THE INDIVIDUAL AND THE COMPANY

By BAS KARDOL
Executive chairman of CG Smith

THE cyclical upturn in the South African economy is long overdue. Almost daily, the projected timing for the upturn is being extended — we are now talking about the middle of next year.

The latter part of last year saw a short lived consumer-led upturn, which did not gain momentum, largely because of the gold price and the current account of the balance of payments.

It now appears as if South Africa will miss the upturn in evidence in Europe and the United States. Abundant capacity exists in these developed economies, which have been destocking and simultaneously have learned to live with lower stock levels. The export benefit was not and is not being realised.

On the other hand, consumer spending has continued at inexplicably high levels and a reduction in savings has resulted. This has placed pressure on the balance of payments, and last year gross domestic expenditure exceeded GDP. High interest rates have not proved to dampen consumer spending. The drop in the gold price was in the main offset by the lower rand/US dollar exchange rate. However, foreign exchange losses resulted in a major fiscal budget deficit which was exacerbated by the impact of the drought.

Inflation

South African inflation is 'cost push' as distinct from the USA primarily 'demand pull'. Inflation was coming under control, but major increases in food, electricity, water, etc. have interrupted the curbing process of inflation in the local economy. The level of the rand has resulted in expensive imports from the United States — putting the above in perspective signals an economy with a balance of payment deficit, rising inflation, rampant consumer spending (and little savings) and a budget deficit to finance.

The recently announced increases in GST are aimed at financing the budget deficit and dampening consumer spending (the latter remained unaffected by higher interest rates). GST taxes the spenders not the savers.

The standard of living in South Africa is high, and this development will hurt in the short term, but in the longer term will ensure a sounder base. This base will also enable the country to benefit substantially from future world upturns.

Poor

In moving more towards indirect taxation, it is imperative that the authorities consider the plight of the poorer sectors of the population. It is absolutely essential that careful thought be redirected at the exempt items — for example, sugar, poultry, candles, paraffin and coal should all be exempt. Other mechanisms, such as tighter control over hire purchase rates, could achieve the same objective and alleviate part of the GST burden.

The private sector is expected to provide increasing job opportunities and vacancies. However, the current company tax structure, notably the withdrawal of investment allowances, lifo and a 50% taxation rate are all providing a dis-incentive for the private sector to invest — it is becoming more and more difficult to justify new capital projects in this new hardier environment.

In the C.G. Smith group the overall after tax effect of the 1984 budget proposals and the withdrawal of the investment allowance is R30 million a year. The moves towards decontrolling the economy may likewise have a negative effect on the creation of jobs.

The South African economy is not in a healthy state — but it is important that steps have been taken to do something positive. If we compare ourselves to other developing countries in the rest of the world, South Africa is far better off (in addition it enjoys a good credit record unlike other developing countries).

Challenge

There are also challenges for consid eration:

- Export structure: South Afric should place greater emphasis on ex port, particularly to the East and som selective allowances should support ex ports with a particular comparative in ternational advantage.
- Detente and regional co-operation This must open up economic opport ties through specialisation of factors production.
- Productivity: South Africa's produ

...rystal ball

incomes over the last few years. And the situation now is getting worse, not better.

All of this, of course, might buttress the impression among whites that the system is operating in their self interest. And in the short term it may well be. The question of what is in their longer term self interest, however, may well require analytical frameworks based upon wider historico-geographic horizons in order to achieve a rational answer. There can be no guarantee that semi-peripheral capitalism will not, at some point, be based upon some dangerous illusion in a crystal ball. And if (when?) that happens we could well be plunged into a crisis of proportions that makes the mid 1970s seem like a ripple on the ocean.

may 4 1984

Financial Mail

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TARIFF PROTECTION

A sugar-coated pill

There is to be another investigation into industrial protection. Following hard on the heels of the Kleu report on industrial strategy and the Steenkamp committee report on protection of clothing and textiles, it would seem that the Van der Horst committee, appointed this week by Industries Minister Dawie de Villiers, is to continue the search for the holy grail.

Government insiders assure the *FM* this is not so. Industrial protection policy is firmly established. Quantitative import controls must go; "deserving" industries will be granted moderate, selective protection by means of customs tariffs.

Adoption of this policy after 30 years of hiding behind direct controls, and pleading fundamental balance of payments disequilibrium every time the gold price went wrong, will finally "legitimise" SA's membership of the General Agreement on Tariffs and Trade. Membership of this body is vital since it protects SA from the kind of unilateral action Cabinet ministers used to warn about when "total onslaught" was part of Pretoria's lexicon.

We are told, therefore, that the committee under the chairmanship of Old Mutual's Jan van der Horst will not examine existing policy but look for systems whereby it can be applied "rapidly and effectively." That would seem obvious enough. Strengthen the Board of Trade with more economists and accountants; speed up investigations by compelling applicants for tariff increases to do their homework ahead of time, not during investigations; devise new systems; and so on.

The real reason for the investigation is rather more subtle, however. It seems De Villiers and his advisers hit on the idea of another study in order to deflect mounting criticism and heavy political lobbying by industrial interests who stand to lose most as a result of any liberalisation of protection policy.

This seems to be borne out by the composition of the study group. There is a heavy preponderance of private sector interests — exceptional for a government-appointed committee. Eight of the 13 members are in this category. In addition to Van der Horst there will be Premier's Tony Bloom, Anglo's Aubrey Dickman, Sasol Fertilizer's Andre du Toit, FVB's Johan Moolman, Assocom's I J Pinshaw, Tongaat's Chris Saunders and Veka's Mof Terreblanche (brother of the redoubtable Stellenbosch University economist Sampie Terreblanche).

Completing the group are BTI chairman Basjan Kleu, Industries Director-General Tjaart du Plessis, IDC's Marius de Waal, and Customs and Excise Commissioner Daan Odendaal.

All the old wounds will be reopened and all the old arguments resuscitated. It is hard for established interests — with heavy capital sums committed to investments they thought would be protected forever — to face up to the prospect of exposure to the chill winds of imported competition. Gone are the protection-pleading arguments based on employment creation, infant industry, financial responsibility, strategic necessity and forex savings.

Ask maize-growers and other farmers what they think of heavily protected local input manufacturers. They started the present revolution by importing fertiliser from central Europe. These battles will be fought again in the Van der Horst Committee. There can be only one outcome.

In considering adequate levels of tariff protection, however, the committee would do well to heed Brian Kantor's caveat: there is always a tariff equivalent to a direct import control at any time. The difference is that local prices, after tariffs, adjust automatically to unexpected changes in world market conditions.

With import control and a change in world market conditions, the supply of imported goods remains fixed, domestic prices remain unchanged — and import permits become more valuable. The value of a permit is proportional to the difference between the world price and the domestic market price of the imported product.

In the case of import tariffs it is the Exchequer that pockets the difference between world price and the domestic price of imported goods. Small wonder there is so much yelping at the prospect that controls will disappear.

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Long, cold winter ahead

Once again we are living beyond our means. So living standards are going to fall this year and real economic growth will be stifled. The increase in gst will help the adjustment to more straitened circumstances. But there is no avoiding the cold winds of economic reality.

Winter is not far off. And this year it is going to be colder and bleaker in more ways than one. In fact, if the SABC's weathermen were economists, they would be pointing now to massive cold fronts and drooping isobars on their synoptic charts.

If, by the end of it, the economy has not shrunk but managed to grow by even 1%, we will be fortunate indeed. Certainly the 4% growth in output so confidently forecast for 1984 last year has become more of a dream than a goal. Although some would argue that, involving a 7% swing from minus-3% as it did, that forecast was never really anything else.

The conventional wisdom of forecasters now is that the economy will grow by 2% this year. But as fortune has weighed in so heavily against us in recent months, even that figure could be optimistic.

The plain fact of the matter is that, as a nation, we are once again living beyond our means. We are printing money and borrowing abroad to finance the shortfall. Monetary policy has been far too accommodative. Demand has again outstripped the ability of the economy to supply. Real incomes are under pressure and will lead to falling living standards.

The rand is tumbling against the dollar and aggravating general price increases, which are moving up at a rate roughly twice that of prices in our main trading partners. And this has occurred despite very high real interest rates (nominal rates minus the rate of inflation). At a real 11%, prime rate is certainly swingeing.

The gap between what we earn from exports and pay for imports is widening. Broadly speaking, this is the deficit on the current account of the balance of payments. In the last quarter of 1983, it was R977m against a surplus R803m in the first quarter. In the first three months of this year, the estimated deficit could be between R400m and R500m. This is being financed by a capital inflow from abroad, largely as a result of high interest rates here, for the reserves have remained reasonably steady despite the deficit.

But, one might well say, we knew this was going to happen. Certainly, at the time of the Budget about six weeks ago, the trend was clearly there to see for all those who cared to look. Why, then, has there been an ostensible panic in Pretoria and a sudden hike in gst?

The answer is that things have got worse since February, when the Budget was being prepared. In particular, the gold price has slid from about \$400/oz to about \$370 after averaging \$424 last year. But, equally important, the prospects of a sustained rise in the gold price have diminished.

The main reason for that is the continuing strength of the US dollar and the safe haven that New York represents for investors. A few months ago, it was reasonable to expect the dollar to weaken. Everyone did. But, since then, interest rates in New York have risen on inflationary expectations and the dollar has strengthened, to some extent defying convention. Inflationary expectations and a widening trade deficit usually lead to an erosion in the value of a currency. It is not very clear why this hasn't happened to the dollar.

Some economists argue that investment expectations in the US have, at least for the time being, overidden economic convention. The high level of domestic demand in the US, stemming from its massive defence spending, has meant that the outlook for investment is sweet. In addition, the funding of this spending is so crowding out the private sector that interest rate prospects remain relatively high.

But there is yet another factor, a sore point with protection-minded Europeans such as the French. Cheap and abundant

TOO EARLY FOR TIGHT MONEY RULES?

One of the canons of monetarism is that the central bank apply a rigid "rule" to the growth in the money supply and rely less on its own judgment of what growth rate is appropriate.

Last week the *FM* emphasised the importance of this apolitical "money rule" when assessing the financial implications of the new constitution and the likely role of the Reserve Bank in an enlarged monetary area.

Clearly, the application of a rigid money rule in SA would be difficult just at present. This is because of the impact on the balance of payments of a volatile gold price and because of the wide seasonal and other fluctuations in the government sector's financial accounts.

There is also the problem of the delay in obtaining statistical data from the banking system and the inherited consequences of past direct monetary controls. These controls (the old quantitative lending ceiling) forced lending out of the banking system and off banks' balance sheets. So the monetary statistics of the Seventies give a very distorted picture of the true growth in the money supply.

As these disintermediated loans flowed back on to banks' balance sheets under the new market-orientated controls of the Eighties, the reintermediation again distorted monetary aggregates. So to compare the monetary "discipline" of Bob de Jongh, the previous governor, with that of the present governor is not altogether fair. The *FM* did it a few weeks ago tongue-in-cheek.

In fact, the banking system has, through computerisation and competition, become so sophisticated now that it is doubtful whether controls on lending and interest rates would have much impact at all today. They would simply increase the velocity of circulation and serve to cause widespread disintermediation.

High among the priorities of the De Kock Commission into the Monetary System and Monetary Policy is the streamlining of government's payments mechanism and the flow of statistics. If this can be achieved, the Reserve Bank should in the future have a much firmer grip (short-term) on the monetary aggregates.

The present Governor, Gerhard de Kock, dwelt on some of these difficulties in an address to the *FM*'s investment conference towards the end of last year. Some of the points he made are worth recalling:

"The only monetary statistics available at present are month-end statistics, which are often greatly distorted by a number of random factors affecting the banks and the public's financial position at month-ends. This ... is a major cause of the erratic behaviour of the money supply figures.

"At present the money supply statistics only become available with a time lag of approximately five weeks after the month-ends.

Export-Import Bank finance for purchases of US exports gives the US an enormous lever in world trade. This has outweighed the competitive disadvantage of a strengthening dollar and led to accusations of backdoor protectionism. It has certainly meant that the US trade deficit is not as wide as it would otherwise have been.

Apart from the gold price, the cost of the drought, not only in aid to farmers but in lost export earnings, is proving to be much higher than expected. As Assocom's Raymond Parsons has pointed out, drought relief alone is now likely to exceed the R460m expected only a few months ago.

The fact that the country has to import 4 Mt of maize, instead of export 6 Mt, has brought about a R1,5 billion adverse impact on the balance of payments. The loss of income this fiscal year from agricultural exports, and the consequent need for more imports, has so far been so large that it has outweighed the advantage of the increase in mineral exports to the booming US economy. It is going to take at least another agricultural season before that situation is altered.

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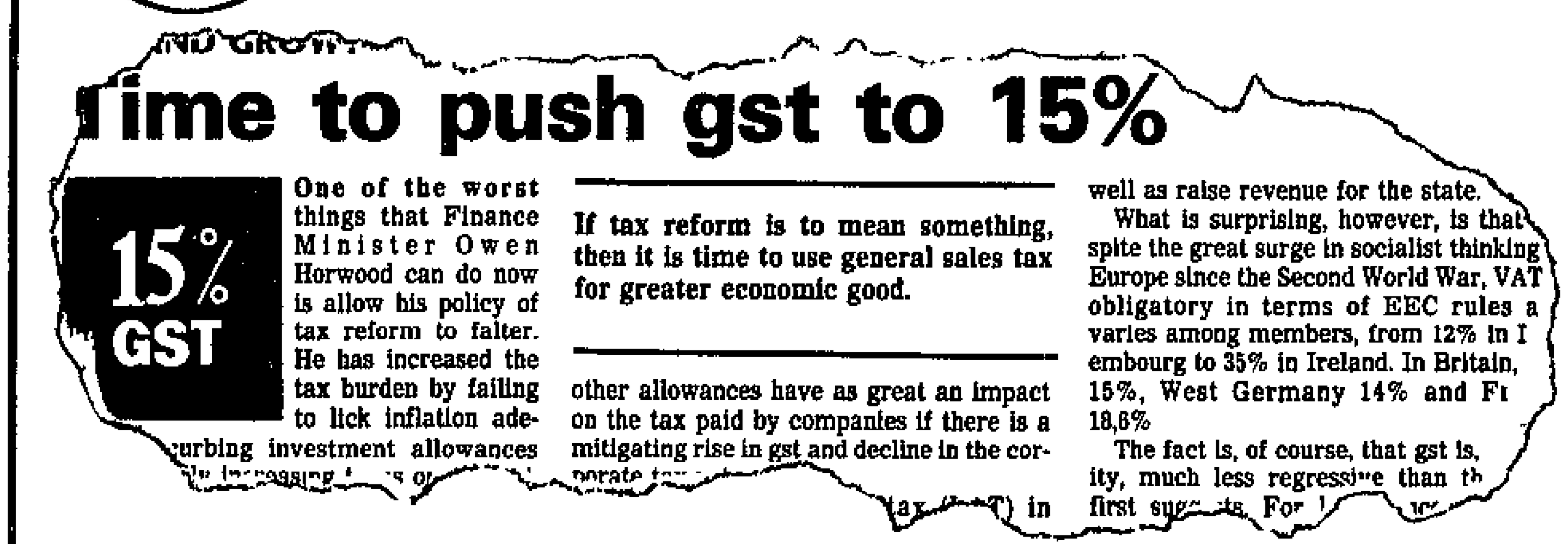

...NO GROW...

Time to push gst to 15%

15% GST

One of the worst things that Finance Minister Owen Horwood can do now is allow his policy of tax reform to falter. He has increased the tax burden by failing to lick inflation ade- ...urbing investment allowances ...

If tax reform is to mean something, then it is time to use general sales tax for greater economic good.

other allowances have as great an impact on the tax paid by companies if there is a mitigating rise in gst and decline in the cor- porate ...

well as raise revenue for the state.

What is surprising, however, is that ...spite the great surge in socialist thinking ... Europe since the Second World War, VAT ... obligatory in terms of EEC rules a... varies among members, from 12% in ...embourg to 35% in Ireland. In Britain, 15%, West Germany 14% and Fr... 18,6%

The fact is, of course, that gst is, ...ity, much less regressive than th... first sugg...

FM cover story, April 20 ... bringing down demand

Policy options

The inevitable outcome for South Africans is a fall in living standards. There is nothing that anybody — including government — can do about that. It has clearly been brought about by causes beyond the control of Pretoria. But there are still policy options open.

Government can adopt policies that will curb excessive demand within the economy by squeezing the money supply and raising interest rates even further. Alternatively, it can increase taxes to reduce the budget deficit before borrowing (currently more than 3% of gross domestic product) and thus temper aggregate demand without further significant hikes in nominal interest rates. Or it can combine a bit of fiscal and monetary restraint.

The outcome of that will be little or no economic growth this year. But as it should enable the economy to adjust quickly to our reduced circumstances, the prospects of a return to fairly rapid economic growth and more stable prices later next year, as the rand begins to strengthen, must be good.

On the other hand, government can cushion the economy by creating sufficient money to sustain demand. Interest rates will fall and the rand continue to plummet, but the real rate of economic growth will, for this year at least, most likely reach or exceed 2%. The impact on living standards will be much less in the months ahead, as adjustment to economic realities will be delayed. But the need for that adjustment will not be removed. It will be brought about eventually by inflation, which will erode real incomes over time, create tensions in the social fabric and reduce the productive base of the economy by stifling investment.

The longer the delay, the higher the risk of inflation getting out of hand as inflationary expectations become entrenched and the greater the extent of the eventual adjustment will have to be. The prospects of a more rapid real growth rate next year will be much reduced and there will be general economic disruption.

What government cannot do in these circumstances is engineer a positive rate of economic growth this year and reduce interest rates, while at the same time strengthening the rand and stabilising prices. That combination is an economic *non sequitur*. Only politicians and farmers with their minds concentrated elsewhere would believe it possible.

In the *FM*'s view, the impact of economic adjustment on the poor will be far less, and the return to more rapid economic growth faster, if government adopts the

"The published monthly statistics for M1 and M2 should be treated with care. For the reasons I have mentioned, monthly or even quarterly percentage rates of growth, even if adjusted for seasonal changes, can be very misleading as a guide to economic analysis and policy ... Even the use of 12 or six-month moving averages or of changes over 12-month periods has its limitations.

"For the present, therefore, the monetary authorities have no option but to formulate their intermediate policy objectives in relatively broad and imprecise terms."

In addition to looking at a wide range of economic indicators, the Reserve Bank, he said, kept in daily touch with financial markets. "It is on an assessment of all the economic information gathered in this way that daily policy decisions are based."

Not only had the bank moved away from direct monetary controls, but it was "increasingly shifting away from the former system of liquid asset controls of bank credit to one of cash reserve control. It is important to note, however, that the type of cash reserve system being introduced ... is more akin to the British system than the American system. The Reserve Bank influences the cash reserves of the banks by operating on interest rates (the cost of cash reserves) rather than directly on the amount of cash reserves.

"This is necessary because surplus cash reserves are deployed automatically as call money with the discount houses, and any additional cash balances which might be required are obtained through the withdrawal of call money from the houses. This is made possible by the virtual automatic access the discount houses have to Reserve Bank accommodation.

"Under this system, the banks would be able to make good any reserve shortfall by withdrawing call money from the discount houses, and the Reserve Bank would then be forced to provide accommodation through the discount houses, thereby neutralising its own actions to reduce cash reserves.

"In implementing a restrictive policy, the Bank will raise its accommodation rates and thereby exert a strong impact on interest rates generally and on the demand for credit. In this way it will influence the banks' total liabilities and, therefore, their cash reserves.

"Although interest rates are not used as intermediate targets, their role is therefore of crucial importance. If effective control is to be exercised over monetary aggregates and total monetary demand, interest rates must be free to reflect accurately the varying degrees of tightness in the financial markets resulting from the combined operation of natural economic forces and monetary policy actions — which, in combination, reflect the authorities' policy stance."

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MONEY SUPPLY BLOSSOMS

Percentage growth in M1, M2 and M3
Seasonally adjusted annual rates

	Money (M1)		Money and near-money (M2)		(M3)	
	Excluding buy back agreements	Including buy back agreements	Excluding buy back agreements	Including buy back agreements	Excluding buy back agreements	Including buy back agreements
1979	20,5	—	13,3	—	14,7	—
1980	35,8	44,4	27,4	35,2	23,5	29,3
1981	34,1	23,2	25,1	21,8	20,2	18,4
1982:						
Third quarter	27,8	33,4	18,8	21,2	29,0	29,8
Fourth quarter	8,5	7,1	20,0	17,5	10,9	10,1
Year 1982	16,2	16,3	17,4	15,4	14,5	12,2
1983:						
First quarter	28,1	28,6	26,7	27,9	25,4	26,7
Second quarter	60,8	65,1	22,2	18,6	17,3	13,4
Third quarter	23,7	14,0	23,1	17,8	15,7	11,7
Fourth quarter	1,5	10,2	−3,0	5,4	−7,7	—
Year 1983	26,6	27,8	16,5	17,2	12,0	12,6
1984:						
Jan and Feb	89,5	75,0	44,9	29,9	38,8	26,0
12 months to Feb	36,4	34,9	20,4	19,8	13,0	12,8

first alternative: that is take severe measures to reduce demand now. The impact of an inflationary adjustment will be both risky and more painful.

The rise in gst in six weeks' time is an important and welcome step in that direction. Economically it is the right thing to do. It will help reduce demand, strengthen the balance of payments and bolster the falling rand. That will reduce inflation and ease the upward pressure on interest rates.

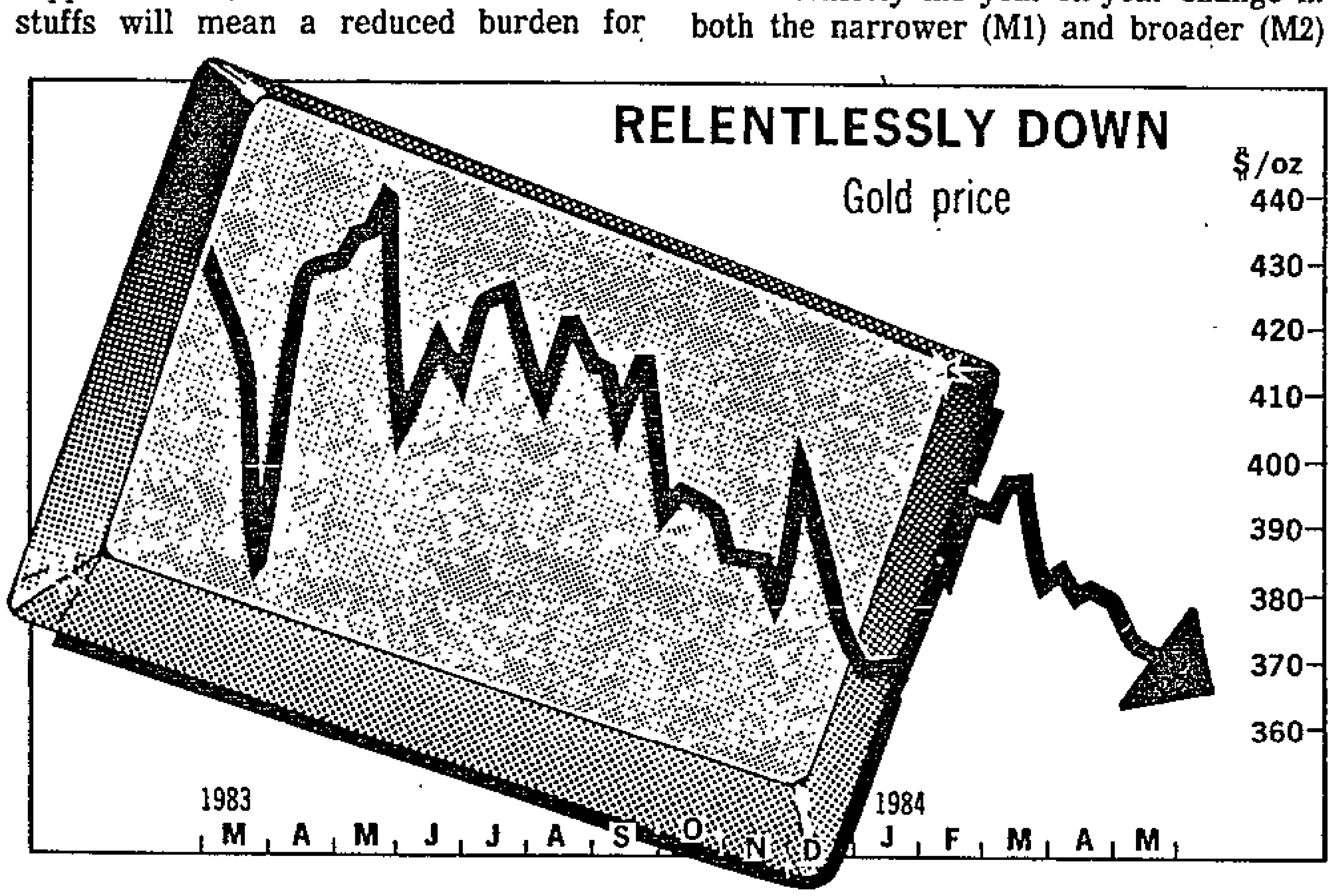
Another important point is that it will enable the Reserve Bank to have greater leverage on the money supply, which will also bring down demand and avoid the risks of accidental money creation. That happened temporarily at roughly this time in the most recent two fiscal years.

Far from heaping higher prices and additional taxation on the poor, which an increase in a regressive tax such as gst is supposed to do, the exclusion of basic foodstuffs will mean a reduced burden for them.

According to Engel's Law, the lower the household income, the higher the proportion spent on food. So not only will the poor find their food prices down by 7%, but they will not have to pay the 3% latest increase in gst on their main cost item.

This increase in gst will bring the ratio of indirect to direct taxation (income tax and company tax) from 30:70 when Finance Minister Owen Horwood took over 10 budgets ago to 40:60. That is a far more equitable and economically productive taxation mix. What a pity it has not reached 50:50 (*FM* April 20).

But it is not enough just to increase gst if we are to see more rapid economic growth next year. The Reserve Bank will still have to reduce further the growth in the money supply. There are some technical problem associated with this (see pages 30 and 31). And ostensibly the year-on-year change in both the narrower (M1) and broader (M2) money supply measure to February was not encouraging. M1 rose by 37% in that period and M2 by 20%.



But significantly M3, the even broader measure incorporating banks' "other" deposits, increased by only 13%. If building society deposits were included, the cha[illegible] are it would be slightly lower. This indicates a high liquidity preference similar to that which through the money funds has distorted US monetary aggregates.

Monetary aggregates

In plain words, there has been a shift in deposits towards the shorter term within the banking system greater than the overall increase in deposits. So the Reserve Bank has had a tighter grip on monetary growth than M1 and M2 necessarily indicate. But it must be kept in mind that the choice of which monetary aggregate to believe is a matter of longstanding controversy. One can hardly say the growth in the money supply has been adequately controlled over the past year, although it may have been under greater control than at first appears to be the case.

Moreover, whether one believes (as does the *FM*) that the factors governing money supply growth are within the control of the Reserve Bank or that they are influenced mainly by balance of payments inflows, the chances of slower monetary growth in the months ahead are improving. For with the current account in deficit, there should be a tendency for monetary growth to decline anyway.

So while cold winds are still ahead in some force, the authorities have taken some steps to close-haul the economy appropriately. If the sheets are pulled in tighter, the economy will be reasonably placed to sail through to brighter weather. If they let go too soon, the buffeting will be severe and the hardships greater.

Low rand, higher sales tax mark end of gold boom

W/C ARGUS 19/5/84

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By DEREK TOMMEY
Financial Editor

THE fall in the value of the rand this week to a new low of $0,762 and the proposed increase in general sales tax to 10 percent have served to bring home the fact that South Africa's gold boom has collapsed.

The message on the temperance billboard that used to be at Woodstock station and was known to tens of thousands of train travellers is as apt for gold as for alcohol: First it lifts you up, then it lets you down.

Gold has let South Africa down badly, although that fact has been concealed to some extent by changes in the value of the rand against the dollar.

Measured in rands, the value of South Africa's gold output looks reasonably stable. According to the Reserve Bank, gold output in recent years has been worth:

1977	R2,8-billion
1978	R3,9-billion
1979	R6,0-billion
1980	R10,1-billion
1981	R8,3-billion
1982	R8,6-billion
1983	R9,9-billion
1984	R9,9-billion (est).

These figures suggest that the country's gold income, after peaking in 1980, has been comfortably maintained.

However, the rands in which these gold output figures are given has been steadily devalued against the dollar.

In 1980 a rand would buy $1,28. But in 1981 it would buy only $1,15, in 1982 92 US cents, in 1983 89,7 US cents and at present it buys only 77 US cents.

If the country's gold revenue is converted into dollars at these rates a different and a far less satisfactory picture emerges.

It shows that South Africa's dollar earnings from gold in recent years have been:

1977	$3,2-billion
1978	$4,4-billion
1979	$7,1-billion
1980	$13,0-billion
1981	$9,6-billion
1982	$8,0-billion
1983	$8,9-billion
1984	$7,9-billion (est)

It can be seen that South Africa's real income from gold has been declining since the peak in 1980.

It is also evident that even if the gold price remains at its current levels the country's dollar income from gold this year will be at its lowest level for several years.

The consequences of this decline in dollar earnings are far-reaching. South Africa needs dollars to pay its foreign debts. Without dollars or other foreign currencies it will have to cut back on its foreign purchases.

This is what the Government is trying to do. Its actions have been given added urgency by the news that in the first three months of this year the country was going into debt at the rate of R3-billion a year.

The main way of cutting imports is to reduce consumer spending and the Government is aiming to achieve this by raising income tax and levying higher indirect taxes — which will be increasingly felt as the year rolls on.

So, after the high life of the early 1980s, South Africans are now having to tighten their belts, trim their living standards and reduce their expectations.

They will also have to listen to Cabinet ministers and businessmen accusing them of living beyond their means — though the irony is that it is the Government that has been the worst culprit.

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MANY OF OUR TOP PEOPLE ARE ASKING: WOULD YOU LET THIS MAN RUN YOUR BUSINESS?

crease "must have lost the Minister a lot of credibility.

"We could see clearly at the time of the Budget his expenditure estimates were way too low.

"It is very strange. Even now he is not admitting he underestimated expenditure.

"Nothing has changed between the Budget and now. Someone has had a rethink somewhere."

Dr Cloete accused the Government of not taking the public into its confidence about its real economic goals.

"It is not enough for the Minister to say he wants to reduce inflation, for instance. He should say by how much.

"In the same way we need precise growth targets. And we need to be told the truth about the recession."

His charge appears to apply particularly to the public "explanations" Mr Horwood has given for the GST hike.

When he first made the announcement in Parliament last week, he gave the impression the Government needed more money to cope with expenses: an amazing R800 million this fiscal year alone.

But speaking at a meeting in Cape Town late this week he denied this and said the move was largely to fight inflation.

Both explanations are getting him into trouble.

Said business wizard Natie Kirsh, chairman of Kirsh Industries, which controls the Checkers supermarket chain: "He should have known at the time of the Budget he was going to be short of money.

"And if the increase is to fight inflation, he's doing it the wrong way."

Mr Kirsh, like some others, expressed some sympathy for Mr Horwood in the task he faces: "Nobody has an easy job running this economy. It is too gold-oriented and one has to be a bit of a crystal ball gazer."

In some cases businessmen refused to comment on the Government's handling of the economy — their silence frequently being as eloquent as if they had spoken.

For instance, the chairman of Afrikaner business giant Sanlam, Dr Fred du Plessis, said: "I don't think I should comment. I don't want to criticise."

Although the new 10 percent GST level will dampen consumer demand, the effect of such measures on inflation has long been hotly disputed.

To many authorities, the move could simply fuel the frightening inflation spiral — a far cry from Mr Horwood's claim this week that the GST hike will be one of the Government's most important weapons against inflation.

And while he has spoken darkly of the falling gold price as having been involved in the move, Mr Schwarz pointed out that in fact, in rand terms, the gold price was higher on the day Mr Horwood announced the sales tax increase than on Budget day.

"Gold went from R478 to R482, so from a revenue collection point of view he is not affected.

"Anyway, he should have been able to forecast, at the time of the Budget, what would be happening in the next six weeks. If you can't do that, you can't run the country.

"A Finance Minister must be able to budget properly — and he doesn't appear to be able to do that."

He said there were clear indications that Horwood had acted in a hurry.

"He announced during the Budget that he was appointing a committee to look at sales tax exemptions. Now he has acted without even waiting for his own committee, and all sorts of vital basic items are left out of the list of exemptions.

"The real reason for the sales tax increase is that he underestimated expenditure quite considerably."

Housewives' League chairman Joy Hurwitz accused Mr Horwood and his Government of being deaf to the needs of the man in the street.

"The South African consumer has been forced further into the corner than ever before. The shocking GST increase is one of an endless series of blows.

"For many people the agony of trying to survive has become intolerable. And nobody is doing anything."

She said her organisation had approached Mr Horwood and other Government people many times on various matters.

"We are listened to terribly politely and nothing happens. I'm beginning to think we're talking to a brick wall."

Mr Alwyn Bisschoff, director of the Natal Agricultural Union, said farmers welcomed the dropping of GST on some foodstuffs, but the radical addition to the tax on everything else was "strange".

"I can't believe anything has changed that much since the Budget. And I question whether the full seven percent reduction on some foods will actually get through to the consumer, with farmers now having to pay three percent more for all farm inputs."

[illegible] ...ining our civil service so those who keep the wheels of apartheid turning can get all those perks

By PETER MANN
Political Correspondent

The big fat monster that feeds off tax!

☐ P W Botha — wanted to rationalise civil service

☐ Piet Koornhof — 'tortoise bent on sabotaging reform'

DR Piet Koornhof called it a tortoise bent on sabotaging "reform". The Prime Minister, Mr P W Botha, said he was going to "rationalise" it.

Yet South Africa's Hydra — the civil service — grows larger, fatter and gobbles up ever-increasing amounts of tax money.

Already one in every three whites, and one in every four coloureds, work for the civil service. In addition, 19 percent of all gainfully employed black people and 16 percent of gainfully employed Indians work for the Government.

The monster gobbles up R5 000 million every year in salaries alone. And in spite of Mr Botha's rationalisation zeal, the civil service has nearly doubled since he has been Prime Minister. In fact it increased from 170 111 people in 1978 to 253 562 in 1983, an increase of 49 percent.

And those figures exclude people working for the South African Transport Services (Sats) or the Defence Force.

Estimates are that more than a million people now work for the central Government, the Provinces, Sats, the Post Office, local authorities, State enterprises and corporations.

The new constitution is going to add more people to the growing list of Government employees. Details have not yet been given of precisely how the service will function under the highly complex new constitution.

But South Africa fast seems to be heading for a society where privileged, predominantly white, technocrats are primarily occupied in managing a society which is predominantly under-privileged and black.

In the meantime they are costing South Africa a fortune — and they have even been blamed for the 66 percent increase in GST since the beginning of the year.

The Government has to find the R5 000 million for their salaries from somewhere, so it puts up taxes. In fairness, civil servants also pay taxes but that money goes on a merry-go-round from Government to civil servant and back to Government.

And forget your image of the struggling, underpaid Government employee. Today's civil servant has a pay package which would make most of members of the public green with envy.

Job differentiation, also part of P W Botha's rationalisation plan, was introduced to stop the drift of Government employees to higher paid jobs in the private sector.

To keep staff, differentiation dramatically increased salaries — and so far has cost taxpayers about R500 million.

Some civil servants were given increases of up to 33 percent in January. At the top, the Director-General of a Government department is now paid R59 130. Lower down, an irrigation technician or "chief airport information assistant" can earn from R9 648 to R12 600 a year.

In addition Government employees have:

- One of the best housing subsidies;
- One of the best medical aid insurance schemes;
- One of the best pension schemes in South Africa; and,
- A bonus equal to a 13th cheque.

The housing subsidy is said to be an important cause of the inflated cost of houses in South Africa. Civil servants are able to raise bonds at four percent to a maximum of R50 000.

This means they pay only R224,50 per month for a home which at the current commercial rate of 17,25 percent could cost those without a subsidy R743 per month — or R518,50 more.

Civil servants are also able to get 100 percent bonds — meaning they don't necessarily have to plough all their savings into raising a deposit.

And there is even a provision that they may be able to borrow from the pension fund to raise more money.

This year Minister of Finance Owen Horwood has budgeted for a massive increase in the amount to be spent on subsidising houses for civil servants.

It has gone up from R45 945 000 in the 1983/84 financial year to a whopping R101 574 000.

In spite of this increase and in spite of the fact that it is taxpayers' money a spokesman for the Commission for Administration, Mr Ian Robson, refused to give any details of the scheme this week.

The medical aid scheme run by the civil service is said to be one of the best in the country. It pays 100 percent of tariff charges and has one of the lowest deduction rates.

The pension scheme is reportedly equally as good. In fact it is regarded as the best in the country with a pension on retirement equal to the final annual salary.

These are the people who service apartheid. Every year the Government says it has placed constraints on expenditure and every year Finance Minister Owen Horwood has to go back to Parliament to ask for more money to finance overspending.

He has just done it again — by pushing up GST to 10 percent.

By Bruce Hopwood

Bye-bye to the good life

Now standard of living takes another big drop

THE latest increase in General Sales Tax seems to be the final signal to bid farewell to the good life — at least for those who still remember it.

As it triggers off yet another rise in the cost of living, rich and poor South Africans are beginning to ask themselves if they weren't perhaps better off 20 years ago.

Housewives recall the time when they could buy the week's groceries with a R5 note and still have change, while motorists could fill their tank with petrol for as little as R2.

The shrinking standard of living, it seems, has affected everyone — from the businessman in the street to the tribal dweller in his kraal.

Young white South Africans who grew up in affluent surroundings are having to accept that even a moderately priced home is way out of their reach.

And the recent Carnegie conference disclosed that nearly nine million people in the homelands lived below the breadline and were caught in a circle of poverty from which there was little chance of escape.

"Our incomes may have gone up," says Mrs Lin Morris, senior vice-president of the Housewives' League, "but at the same time prices have soared and things that were previously regarded as luxuries have now become necessities.

"One indication of the drop in the standard of living is the number of women who have gone back into the market place not because they miss their jobs but because families need the extra money to make ends meet.

"Back in the sixties we took our very high standard of living for granted, but it somehow gradually became eroded and today many of us find ourselves with very little savings and a lot of debts.

"It's just unfortunate that many of our expectations were set during that boom period."

Over the past 14 years that the Consumer Council has been operating there has been a definite drop in the standard of living, says assistant director Mr Bernard Hellberg.

"Appliances that were unheard of 20 years ago have now become standard gear in the average home and, while this may seem like an improvement in the quality of life, it is often artificially maintained.

"South Africans will be going on an enormous shopping spree before June 30 to beat the 10 percent GST and it will only be made possible by the freely available credit.

"While real spending power has declined, personal income taxes have increased since the State now tends to rely more and more on the middle class to subsidise the lower class," said Mr Hellberg.

But the statistics show another story, say the economists. The only people who can justifiably claim to being worse off are the "illegal" blacks working in the white areas, according to Mr Iraj Abedian, a lecturer at the University of Cape Town School of Economics.

"Everyone else has benefited from the rapid economic growth experienced in South Africa.

"There has been a more equitable distribution of income between black and white resulting in a narrowing of the wage gap and a definite improvement in black wages.

"Whites are about 20 percent better off than they were 20 years ago. In real terms there has been betterment rather than deterioration.

"There is a larger selection of consumer goods available, the quality is more reliable and more sophisticated and there are vastly improved social services provided by the State.

"The young people complain that they don't have the same chance of owning property that their parents had 20 years ago. Our parents worked for six months and were then able to buy a house.

"That's out of the question now and young people are at a big disadvantage unless they have access to a housing subsidy. But this is to be expected with the growing demand for housing.

"It's a false expectation for a youngster to think that because his father owns a house in Constantia he will one day do the same.

"South Africa can't provide that and the public will have to learn to accept that development means pain for some and alleviation of pain for others," said Mr Abedian.

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BURO VIR MARKNAVORSING • BUREAU OF MARKET RESEARCH

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Ref.: 9/6/2 (84.3)

23 May 1984

NEWS RELEASE

FOR RELEASE ON: 27 MAY 1984

The Bureau of Market Research of the University of South Africa has just released a report entitled FORECAST OF RETAIL SALES FOR 1984.

The Bureau does not share the optimism of many other forecasters regarding a considerable increase in real private consumption expenditure in 1984. Owing to unfavourable conditions on the labour market and pressure on profits, it does not expect significant increases in salaries and wages. The fiscal drag and possible tax increases (which materialised sooner than expected due to the recently announced increase in GST) and possible other measures to reduce consumption expenditure in order to protect the balance of payments, will further contribute to a marginal increase, at best, in private consumption expenditure. In the circumstances the Bureau foresees a mere 0,4 % increase in retail sales in real terms.

This slight increase in total retail sales will affect sales differently in the 18 merchandise groups distinguished in the study. The sharpest increase is expected in sales of television sets and radios, sports and entertainment requisites, books and magazines, and diamonds and jewellery as against an expected drop in sales more particularly of alcoholic and non-alcoholic beverages, men's and boys' clothing, household appliances and other domestic furnishings.

Of total retail sales, whites are expected to command 46,2 %, blacks 40,0 %, coloureds 9,1 % and Asians 4,7 %. The dominance of the non-white consumer market is clearly evident from these figures. Whites will have relatively the largest market share in 12 and blacks in 6 of the 18 merchandise groups.

Details of expected monthly sales are also given in the report.

The forecast is presented against the background of an assessment of the inter= national and national scenario and a critical review of previous forecasts.

Those who wish to prepare their own forecasts will be particularly interested in the detailed and conveniently arranged analysis of the position of retail sales within the framework of national accounts and the ratio of retail sales to selected macro-economic magnitudes. This information can be used to prepare correlations between such magnitudes, which are available from secondary sources, and their own sales.

The report (Research Report No.110) was compiled by Professor F.E. Rädel and is obtainable from the Bureau of Market Research, UNISA, P O Box 392, Pretoria 0001.

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Truths about capitalism must be repeated

A defence of capitalism, adapted from a paper by HENRY HAZLITT, noted American economist and author. It was published by the Foundation for Economic Education

NINE-TENTHS of what is written today on economic questions is either an implied or explicit attack on capitalism. The attacks are occasionally answered. But none of the answers, even when they are heard, are ever accepted as conclusive.

The attacks keep coming, keep multiplying. You cannot pick up your daily newspaper without encountering half a dozen. The sporadic answers are lost in the torrent of accusation. The charges or implied charges outnumber the rebuttals 10 to one.

What is wrong? Does capitalism, after all, have an indefensible case? Have its champions been not only hopelessly outnumbered but hopelessly out-argued?

We can hardly think so if we recall only a few of the great minds that have undertaken the task of defence, directly or indirectly, in the past — Hume, Adam Smith, Ricardo, Malthus, Bastiat, Senior, Boehm-Bawerk, John Bates Clark — or of the fine minds that have undertaken it in our day — Ludwig von Mises, F A Hayek, Milton Friedman, Murray Rothbard, Hans Sennholz, Israel Kirzner, David McCord Wright, and so many others.

What, then, is wrong?

Most of us, at the sight of extreme poverty, are moved to want to do something to relieve it — or to get others to relieve it. However, all the popular political measures to reduce or relieve poverty are more distinguished for their age than for their effectiveness.

For example, the major effect of minimum wage laws is to create unemployment, chiefly among unskilled workers. We cannot make a worker's services worth a given amount by making it illegal for anyone to offer him less. We merely deprive him of the right to earn the amount that his abilities and opportunities would permit him to earn . . . we drive him on to the dole.

The propensity of politicians to learn nothing about economics is (also) illustrated in the laws governing foreign trade. The classical economists of the 18th century utterly demolished the arguments for protectionism. They showed that the long-run effect of protective tariffs and other barriers could only be to make production more inefficient, to make consumers pay more and to slow down economic progress. Yet protectionism is nearly as rampant as it was before 1776, when 'The Wealth of Nations' was published.

From all the dismal history (of price controls) the governments of today have learned absolutely nothing. They continue to over-issue paper money to stimulate employment and 'economic growth'; and then they vainly try to prevent the inevitable soaring prices with ukases ordering everybody to hold prices down.

But though price-fixing laws are always futile, this does not mean that they are harmless. They can do immensely more economic damage than the inflation itself. In addition to causing scarcities of some commodities, and bottlenecks in output, price control must eventually distort and unbalance the whole structure of production.

Good intentions

In brief, ignorance, shortsightedness, envy, impatience, good intentions, and a Utopian idealism combine to engender an endless barrage of charges against 'the system' — which means against free enterprise.

And so the return fire, if free enterprise is to be preserved, must also be endless.

In 1828 Goethe wrote in a letter to Eckermann: "The truth must be repeated again and again, because error is constantly being preached round about us. And not only by isolated individuals, but by the majority. In the newspapers and encyclopaedias, in the schools and universities, everywhere error is dominant, securely and comfortably ensconced in public opinion which is on its side."

Similarly in economic thought today, the need to keep repeating the truth has assumed an unprecedented urgency. What is under constant and mounting attack is capitalism — which means free enterprise — which means economic freedom — which means, in fact, the whole of human freedom.

For as Alexander Hamilton warned: "Power over a man's subsistence is power over his will."

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S-Express 27/5/84

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THE BIG STRETCH

HOW THE GOVERNMENT IS SPENDING THE COUNTRY TO RACK AND RUIN

The Financial Mail this week lucidly spelled out the folly — indeed the recklessness — of the government's handling of economic affairs. The Sunday Express reprints the FM editorial in its entirety as a public service because it highlights the political dangers into which the country is drifting

WHAT is the real message that is coming through from the anguished protests over the increase in GST?

There are good economic arguments for the increase in present circumstances. But clearly they have not been widely persuasive.

There are two points that come to mind. Neither of them reflect well on government in general or the Cabinet in particular.

First, the public outcry over the GST rise suggests a growing public sensitivity to rising prices, whether they be individual prices or a general inflationary upsurge.

That, plus the continued drawdown of savings, is a clear indication that Jan Publiek has not been convinced that government will curb inflation sufficiently to protect either his living standards or his capital.

And if Jan is not convinced, you can bet your bottom dollar that the politicians and businesmen soon won't be either. Once that happens, support for the market-orientated policies of Finance Minister Owen Horwood and Reserve Bank Governor Gerhard de Kock is going to begin evaporating.

Direct controls

Even if they are undoubtedly the right policies, politicians will want to see more results — and faster. If they don't, the pressure is going to be on for a return to direct controls, which, if reimposed, will bring other inflationary disasters. For, quite simply, they are going to be even less effective than market-orientated ones; but it will take time for this to be seen. In the interim they could be extremely damaging.

Pretoria is paying the price now in the form of reduced credibility for not implementing its market-orientated policies with sufficient vigour. It should, for instance, have allowed interest rates to rise even higher than a 21% prime and left the rand to find its own level in the foreign exchange market. It is all very well to argue that the drought upset matters. But even in Pretoria it is well known that ultimately it will rain. While the farmers probably needed help, did they need so much that anti-inflation policies were put in jeopardy?

Second, there could be good reason for the public's inflationary expectations. The fact is that Horwood's March Budget has not come across as being appropriate to the reduced circumstances of the country. Not only is government planning to spend more than we as a nation can afford, but there is pervasive doubt that it will discipline itself adequately even to these inflated spending limits.

Moreover, even if spending is held to the Budget limits, the consequent deficit that must be covered by borrowing is extremely large: 3% of the value of total output. Its size alone is going to make difficult monetary discipline on the scale needed to stabilise prices.

As IMF MD Jacques de Larosiere says: "The reduction of fiscal deficits is a crucial challenge in the pursuit of non-inflationary growth . . ."

A higher GST, by reducing demand and encouraging parsimony, will make this easier. But a higher GST is not perceived by the public in that light. It is seen as a means of raising additional revenue to fund official profligacy. Whether that be true or not, is beside the point. When faced with inflationary expectations, it is the perception that counts.

And, indeed, it may be that fears of official profligacy are not unfounded. Looking at the country's reduced circumstances, even since the Budget, there is good reason to suspect that official spending levels are too high.

Clearly, Horwood has been let down by his Cabinet colleagues. Budgeting is a question of determining spending priorities against broad economic and social policies. If these are determined by a cohesive Cabinet, chances are that greater discipline and equity will prevail. Patently there was in March a dogfight in the Cabinet for resources, and Horwood found himself having to base his financing of the outcome on a gold price that has proved to be too high.

The mystery is why, in his 10th Budget, Horwood allowed this to happen. Perhaps the answer lies in his pending retirement and replacement by Hendrik Schoeman, the number two in the Cabinet, a leading maize farmer and a former Minister of Agriculture who believed in removing surpluses by raising prices.

If Schoeman does take over, his first task must be to regain control of official spending and begin pruning, even if that means another Budget this year. The huge sums wasted on regional development must be scrapped. School fees should be charged for all white pupils and market-related pay differentials introduced to the pay scales of teachers in government schools. Teachers' salary increases should be withheld until this has been done.

Greater accord

Defence is another area that must be reassessed in the light of greater accord with our neighbours. The size of the public service must be reduced in the interests of efficiency and economy.

And that, radical though it may seem, is really only the start of what needs to be done and done quickly. For once inflationary expectations are as entrenched as they are here now, only severe measures will remove them. And once the tricameral parliament begins, control of public sector finance could turn out to be a nightmare.

The plain fact of the matter is that unless strong anti-inflationary measures are taken very soon, then Pretoria has either not heard correctly the anguished cry from taxpayers over the GST rise, or, for reasons of its own, it has chosen to ignore it.

If you think that Pretoria will come short for whatever reason, you still have an option: put everything you have into hard assets. Because the chances are that we're soon going to be locked into an inflationary spiral, to break out of which will require a superhuman effort.

● **Editorial comment: see facing page**

RDM 29/5/84 (49)

Company liquidations soar 31% in first quarter

SOUTH AFRICAN consumers are not the only ones sliding increasingly into debt.

An analysis by Dun & Bradstreet of figures released yesterday shows company liquidations rose 31% to 746 during the first quarter of this year compared to the same period last year.

According to Central Statistical Services figures the number of companies liquidated in February reached 289 — the highest in 39 months.

The value of civil judgments against businesses for debt, another indicator of problems in the business sector, showed an increase over the first two months of 1984 of 50% to R4,6m against the same two months last year. In February alone, judgments for debt reached R2,7m (R1,8m).

Commenting on the statistics, Dun & Bradstreet's managing director, Mr Alan Mankoff, said businesses should take greater care in checking clients' credit-worthiness.

"Past performance can no longer be depended on to ensure prompt payment of debt," added Mr Mankoff.

Many businessmen fell into the trap of relying on references provided by the prospective customer. More time and care spent in checking credit accounts would cut defaults.

"It will also cut the time the company is forced to wait before receiving payment for goods. Having to wait for 120 days at today's interest rates can result in a serious erosion of profits."

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How Trust Bank was 'saved'

CAPE TIMES 29/5/84

49

Staff Reporter

BIG-BUSINESS support prevented the Trust Bank from going under a few years ago, the chairman of Sanlam, Mr Marinus Daling, said yesterday.

He was speaking at a lunch-time seminar at the University of Cape Town on the concentration of economic power in South Africa. The other speaker was Professor Brian Kantor of the university's School of Economics.

"The Trust Bank would not have been here today if Sanlam had not stepped in," Mr Daling said.

He said the intervention of Sanlam had been necessary, too, because the economy was at a critical point and would have been badly affected by the collapse of the Trust Bank.

Question

The difficult question to answer was "When does size become bad?"

There was greater competition in a market where there were three or four strong groups than in a fragmented market.

A University of Pretoria study had also shown that inflation could not be attributed to concentration of economic power.

Mr Daling said the process of concentration of economic power would continue in future and would be in the interests of South Africa.

As a member of the Competitions Board, Professor Kantor said, he was concerned with the efficiency and the individual's freedom of choice.

Constitution

The preamble to the new constitution, he said, proclaimed the idea of effective competition which best guaranteed efficiency and choice.

Professor Kantor quoted the South African Transport Services as an example of an unit which did not make for effective competition.

Conglomerates were not yielding the same dividends for investors as they would have received had they invested through a diversified institution.

"They are becoming less valuable than the sum of their parts."

GROUP NO 15
Transvaal 2
Moodie and Golino (251)
Moodie and Golino (252)
Bopape (65)
Graaff (60)
Parnell and Mabin (62)

GROUP NO 16
Qwaqwa
Beukes (230)
Bank (282)
Sharp and Martiny (286)
Spiegel and Sharp (52)
Niehaus (297)

GROUP NO 17
Relocation
*Platzky (73)
Claassens (74)
Donald/Kerchoff (75)
*McLennan (76)
Haysom and Armstrong (
Mfenyana (78)

GROUP NO 18
Protecting Jobs
Haysom and Thompson (8
Webster (111)
* Nupen (117)
Maree (122)
Turner (283)

GROUP NO 19
Health A
Jacobs (179)
Disler (186)
Mann (191)
Raynal (280)
Roberts and Ripp (254)

GROUP NO 20
Health B
Von Schirnding (180)
Yach (181)
Moola (183)
Steyn (184)

Hold-ups are 'reflection of economy'

By Mike Simpson,
East Rand Bureau

A security expert has warned that if overseas trends are an indication, South Africa can expect an increase in violence in armed robberies.

Mr Frank Sims, executive director of an international security company, said that last year in South Africa armed hold-ups of banks and building societies were one of the most common crimes.

"There were more than 200 hold-ups, robberies and attempted robberies at financial institutions, agencies and large cash depots," he said.

Addressing a seminar of the South African Security Association in Kempton Park yesterday, Mr Sims said numerous factors contributed to the increase in this type of crime.

"Economic downturns are said to bring about an increase in crime, especially of the spontaneous kind. Armed robbery is a comparatively unsophisticated crime, and is especially easy in South Africa where access to a firearm is no problem.

"Cash is also a highly attractive commodity for the amateur as it needs no 'fencing' (illegal selling).

"The ease with which these hold-ups appear to be carried out may also inspire others.

"But it is the vulnerability of the target that first points the criminal in their direction, and there are hundreds of relatively unprotected local branches, sub-branches and agencies of large financial institutions."

Mr Sims said numerous security measures were available, but these had to meet certain requirements. The most important was that it should allow the normal customer transaction to proceed smoothly.

Conflicting requirements were that managements wanted to protect customers and staff-cost effectively, while maintaining an environment conducive to friendly business transactions.

The most common method of protection at present was an alarm or electronic warning system which could be activated without the criminal's knowledge. But these depended on instant reaction by police or security officers — and the teller, who could be too shocked or frozen with fear to raise the alarm.

Mr Sims said the arming of male staff members or the employment of security guards was also popular. But the success of this depended on staff being well trained in their reaction — and also raised the possibility of a shoot-out involving innocent people.

Mr Sims said one of the most effective security methods available was a fixed-counter screen, a variation of the pay-windows or audio-acoustic pay-stations used for several years. This was a deterrent and made threats against staff ineffectual.

"Whatever the security system chosen by managements, it will of necessity have to be a compromise, a combination of a number of measures. Protective counter screening, a panic alarm alert, surveillance cameras combined for the security of people and property, will be the almost ideal solution, which hopefully will go a long way to making the target extremely unattractive to the bandit," said Mr Sims.

(49) The Star Wednesday May 30 1984 7

ARGUS 1/6/84

Horwood warns of tighter control

49

Argus Foreign Service

LONDON. — Tight controls over public spending and tougher deflationary measures in an additional budget later this year, were forecast in London today by South Africa's Minister of Finance, Mr Owen Horwood.

With the Government daily awaiting the latest report from the International Monetary Fund Mr Horwood is clearly under great pressure to show that he is keeping the Budget deficit under control.

"I am sensitive to accusations that the Government is spending freely", Mr Horwood said at a breakfast meeting in the South African Embassy. "The Treasury is absolutely persuaded of the need for discipline in spending."

One of the conditions imposed by the IMF on its R950-million loan is that the Treasury monitors spending by all Government departments on a month-by-month basis.

Mr Horwood spoke of the tremendous pressures on the Governmnent to curtail spending. It was almost impossible to budget for the cost of drought aid, food subsidies and Defence emergencies, he said.

Subsidies on bread alone had cost R275-million. As a result "it will be impossible to avoid an additional budget later this year."

Not sensitive

However recent measures to raise the General Sales Tax from seven to 10 percent would be a major factor in keeping the economy on an even keel, Mr Horwood predicted.

"The public is simply not as sensitive to high rates of interest as one might expect", he said, in what was a clear attempt to excuse the enormous interest burden now being borne by Government following heavy borrowing in the domestic markets last year.

The Government had deliberately borrowed heavily as a deflationary measure to take some of the excess spending power out of the domestic economy, Horwood explained.

But it had not foreseen that consumer demand would have continued at such a level that interest rates were steadily pushed up.

Nevertheless, Mr Horwood pointed to some encouraging signs in the economy and said that the Government would not need to draw down the remaining R350-million credit it still has with the IMF.

He also spoke optimistically about the reactions of international financiers to South Africa and predicted little difficulty in raising international capital.

With the IMF peering over his shoulder Mr Horwood is visibly hoping for an improvement in the price of gold.

But although he spoke hopefully about world political and economic turmoil creating an "upward pressure on gold" he admitted that gold seemed less sensitive to world upheavals these days and he did not see the price moving up sharply in the immediate future.

Weekend Argus BUSIN
CAPE TOWN, JUNE

Horwood spells out requirements for SA expansion

w/e ARGUS 2/6/84 89

Weekend Argus Foreign Service

LONDON. — The Minister of Finance, Mr Owen Horwood, spelt out here the requirements that will have to be fulfilled before the South African economy can be allowed to expand.

He also announced that his department was planning to supervise more closely the activities of South African banks in overseas markets.

Speaking at the opening of a branch of the Trust Bank in London this week, Mr Horwood said South Africa could not afford a strong upswing in domestic demand unless it was also accompanied by an increase in exports or by a rise in the gold price or by an inflow of long-term capital into the country.

South Africa was reluctant to make an excessive use of short-term finance to cover any protracted deficit on the current account of the balance of payments.

There had been some encouraging signs from the industrial countries of increased demand for basic metals, minerals and other commodities that the country exported.

For many third world countries this might provide some relief that would enable them to meet some of their more pressing international commitments.

"For South Africa we see in it an opportunity that will enable us to embark on a new phase of expansion."

As in the past foreign investment would again play an important role in providing finance for the new phase of expansion.

The Reserve Bank had told the commercial banks that it would not provide foreign exchange cover for them after September 1986.

This meant that the forward foreign exchange market would have to develop outside the Reserve Bank, and it provided a great incentive for the South African banks to expand their presence and activities outside the country.

This could be only to the advantage of South Africa.

However, the greater internationalisation of South Africa brought with it greater responsibility, both for the banks and for the Bank Supervisory Office.

He urged South African banks to conduct their foreign operations even more meticulously than those of domestic branches subsidiaries.

Mr Owen Horwood, Minister of Finance

Representative

"A foreign branch is not only an extension of a bank but also a representative of the country of its parentage."

In line with the spirit of the Basel Concordat the Government accepted full responsibility for the capital adequacy of South African banks and also their foreign activities.

The Registrar of Banks would soon define more clearly the minimum capital requirements for foreign activities.

He and the Reserve Bank were cooperating closely with the Bank of England to ensure adequate supervision over the activities of banks operating in the two countries.

EXAMPLE 14 INDIRECT HOLDING AND INSOLVENT SUBSIDIARY

Strategy outlined for black vehicle market boom

(49) E. Post 9/6/84.

By LOUIS BECKERLING
Business Editor

RETAILERS of high-ticket durable goods may take a leaf from the dissertation which gained for motor industry executive Mr Ian Thomas a Master of Business Leadership degree from the University of South Africa.

"It is suggested . . . that the next upturn should herald the start of the era when black purchases of passenger vehicles will constitute a worthwhile segment of the market.

". . . it would appear prudent to set marketing plans in action now during the current recession . . ."

The comments are included in a paper titled *A Marketing Strategy for the Expected Growth in Black Purchases of Motor Vehicles*, one of four dissertations presented by Mr Thomas in support of his MBL.

Reviewing his industry, Mr Thomas highlights the salient characteristics of the manufacture of vehicles and their potential market (and, no doubt, broader parallels may be drawn with other industries).

He notes that the country has more manufacturers than are economically justifiable, and underlines this with a staggering set of statistics:

At the launch of Phase 3 of the local content programme (January, 1971), there were 11 manufacturers producing 110 variants for a 200 000-unit market; today there are 10 manufacturers with 220 variants in a 300 000-unit market.

This level of unit demand, he notes wryly, is equivalent to "the volume produced by the smallest division of General Motors in the United States in a good year".

With the limitations of market size aggravated by escalating local content requirements, manufacturers, he argues have been suffering severely.

"It is estimated that collective losses were running at up to R50 million per annum in the '70s."

(At a recent seminar held in Port Elizabeth a speaker from Ford (SA) Pty Ltd said return on Ford's South African capital was some 30% lower than would be expected from comparable investment levels in the US.)

"In truth it has been stated that there is room for no more than four or five manufacturers, so there must be another reason for them all remaining," observes Mr Thomas in his paper.

"This is to be found in the market potential that the black buyer offers."

And what is that potential?

- An analysis of the demographics of the SA market shows the black population increasing by 76% from 20,4 million to 36 million betweem 1980 and 2000.

- Disposable income of blacks will increase by 64,7% during the same period, compared with 32,5% for whites.

- As a result of these trends and the associated changes in lifestyle, the Board of Trade and Industries estimates that car ownership among blacks will increase 551% over this period, compared with 88% for whites

Having argued the case for a strategy to exploit this burgeoning market, Mr Thomas proceeds to a conventional "swat" analysis and isolates a number of recommendations:

- The target market should be narrowed to younger and better educated blacks in the PWV area

In support of this contention, Mr Thomas points out that of the current population of 20 million blacks, nine million are in urban areas with nearly seven million of these in the PWV area.

"If 30% of these are in the age group 18 to 34 (the HSRC estimates this will rise to 75% by the year 2000) . . . then we are looking at a prime target of two million in the PWV area with a further 0,75 million in the other urban areas."

- No manufacturers have developed products specifically for the black market, and indeed there is great danger inherent in doing so, as such black-tailored products are generally rejected as deliberately inferior.

- However, given the considerable cultural divide between whites and blacks and problems of differing perception of marketing campaigns, he suggests "a new and separate system for marketing plan development be set up".

- More detailed suggestions regarding advertising include the observation that these should be vigorous and action-packed, of the "show-and-say" variety, informative, and generally avoid symbolism (much of which is too often interpreted literally, as with the documented case of Black Cat peanut butter perceived as a jar containing cat meat).

Considering the implemention of his theories, Mr Thomas observes that the next economic upturn presents manufacturers with an opportunity to launch such a new strategy.

Regarding organisational structure he emphasises that a separate marketing section responsible for the black market should be established.

"This should be staffed by professionals and not, as so often happens, by salesmen who see themselves as marketeers or persons from other disciplines who fancy themselves in marketing because of their product knowledge.

"This section should, if possible, contain some qualified blacks, not as window-dressing, but to gain insight into the culture of the market, and facilitate communications."

The first job of the new section would be data collection and "this will involve quite extensive market research as there is very little in-depth information available off the shelf.

Collection via direct observation is "not a feasible technique for high-ticket items; mail questionnaires are cheap but contain a significant degree of error; telephone interviews are fast and inexpensive but too few blacks have telephones, and this leaves individual, or panel interviews. Panel interviews are expensive, and individual interviews are preferred".

Having observed black mistrust of tailor-made products, Mr Thomas offers little specific advice on product differentiation, other than observing that product availability should dictate strengths.

Disitribution, he argues, should take place from within the "white" areas as opposed to within black residential areas.

(129)
O'Dowd (130)
Vilakazi (131)
Le Roux (132)

(49)

NEW BOOK PUTS GIANT SOUTH AFRICAN GROUP UNDER THE MICROSCOPE

'Growth of Anglo is a product of apartheid system'

DR DUNCAN Innis ... highly critical analysis of South Africa's biggest company

By Deon Delport

FORMER Prime Minister John Vorster allowed Anglo American Corporation to continue controlling much of the economy and suppressed a Government commission's findings on the group in exchange for the multi-national's aid in his diplomatic initiatives, claims the author of a new book *Anglo* to be released this month.

In a highly critical analysis of South Africa's biggest company, Dr Duncan Innes, a senior lecturer in industrial sociology at the University of the Witwatersrand, claims the "growth of Anglo is a product of the system of apartheid".

Given Anglo American's enormous economic power, Dr Innes asks how the company has used its economic and political influence to maintain the status quo or bring about change, and he concludes: "There is no evidence Anglo wants fundamental change."

An Anglo American spokesman comments: "AAC's efforts in working towards a merit-based society in South Africa are a matter of record.

"Mr Oppenheimer, when chairman of the corporation, stated that our profits, far from being bolstered by apartheid, would be higher in its absence."

The book says that in 1964, under Prime Minister Hendrik Verwoerd who was in favour of Afrikaner Nationalists taking over the economy, a Government commission was established to look at the group's strength and influence in the country's economic and political life.

"The Hoek Commission tried to look at Anglo as I attempted to do, in detail, and to analyse where its power bases were and to what extent it controlled the economic resources of the country.

"Hoek saw this as running against the interests of Afrikaner Nationalism because what the Afrikaners wanted was to control the economy.

"It was all very well for Sir Ernest Oppenheimer to hand Gencor over to Afrikaans interests to give them a share in the gold mines, but that was not enough.

"The commission tried to identify what economic areas Anglo controlled and then to raise the spectre of Hoggenheimer control of the economy.

"Unfortunately for the commission, Verwoerd was killed and John Vorster, with a much more pragmatic approach, came to power.

"Unfortunately for the commission it overlapped with Vorster who was looking for a deal, and part of the deal was that the Hoek report be suppressed."

Anglo has since acted as an "informal diplomatic service" for the Government through its large-scale investments in Southern Africa.

Current Anglo leadership has said although the Nkomati Accord is important, the stablising influence comes from the economic links that are forged, Dr Innes says.

"Anglo plays a tremendously important role here because it has massive investments in Zimbabwe and Zambia, large investments in Namibia, and very significant investments in Botswana and Swaziland.

"But the question is: Are these sort of links going to bring about stability and does that mean these links will play a part in coercing African states to accept the status quo in South Africa or that through these links Anglo will press for change?"

Dr Innes claims a group as powerful as Anglo has been ambiguous in the extent to which it has tried to bring about change.

"Anglo has taken quite a progressive position in regard to labour relations and pushed for higher wages for mine workers in the 1970's, against the opposition of other mining groups.

"I feel that Anglo does not go nearly as far as it could do and when you look at it, it is not doing anything that goes significantly counter to Government policy.

"Anglo's recognition of black unions went hand in hand with the Government's Wiehahn Commission recognition of unions. It has never gone out in advance and taken up a stand on this.

"During the period of the Sharpeville unrest and flight of international capital, Anglo stepped in and bought up shares of disinvesting companies.

"Anglo stemmed the tide by showing the international business community the company had faith in the Government's capacity to see the crisis through," Dr Innes says.

Summing up his findings on the nature of Anglo American and its relationship to South African capitalism, Dr Innes concludes: "Yet if over the past century Anglo American and South African capitalism have achieved an awesome degree of power it is as well to remember that in the process they have created a countervailing force which may well have the potential to wrest that power from them.

"The capitalist class which developed the world's largest goldfields has also produced the largest proletariat in Africa."

An Anglo American spokesman said: "As Dr Innes's conclusion indicates, his analysis of the economic history of South Africa is from a particular intellectual standpoint.

"Mr Relly (current chairman of Anglo), in speaking to the Free Market Foundation in Cape Town in August last year, said: 'We can no longer afford to be held back by policies that serve only the narrowest of sectional interests. We cannot allow the free enterprise system to be honoured more in the breach than the observance in so vital a matter as the freedom of movement of South Africans of whatever colour.'

"As to Dr Innes's remark that Anglo has never taken up a stand on the issue of black unions, Mr Oppenheimer in July 1974, in advance of the Government, urged the appointment of an expert commission to make proposals for trade union representation of all workers in South Africa. At the time the Government dismissed his suggestion. It appointed the Wiehahn Commission three years later, in August 1977."

[redacted]

Mercury 12/6/84 (49)

The next 16 years

Major economic reforms needed to avert crisis

THE LOOMING crises of the 21st century have been a theme on which the Progressive Federal Party's finance spokesman, Mr Harry Schwarz, has concentrated in speeches over the past few months. In an interview in Cape Town with Political Correspondent CHRIS FREIMOND Mr Schwarz explained his concern for the future.

SIXTEEN years ago the Orwellian era seemed a distant concept reserved for the realm of science-fiction writers.

South Africans were preoccupied with 1968. The nation was stunned when an SAA Boeing crashed near Windhoek killing 122 passengers and crew.

The State President-elect, Dr T E Donges died. Mr Jim Fouché became State President.

South Africa's second heart-transplant patient, Dr Phillip Blaaiberg, was discharged from Groote Schuur Hospital in Cape Town.

The Vietnam war raged on, mini-skirts were in fashion, the Lions toured the country, Paul Nash ran the 100 m in 10 seconds.

'Those events seemed like just the other day. Isn't it amazing how time flies?' many people say today.

Now, in 1984, South Africa again stands on the threshhold of a significant 16-year period — and the 16 years will, no doubt, again seemingly fly by.

But the challenges for South Africans between 1984 and 2000 are, with little doubt, far greater than they were between 1968 and 1984.

More real

The Progressive Federal Party's chief finance spokesman and MP for Yeoville, Mr Harry Schwarz, likes to urge people to cast their minds back to 1968 to give themselves an idea of the relatively short period between now and the turn of the century.

That almost mystical date — 'the year 2000' — is less than half a generation away.

The warnings and predictions of researchers of the woes that will befall the world — and South Africa — in 'the year 2000' unless urgent steps are taken to prevent the growing problems are becoming more real by the day.

But are the problems being attended to, and is there hope that they can be solved in time?

Mr Schwarz believed not enough attention was being paid to the pending problems, but was hopeful that with sufficient effort looming crises of the near future could be averted.

A greater sense of perspective of 2000 was needed by the decision-makers, he said.

The major crises Mr Schwarz foresaw were in the provision of education, jobs and housing for the country's exploding population.

South Africa's projected population by 2000 would be 45 million of which 34-million would be black. The rate of population growth was greatest among the poorer segment of the population, which happened to be black.

That meant the black population was becoming younger and the white population older.

It was also estimated that by 2000 two thirds of the black population would be urbanised.

Political stability — essential for economic growth and national prosperity — could not be attained unless the majority of people were content.

Mr Schwarz believed contentment generally resulted from the adequate provision of food, shelter, work and the hope among people that their children would be better off than they were. In that regard education was a major factor.

Only half

Political and human rights were important and could not be underestimated. But political and human rights alone had not solved Africa's problems.

Economic reforms were the changes that people felt most, and that was the critical challenge South Africa faced.

In one of the main crisis areas — job-creation — South Africa had fallen far behind the necessary tempo to satisfy demand for employment.

The index of job-creation from 1975 to 1983 was 111,9, only half the comparable index for population growth which stood at about 120, he said.

Figures also showed that the number of jobs created in absolute terms had increased by only about 400 000 between 1975 and 1983.

'Somewhere in South Africa there are great numbers of unemployed poor people, and if the trend continues the pool will grow to enormous proportions in the coming 16 years,' he said.

The slant towards academic rather than technical education was still far too pronounced. The key to Africa was through the development of skilled, semi-skilled and technically qualified workers.

Another significant statistic was that the *per capita* real Gross Domestic Product in South Africa had decreased from R1 042 in 1974 to R1 012 last year. The highest the figure had climbed during the intervening period was R1 105 in 1981.

'This shows that we are not getting to grips with our problems at all,' he said.

Housing

While there had been progress towards improved black education, that movement could in fact aggravate problems if sufficient and satisfying employment was not created for the manpower being produced by schools and other training institutions.

'Education must go hand in hand with job-creation. It is bad enough if under-educated people cannot find jobs, but the emotional and intellectual turmoil is far greater for educated people in the same position, Mr Schwarz said.

Another potential crisis area was housing. South Africa needed 130 000 housing units a year, but that requirement was not being met.

Research had shown that an average annual economic growth rate of 4,5% could finance the housing, education and food demands of the population as projected to 2000.

'But we are not achieving that growth rate and that is where the real crunch is coming,' Mr Schwarz said.

Harry Schwarz

The demands for economic reform would become even greater under the new constitutional dispensation.

People would expect an end to discriminatory social services for their own groups as well as others. A considerable amount of money would be needed to achieve that.

Only a strong free-enterprise economy could provide the extensive social benifits promised by socialist and communist doctrines, and by so doing combat the threat of the other two ideologies.

If the Government said it was not prepared to, or could not, provide the social services demanded by the people it would be playing into the hands of people who wanted to destroy the free-enterprise system, Mr Schwarz said.

That meant the struggle ahead was not only for political reform, but also for economic reform.

Job-creation was a major priority. Jobs had to be created where it was cheapest to do so and where it could be done with the least social disruption. In that respect, aspects of the Government's industrial decentralisation policy were wrong, he said.

Far greater Government incentives were needed for the creation of jobs.

The high cost of 'ideological' job-creation was preventing the solving of a problem, and could be retarding the much-needed generation of economic growth.

South Africa was facing a wave of unemployment. In some foreign countries social stability was ensured during times of mass unemployment by the 'safety valve' of unemployment benifits.

But in South Africa such benifits did not extend to a large section of the working population, Mr Schwarz said.

Many white South Africans were unaware or relatively unaware of the severity of, particularly, unemployment among blacks.

Out of sight

The pools of unemployed poor were generally in homelands and out of sight of the general white public.

There were also whites who were even unaware or out of touch with crisis issues in black townships only a few kilometres away from white areas.

Mr Schwarz said he believed the Minister of Constitutional Development and Planning, Mr Chris Heunis, was aware of the problems facing the country, and had indicated as much.

But if one studied replies to questions by people such as the Minister of Finance, Mr Owen Horwood, it became evident that the Government did not really have a plan to meet the looming crises — particularly unemployment.

The Government was bound by ideology and was unable to make concessions to blacks which could create political problems.

Worried

It was also over-concerned by the white Right-wing reaction to its reform moves and appeared worried that the Rightists would be able to show that white living standards were not as good as they had been.

A few 'timeous sacrifices' and a degree of determination could save the country from he prospect of wealthy ities surrounded by overty-stricken slums.

There need be no jor social disruption d living standards ıld not plummet.

RDM: 17/12/84. (49)

Economists look at SA's worst scenario

Financial Reporter

WERE gold to drop to $250 next year and the maize crop failed again, South Africa's economic scenario would be bleak indeed, say leading economists.

South Africa is obviously hugely dependent on gold.

However, the agricultural disasters of the past few years have hammered home the importance of this sectors' contribution to the economy.

According to Professor Gert de Wet, of Rand Afrikaans University's economics department, the success of this season's maize crop is a more important variable than a decline in the gold price.

"While a drop in the gold price might have certain advantages in the medium to long-term — it will lead to an increase in exports and curtail expenditure — another crop failure is too horrific to contemplate.

"We can cope with a drop in the gold price, although it would obviously require much belt-tightening."

He said a another crop failure would force SA to import maize again, leading to additional pressure on the country's balance of payments.

Instead of starting to repay their debts, farmers would be "going to the wall". The effect on the financial system would be catastrophic.

"It is hard to imagine what the psychological effects on farmers and the unemployed would be."

Mr Adam Jacobs, of Volkskas, said the largest direct influence of a fall in gold and an agricultural disaster, would be on the balance of payments.

This, in turn, would mean upward pressure on both exchange rates and interest rates.

He said if the exchange rates did not give way, it would be easier to control inflation. However, if they did collapse, the potential for inflation would be that much greater.

"In practical terms, the country will be poorer and everyone will have to learn to adjust their standard of living."

Standard Bank's, Mr Andre Hammersma, said a further gold slide would make the process of adjustment much more difficult.

A decline in the price would seriously affect SA's foreign exchange earnings and would lead to higher interest rates.

"The prospects for an improvement in our economic situation would be lost. Government spending would come under pressure because of the need to assist farmers, and the rand would look very sick indeed."

Mr Rudolf Gouws of Nedbank, described what would happen as follows:

- The exchange rate would fall sharply;
- Short-term interest rates would rise;
- The domestic economy would contract and go into deep recession;
- GDP would decline and imports would "come off";
- There would be a deficit in the balance of payments;
- Every South African would experience a degree of impoverishment.

Prime rises to 24% as economic woes deepen

49

STAR 17/12/84

By Trevor Walker

The major commercial banks raised their prime overdraft rate to 24 percent this morning, barely a month after the overall pattern of interest rates had been pushed lower by the authorities ahead of the Primrose by-election on November 29.

The latest upward move in rates could signal the beginning of the end for certain consumer-oriented firms that were forced to increase stocks and advertising budgets ahead of the December season.

The business community has been abuzz recently with rumours of certain major retailers being under cash flow pressures and this turnaround in the direction of interest rates will only lead to increased speculation.

The outlook for the balance of payments on the current account appears to have worsened because of the poor prospects of a meaningful maize crop this season.

Although it is still a little early to predict the eventual crop, the industry has begun to adopt a gloomy attitude and while certain growing areas have had good rains, the overall rainfall position this season has been less than adequate.

The latest fall in the gold price — this morning to below \$320 an ounce — and the possibility that the country might have to import from R1,5 billion to R2,0 billion worth of maize next year has virtually eliminated hopes for a similar surplus on the current account next year.

The quarterly bulletin from the Reserve Bank issued last week showed that the economy had begun to slow quite substantially in the last quarter of this year.

The authorities were hopeful that, because of this, the demand for money would begin to slow markedly and that pressure on interest rates would continue to ease.

But, with the prospect of yet another dry agricultural season and a poor outlook for gold, the squeeze is back on the money market.

The Reserve Bank obviously cannot afford to adopt too accommodative a stance and the banks have thus been forced to increase the cost of money.

The upward move in interest rates also means that hopes for some early relief next year in the bond rate has now disappeared.

The pressure on the property market will continue and the introduction of the "perks tax" next year will only add to the woes of the market.

Most economists agree that the Reserve Bank must continue with its tight monetary policy and that this approach might help to convince the politicians that substantial cutbacks in government spending is a must if the country is not to go the way of Israel.

Hyper-inflation is a terrible thing and the transition, says economist Dr Frank Shostak, can be swift and worse — virtually unstoppable once it starts.

South Africa's inflationary problems have worsened in the last year while its major trading partners have moved to even lower rates of increase.

On Friday the appalling message of hyper-inflation was graphically spelt out.

The UK announced that the inflation rate had fallen to 4,9 percent for the 12 months to November from the five percent for the 12 months to October.

Later in the afternoon it was announced in Jerusalem that the inflation rate in Isreal had "slowed" to 19,5 percent for November alone and the rate for the 12 months to November had been above 450 percent.

Without doubt, inflation is South Africa's Enemy No 1.

Slump will prevail

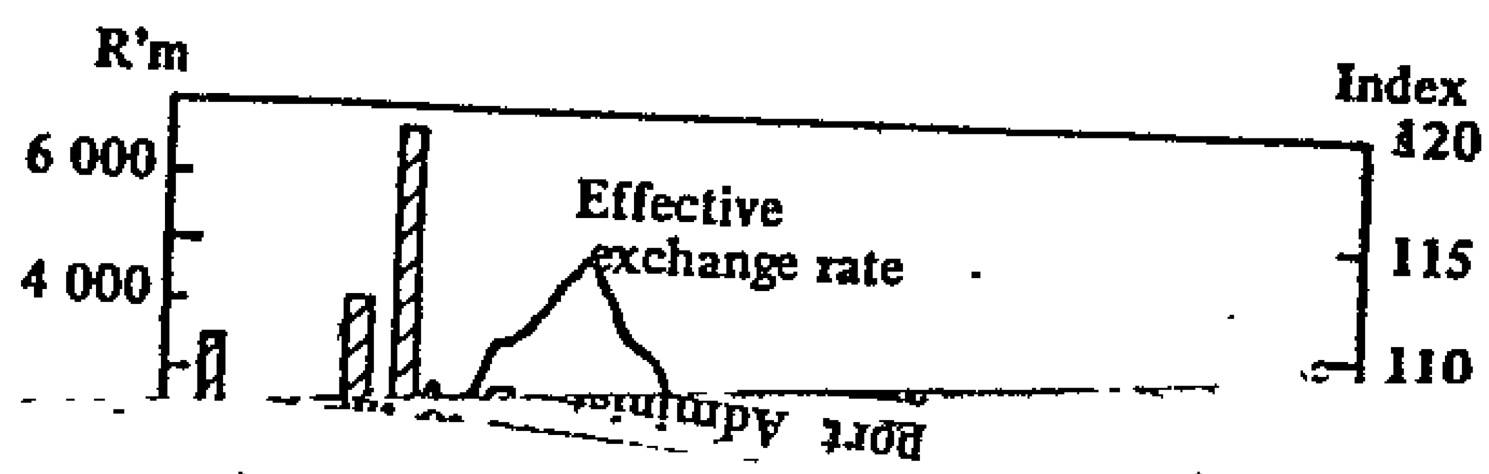
By Duncan Collings

Commenting that the downturn in general economic activity is far more serious than indicated by available statistics, Sanlam says that it believes that poor business conditions will prevail until late 1985.

Sanlam says in its December Economic Survey that the months ahead will make great demands of both the businessman and consumer.

"Nevertheless, it is an essential adjustment process to rectify imbalances in the economy and to prepare it for the next upswing — which may commence in the second half of 1985," Sanlam adds.

It is important that the stringent restrictive measures should not be relaxed too rapidly. If this were to happen, South Africa would once again merely experience a premature and short-lived upswing.



Downturn far more serious than shown by statistics

(49) E. Post 18/12/84

CAPE TOWN — The downturn in the South African economy is far more serious than indicated by available statistics, according to Sanlam's latest economic survey.

The survey says that as information regarding most short-term economic indicators is relatively outdated, the various time series do not yet fully reflect the sharp downturn in economic activity currently being experienced.

"For example, the official coincident business cycle indicator — which is a good reflection of prevailing economic activity — as yet shows no signs of the turnabout which the economy has experienced since mid-1984," it says.

While the contraction is not equally evident in all sectors, "the slowdown is widespread and is intensifying in some sectors of the economy."

Sales of durables such as cars have been hardest hit by the hike in GST, higher interest rates and more stringent hire purchase conditions.

Similarly retail sales reflect the weaker economic conditions. Sales of furniture and household appliances have been severely affected.

The survey predicts that poor business conditions will prevail until late 1985, and that the months ahead will "make great demands of both businessman and consumer".

"Nevertheless it is an essential adjustment process to rectify imbalance in the economy and to prepare it for the next upswing — which may commence in the second half of 1985."

It is important, the survey says, that the stringent restrictive measures should not be relaxed too rapidly. "If this were to happen, South Africa would once again merely experience a premature and short-lived upswing."

Manufacturing production adapted slowly to the weaker economic climate and initially continued to expand at a reasonably high rate whereas sales volumes had already started falling off perceptibly.

This will lead, the survey says, to, among other things, a considerable accumulation of inventories.

The survey says that although the production and consumer price indices are not directly comparable — the former, for instance, does not include the cost of services — it may nevertheless be accepted that increases in production costs will filter through to consumer prices.

"The recent course taken by production prices therefore has ominous implications for prices in 1985."

The survey also says that:

- It seems that the underlying improvements of the past few months in the current account of the balance of payments has continued and that a relatively large surplus may be expected in the last quarter of this year.
- While the external value of the rand will improve moderately in the next 12 months, it is clear that a significant and sustained appreciation of the rand can only follow in the wake of a significant decrease in the Republic's inflation rate.
- Sanlam believes that interest rates have reached an upper turning point and that the downward trend will continue to at least the end of 1985.

As regards long-term interest rates, the sustained high inflation rate and the continued high inflationary expectations will definitely have a restraining effect on the underlying decreasing tendency in these interest rates. — Sapa

New levies 'may hit SA hard'

RDM 20/12/84

Growing fears on economy

49

By CHRIS FREIMOND
Political Correspondent

CONCERN mounted yesterday in opposition and business circles that the Government's latest proposals for financing local authorities could cause further setbacks to South Africa's ailing economy.

Two of the Progressive Federal Party's most senior finance spokesman slammed some of the moves, and the Associated Chambers of Commerce expressed concern that the overall tax burden would be unfairly increased.

Additional sources of revenue for local authorities were announced by the Minister of Constitutional Development and Planning, Mr Chris Heunis, in Cape Town on Tuesday.

They included a levy on salaries and wages, a levy on GST collected, and a levy on floor space occupied by professions and industries not collecting GST.

The PFP's Transvaal leader and finance spokesman in the Transvaal Provincial Council, Mr Douglas Gibson, said in a statement yesterday that the proposals indicated that the Nationalists were unable to think rationally about the economic situation in South Africa.

The proposed "payroll tax" could lead to increased unemployment at a time when the country could least afford it, he said.

The party's parliamentary finance spokesman and MP for Yeoville, Mr Harry Schwarz, expressed "serious doubts" about levies based on salaries.

The proposed measures acted as a disincentive in the areas in which it was easiest to create jobs.

"The payment by the public sector of a tax on its own employees merely means the taxpayer must finance this payment, and is really a State subsidy which increases Government expenditure," he said.

The levy on goods subject to GST and a tax on floor space by those not paying GST amounted to an increase in GST at a time when inflation was a major problem.

Mr Gibosn said the payroll tax penalised employers and discouraged them from offering employment at a time when unemployment was running high, and the indications were that it would increase in the next year or so.

"In a country like South Africa, the Government should be doing everything possible to assist in the creation of job opportunities. The last thing it should be doing is making it more difficult for employers to keep people in jobs," he said.

Although employers had been told that the payroll tax would be tax-deductible, it was probable that they would pass it on to consumers, which would have the same effect as an increase in GST, he said.

The proposals had not been referred to or debated by Provincial Councils which had a special interest in local government. This neglect was reflected in the "half-baked" proposals put foward on Tuesday, Mr Gibson said.

The president of Assocom, Mr Michael Weir, said the proposed additional burdens on the private sector were "inopportune and ill-timed".

"Although Assocom fully

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'More may lose jobs'

□ From Page 1

supports the principle of optimal devolution of power and decision-making authority to the appropriate organs of local and regional government and recognises that funds are required to finance urgently-needed improvements to infrastructure, local services and urban transportation, the association nevertheless considers the imposition of additional tax burdens on the private sector to be inopportune and ill-timed in the light of the current economic recession," he said.

Both Mr Weir and Mr Schwarz believed the additional tax proposals should have been referred to the Margo Commission on tax structures.

"Assocom is further of the view that any additional forms of taxation should be offset by corresponding reductions in other sources of public sector revenue so as to obviate an overall increase in the tax burden on the community.

"The new taxes will inevitably lead to increased costs and higher prices as the business community cannot be expected to fully absorb the levies against already hard-pressed profit margins," Mr Weir said.

However, Mr Heunis' announcement that blacks would be included on the proposed regional services councils was welcomed by most political spokesmen and observers yesterday.

RDM 21/12/84

49

Worse ahead as inflation hits 13,2%

By ANDREW DUNCAN

SOUTH Africa's inflation rate soared to 13,26% for the year to November, according to Consumer Price Index statistics released yesterday.

The inflation rate has reached its highest level in 20 months, confirming economists' predictions that it would push past the 13% level by the year-end.

There's worse to come because the general opinion of a number of economists interviewed yesterday is that inflation rate will continue rising in December and January.

The main reasons for the jump are the weak exchange rate for the rand, the low gold price and the July increase in GST.

The year-on-year inflation rate rose from 12,48% in October. And for the year to November 1983 the inflation rate was 10,59%.

Economists say the December figures will be even higher and there is no reason to believe the inflation rate will start falling in the new year.

The 10% increase in electricity tariffs from January and rumours of increases in GST and the cost of fuel, effectively rule out any such decrease in the rate of inflation.

Mr Adam Jacobs of Volkskas said the high inflation rate was the price South Africa had to pay for its lack of financial discipline. He said it could go higher in the near future especially if the price of fuel went up.

He urged householders to learn to lower their standard of living as people did not seem to be aware of the serious economic position.

"They are not prepared to exercise financial discipline as is evidenced by the decrease in personal savings and the continued desire to live on credit.

Mr Rudolf Gouws of Nedbank said: "This underlines the real need for tight monetary policy. The authorities' austerity measures were only applied in the third quarter and it is still too early to tell if they are succeeding.

"While the December figures will be even higher, the rate of inflation should start to 'come off' by the second quarter of next year."

● See Page 10

D Dispatch 31/12/84 (49)

Bank forecasts a bleak year ahead for SA

PRETORIA — Growing unemployment, a possible increase in the inflation rate and an expected deficit in government accounts will be the country's major economic problems next year.

The Volkskas bank newsletter, Economic Spotlight, painted a grim economic picture for the country next year, with the balance of payments not recovering to the extent that it can accommodate a marked recovery in the economy.

The newsletter warned consumers of price increases in foodstuff as a result of the drought.

A surprisingly high growth rate of about 3,5 per cent was expected for this year, despite the relatively poor agricultural year. The growth rate in the first half, of six per cent, was unusually high.

Economic growth during the first six months of next year was expected to be poor.

Domestic demand was expected to be depressed for the greater part of next year, but after the second quarter higher exports and a drop in imports may bring about an improvement in the gross domestic product. Economic growth was expected to be generated largely by agriculture, mining, and the supply of electricity, gas and water.

Gold sales were expected to bring about R12 650 million next year. This will bring a credit balance of almost R2 000 million on the balance of payments compared with the expected deficit of more than R1 000 million this year, the newsletter stated.

The substantial depreciation in the external value of the rand against the American dollar may lead to an increase in the inflation rate next year. — DDC

Economic growth of PE region in '83 SA's highest

E Post 12/6/84 49

By LOUIS BECKERLING
Business Editor

ECONOMIC activity in the Port Elizabeth region last year outstripped that in the remaining regions — doubling the overall increase for the country as a whole.

This encouraging news is contained in the latest Bureau for Economic Research (BER) bulletin, Trends.

The University of Stellenbosch statistical analysis monitors a range of economic indicators and then consolidates these into a "weighted regional economic activity level indicator".

It is this consolidated index which, in Port Elizabeth's case, shows an increase from 134,6 in January last year to 146,1 in December — representing a 15,7% increase in economic activity in the region (albeit in some cases from a particularly low base, as the more detailed statistics on which the indicator is based show — see below).

By contrast the index of activity for the country as a whole rose 8,5%.

Second-best regional performer was Durban, narrowly behind Port Elizabeth with activity indices up 14,5%, followed by Johannesburg (8,4%), Cape Town (5,8%), and Pretoria (3,6%).

In its brief commentary prefacing the statistical displays, the BER observes that following a low point in 1982, its indices then "exhibited strong upward trends — particularly true of Port Elizabeth and Durban".

Among the activities monitored is the value of building plans passed, which, observes the BER "show very clear trends".

"All the individual indices started to increase in 1982, some of them are still increasing, whilst the majority started declining in mid-1983.

"Regions which are still very active in this sphere are Durban and Port Elizabeth."

A closer look at the indices referred to in the commentary shows that in the first half of 1983, the value of building plans passed in Port Elizabeth rocketed by 90% (compared with the countrywide average of 43%). A second-half slump common to all regions saw values of proposed buildings fall 18% from June's index of 108 to 89, to end the year 56,1% up.

It should be noted, however, that this surge in activity took place from a base which was lower than any other region in the country (an index of 57, contrasted with 80 for the country).

A measure of the value of buildings completed shows that Port Elizabeth builders enjoyed far better fortune than their colleagues elsewhere in the country: average growth was 20,5% (from January to December), and by contrast the (deflated) value of buildings completed in Port Elizabeth rose 158% during the year.

Only Pretoria, with an increase of 127% in the index measuring the value of buildings completed came close to matching this performance, with the remaining regions all ending the year in single figure growth rates (excepting Cape Town, with 14,6%).

Another indicator monitored by the BER is passenger car sales and, ironically, the "motor town" performed relatively poorly in this respect: the index opened in January at 92 and closed in December at the same level — after rising 12% to 103 in June.

For the country as a whole the first half of 1983 saw a 16% increase in sales of passenger cars, followed by an 8% slump in the second half, to leave the index 7% up for the full 12 months.

What Port Elizabethans didn't spend on cars, however, they evidently spent in retail stores — boosting the index in the process by a massive 83% from January's 87, to December's 160 (which was considerably higher than that measured elsewhere in the country).

On a more ominous note, the BER indicators also measure the number of civil debt summonses issued, and in a this respect Port Elizabeth is also something of a leader, having shown a 30,7% increase during the year compared with only 3,4% for Johannesburg, 23% for Cape Town, and 23,4% for the country on average.

Nedbank reports 31% jump in company liquidations

(49)

RDM 20/6/84

By BRENDAN RYAN

COMPANY liquidations increased 31% during the first quarter compared with the first quarter of 1983, according to the latest Nedbank economic round-up.

They reached a record level of 289 in February. There was also a sharp increase in the number of civil summonses for debt as well as in the value of debt judgments.

The number of summonses declined during most of 1983 but after October started to increase and rose by 17% to February.

The value of debt judgments rose to a record level of more than R23m in February, 29% up on a year previously.

The Nedbank report says these are legacies of the large increase in consumer borrowing last year. It describes the financial position of consumers as precarious.

"Consumers are faced with interest rates at record highs both in nominal and real terms, fiscal drag on personal incomes as well as higher indirect taxes.

"Business has to face the poor outlook for final demand and also increases in the rate of corporate taxation. The substantial first-quarter increase in company liquidations is one indication of business conditions becoming tougher."

The report says SA cannot really afford the upswing it has been enjoying since the middle of last year.

The economy is now slowing down because the essential preconditions for an upswing to be sustained and become a fully-fledged cyclical revival were and still are largely lacking.

"South Africa's foreign reserves and the exchange rate are under pressure and the country's foreign debt, after being reduced admirably in the second half of 1982, has been rising again."

The upswing was triggered off by the easy availability of credit and was very strong.

According to Nedbank, real gross domestic expenditure rose at an annualised rate of about 16% over the second half of 1983 while real gross domestic product expanded at a rate of about 8% — a rate which has been exceeded in only one six-month period during the previous upswing.

Nedbank says the main weakness of the upswing was that it was not preceded by the solid recovery in exports which marked all other post-1945 upswings.

"Even by the third quarter of last year exports were still declining, at an annual rate of around 20%, and only in the fourth quarter did they start to show the first response to the international economic recovery.

"Further, the export strength that was evident in the fourth quarter of last year was not maintained in first four months of this year."

The import bill was boosted by the revival in economic activity and the need to import maize which meant the current account of the balance of payments returned to deficit late last year.

Government revenue was not boosted, as it typically is, by taxes on the rising profits in the export sectors which is part of the reason for tax rates going up at a time when they are normally reduced to add momentum to the economic upswing.

Nedbank says this phase may be nearly over as the spending and production revival is beginning to ease. The correction that will follow need not be protracted.

Consumer spending and private sector fixed investment may not slip back into a recession as severe as that of 1982 and early 1983 but the most optimistic outlook at present is for consumer spending and private sector fixed investment to hold at current levels through the rest of this year.

This should slacken demand for imports and stop the import bill rising while improved export earnings and a higher gold price could bring about a return to a current account surplus late this year.

Private sector credit demand should also weaken and under these conditions interest rates should start to ease after mid-year.

"In this way the economy will be made ready for a sustainable upswing phase that will begin during 1985," the report says.

FINANCE

SA growth slows to 4 percent — Reserve Bank

ARGUS 49
20/6/84

PRETORIA. — South Africa's economic growth has slowed to 4 percent and the Government's more restrictive monetary policy is likely to make itself felt still further, according to the South African Reserve Bank's quarterly bulletin.

Real gross domestic product fell to a seasonally adjusted 4 percent annual growth rate from an 11 percent increase in the last quarter of 1983.

However, the Reserve Bank said the slowdown was neither unexpected nor unwelcome as it represented largely a reaction to policy actions to slow growth in demand.

Moreover, the Government's more restrictive monetary policy was likely to assert itself more fully in the economy in the months ahead, it added.

It said the rapid rise in real gross domestic spending from mid-1983 and the resulting economic recovery were welcome, but could not be sustained without a rise in non-gold exports or an increase in the gold price.

In the first quarter this year there were declines in the real product of the construction sector and wholesalers and retailers, excluding the motor trade.

INVENTORIES

But these were offset by increases in other sectors, with motor vehicle sales very buoyant.

The Reserve Bank said real gross domestic spending rose at annual rate of 9 percent in the first quarter after a 16 percent gain in the final 1983 quarter.

The slowdown was caused by a slower rise in fixed investment and a smaller change in the level of real inventories.

Gross domestic savings, which grew steadily from the second quarter of 1982, fell to 22 percent of real GDP in the first quarter from 25 percent in the third 1983 quarter. — Reuter.

CAPE Times 21/6/84 (49)

Company liquidations up 31% — Nedbank

Own Correspondent

JOHANNESBURG. — The number of company liquidations increased 31 percent in the first quarter of 1984 compared with the first quarter of 1983, according to the latest Nedbank economic roundup.

The Nedbank report says company liquidations reached a record level of 289 in February while there has also been a sharp increase recently in the number of civil summonses for debt as well as in the value of debt judgments.

The number of civil summonses for debt declined in most of 1983 but after October started to increase and rose by 17 percent to February.

The value of debt judgments rose to a record level of more than R23m in February which is 29 percent up on a year previously.

The Nedbank report says these are legacies of the large increase in consumer borrowing last year and the financial position of consumers is precarious.

Interest rates

"Consumers are faced with interest rates at record highs both in nominal and real terms, fiscal drag on personal incomes as well as higher indirect taxes.

"Business has to face the poor outlook for final demand and also increases in the rate of corporate taxation. The substantial first quarter increase in company liquidations is one indication of business conditions becoming tougher."

The report says South Africa cannot really afford the upswing it has been enjoying since the middle of last year.

The economy is now slowing down as the essential preconditions for an upswing to be sustained and become a fully-fledged cyclical revival were and still are largely lacking.

Foreign debt

"South Africa's foreign reserves and the exchange rate are under pressure and the country's foreign debt, after being reduced admirably in the second half of 1982, has been rising again."

The upswing was triggered off by the easy availability of credit and was very strong.

According to Nedbank, real gross domestic expenditure rose at an annualized rate of about 16 percent over the second half of 1983, while real gross domestic product expanded at a rate of about eight percent — a rate which has been exceeded in only one six-month period in the previous upswing.

Nedbank says the main weakness of the upswing was that it was not preceeded by the solid recovery in exports which marked all other post-1945 upswings in the South African economy.

"Even by the third quarter of last year exports were still declining, at an annual rate of around 20 percent, and only in the fourth quarter did they start to show the first response to the international economic recovery.

"Further the export strength that was evident in the fourth quarter of last year was not maintained in first four months of this year."

South Africa's import bill was boosted by the revival in economic activity and the need to import maize which meant the current account of the balance of payments returned to deficit late last year.

Government revenue was not boosted, as it typically is, by taxes on the rising profits in the export sectors which is part of the reason for tax rates going up at a time when they are normally reduced to add momentum to the economic upswing.

Nedbank says this phase may be nearly over as the spending and production revival is beginning to ease. The correction that will follow need not be protracted, the bank believes.

Consumer spending and private sector fixed investment may not slip back into a recession as severe as that of 1982 and early 1983 but the most optimistic outlook at present is for consumer spending and private sector fixed investment to hold at current levels through the rest of this year.

Business Day BDM 21/6/84 (49)

Salaries rise but savings stay low

By HAROLD FRIDJHON

SALARIES and wages rose during the fourth quarter of last year and the first quarter of 1984 but personal savings remained at a low level, according to the Quarterly Bulletin of the Reserve Bank.

"There was a considerable acceleration of the increase in salaries and wages in the fourth quarter of 1983 that continued in the subsequent quarter.

"This mostly reflected large salary adjustments in the public sector."

In the business sector the net operating surplus actually declined.

Gross domestic saving, which had grown steadily from the second quarter of 1982 and had attained a level equal to 25% of gross domestic product in the third quarter of 1983, regressed in relative terms to 22% of GDP in the first quarter of 1984.

Except for the provision for depreciation, all components of gross domestic savings declined. General Government savings were negative during the quarter.

The steady deterioration of the savings performance of the Government reflected an excess of current expenditure, mainly consumption expenditure and interest payments on public debt, over current income in the form of mainly direct and indirect tax receipts.

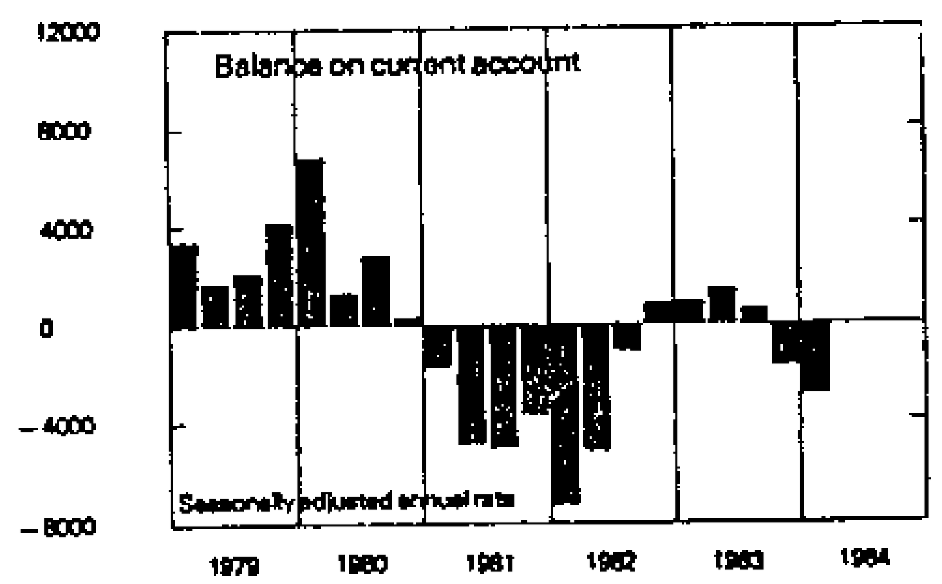
The decline in corporate savings in the first quarter was related to the fall in net operating surplus.

"The ratio of personal savings to personal disposable income remained at the low level of 2,5%, to which it declined in the fourth quarter of 1983.

"Among the reasons for the low level of the personal savings ratio were the effect of the drought on property income, the upsurge in consumer spending and the financing of such expenditure to an increasing extent by means of consumer credit, and the high cost of servicing the growing level of consumer debt."

● **Fixed Investment:** Real private fixed investment showed its third consecutive quarterly rise and the rate of increase in the first quarter was moderately higher than in the preceding quarter.

This resulted from a sharp rise in fixed investment in the mining sector and from increases in fixed capital outlays in agriculture and manufacturing.



This graph from the Reserve Bank's Quarterly Bulletin shows the marked decline in the current account of the balance of payments. After being in surplus for four quarters from the last quarter of 1982, the current account swung into deficit in the final quarter of 1983 and went deeper into the red in the first quarter of this year.

Private manufacturing recorded its first increase since the last quarter of 1982.

Partly offsetting these increases, real private fixed investment in residential buildings and other fixed capital outlays in the financial sector — finance insurance, real estate and business services — declined in the first quarter.

● **Inventories:** Positive real investment was particularly evident in the case of industrial and commercial inventories. In real terms, the levels of these inventories increased for the first time in eight quarters.

● **Employment:** Non-agricultural employment, seasonally adjusted, started to rise in the second quarter of 1983.

In the fourth quarter, this increase gained momentum, particularly in the private sector. Employment by public authorities maintained an upward trend throughout 1983.

● **Wages:** Salaries and wages per worker rose by 12,4% in 1983, a rate of increase that was considerably below 1982's 18,6%. In real terms, the increase in the average remuneration per worker decelerated from 3,5% in

The increased level of imports, which contributed to the depreciation of the rand, exerted new upward pressure on prices.

At a seasonally adjusted rate, the increase in consumer prices accelerated from 9,8% in the fourth quarter of 1983 to 12,5% in the first quarter of 1984.

Measured over a 12-month period, the increased slowed down from 11% in December to 10,2% in March 1984.

Subsequently it accelerated to 11% in April because of the rise in transport and postal tariffs and a sharply higher rate of increase in food prices.

Production prices, over a 12-month period, slowed down from 7,9% in December 1983 to 17,1% in April 1984.

The increase in imported goods prices, included in the production price index, accelerated from 3,9% in December to 4,9% in April, reflecting mainly the effect of the depreciation of the rand.

● **Capital movements:** There was a net outflow of R114m in capital in the first quarter of 1984, consisting of a net long-term capital inflow of R233m and a net short-term outflow (not related to the reserves) of R347m.

The net inflow of long-term capital came from foreign borrowing of R131m by SA Transport Services and Post and Telecommunications and net purchases of R194m by foreigners of JSE-listed securities.

This inflow of long-term capital was partly offset by an outflow from the Treasury and the banking sector.

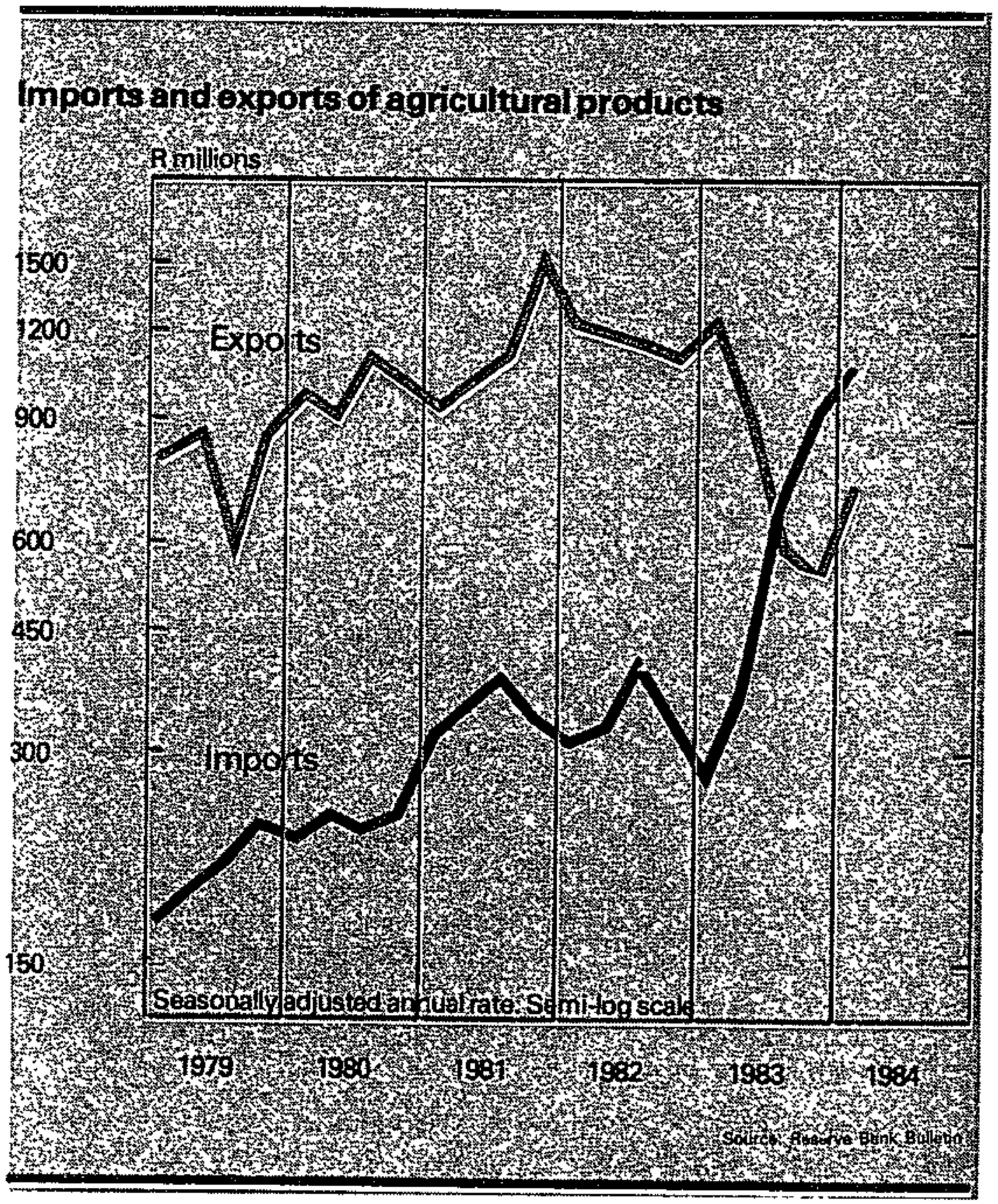
The net outflow of short-term capital apparently reflected unfavourable "leads and lags" in foreign payments and receipts, based on expectations that the rand would continue to depreciate for the time being.

1982 to 0,2% in 1983.

Labour cost per unit of production, which had risen by as much as 19,8% in 1982, increased by 12,8% in 1983. Real output per worker in the non-agricultural sectors of the economy — a measure of labour productivity — declined by 0,3% in 1983, compared with the decline of 0,9% in 1982.

Rdm 21/6/84 (49)

Worse before better, says Reserve Bank



The toll which the drought has taken of the balance of payments is shown in this graph. Agricultural exports have declined but agricultural imports have risen sharply as maize and other cereals have had to be imported.

By HAROLD FRIDJHON

THE current restrictive monetary and fiscal policies are likely to be felt more fully in the economy in the coming months, the Reserve Bank says in its latest Quarterly Bulletin.

In the short term, consumer demand for durable goods (motor vehicles, furniture and white goods) and semi-durables (clothing, household textiles and the like), will probably show a sharp temporary increase before the higher GST becomes effective.

After that, the increase in domestic expenditure may well taper off and, depending on the gold price and the strength of exports, the present rate of real economic growth may then regress to a lower level before resuming a more sustainable upward course.

During the second half of 1983 real gross domestic product rose, by 6% annualised in the third quarter and 11% in the fourth quarter. In the first quarter of 1984 it increased again by 4%.

This slowdown of the upswing reflects both a decline in the volume of exports and a lower rate of increase in real domestic expenditure.

The drop in export volume, after an increase in the fourth quarter, resulted in the sluggish demand for SA goods, in spite of the economic recovery in most industrialised countries.

The slowdown in real domestic expenditure was a reaction to a deliberate policy to retard the growth in demand.

The Government's deficit before borrowing had been funded in a manner which did not increase money supply, interest rates had been allowed to rise, and the GST was raised from 6% to 7% in February.

The rise in real gross domestic expenditure from about the middle of 1983 could not be sustained in the absence of a more distinct increase in non-gold exports and/or gold price.

In the fourth quarter of 1983 the previous surplus on the current account of the balance of payments was transformed into a deficit of R1,9bn at a seasonally adjusted annual rate — largely because of a surge in imports at a time when the gold price declined.

In the first quarter the deficit grew, at a seasonally-adjusted annual rate, of R2,9bn because of a further rise in imports, with exports flagging.

The weakening balance of payments was reflected in a renewed depreciation in the value of the rand. In the eight months to May 1984 the rand depreciated by 11% on average in terms of other currencies.

Another undesirable effect of the premature economic upswing was a reversal of the slowdown in the rate of price increases. In the first quarter both consumer and production prices went up, partly as a result of the depreciated rand.

● See Page 2

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It's a problem of split personality

(49) ARGUS 25/6/84

Financial Editor Derek Tommey

The drop in the gold price, the need for greatly increased government spending in order to provide the necessary services for the country's growing population and the possession of one of the highest rates of inflation in the Western World are among the major problems facing South Africa today. In this article and others tomorrow and on Wednesday The Argus Financial Editor DEREK TOMMEY presents these problems as seen by some of the country's top economists and looks at some of the solutions they have suggested.

HOW serious are South Africa's economic problems? Is the country going bankrupt? Is it heading for a recession? Can the rand fall any further? These are some of the questions many South Africans are asking in the light of the recent spate of mainly depressing and frightening economic news.

There is no doubt the economy gives considerable cause for concern. One of the country's rising stars in the economic scene, Mr A J Jacobs of Volkskas, says that seldom if ever has the economy been in such dire straits as it is at present.

As evidence he cites the decline in real gross domestic product for the second year running, the growth in unemployment, the double digit inflation, the deficit on the current account of the balance of payments, the drop in the value of the rand and fall in consumer savings.

Beyond its means

The Reserve Bank, the guardian of the economy, also has had some distressing news to report. South Africa at present is living beyond its means to the tune of R2,9-billion a year, it says.

This is a sharp deterioration from last year's position when South Africa was able to show a small surplus of R275-million.

The bank blames the increase in the balance of payments deficit on higher imports and a slight decline in exports, and a rise in net service payments to foreigners.

Yet the picture is not all one of gloom and doom. The motor trade has reported that new car sales last month were the second highest on record. And as a result of an upsurge in buying ahead of the 3 percent increase in general sales tax on July 1, the trade is expecting to set a new sales record this month of 31 000 cars.

This is not an indication of a flagging economy. Neither are the latest plant capacity utilisation figures which are at their highest level since 1982.

There are also other signs of fairly buoyant business conditions. The Reserve Bank has reported that the economy is still growing at about 4 percent which is not too far from the economy's optimum rate.

Though manufacturing output in April was lower than just before Christmas, it is still some 2 per cent higher than a year, Central Statistical Services reports.

Finally, an indication that confidence in the economy is still at an extremely high level is the latest figure for banks advances. These show that South Africans borrowed almost R3-billion from the commercial banks in the first four months of this year, increasing their indebtedness to the banks by more than 17 percent.

These reports of growth and no-growth, of increased spending and reduced savings, of deteriorating economic conditions and increased borrowing, clearly show an economy with a split personality, suffering from much more than mild schizophrenia.

Messy

Professor Jan Sadie, Stellenbosch University's urbane and distinguished economist, this week summed up the situation in one word — "messy".

Economists blame this situation mainly on three factors or problem areas, which though separate are inter-related.

One is the drop in the gold price in dollar terms, a second is the sharp growth in Government spending, and the third and probably the most important, is the high level of inflation.

Gold is South African's most important commodity. It accounts for just under half this country's exports, about 10 percent of its gross domestic product and the direct taxes paid by the gold mining industry finance a good 10 percent of Government expenditure.

Last year the gold price averaged \$423 an ounce. This year the average has been about \$380 an ounce. As a result earnings from gold this year could fall by \$800-million dollars, or by about R1 200-million in South African currency.

So far the mines have been insulated against the lower gold price by the sharp drop in the dollar-rand exchange rate. They are in fact receiving a near-record rand price for their output. Currently they are getting just under R490 an ounce whioch compares with an average price last year of R471,65 an ounce, and with R408,91 an ounce in 1982.

So the gold mining industry has not suffered to any degree from the drop in the gold price. It is in a healthy state and it is still able to more than adequate fill its tradition role of being the economy's prime mover — employing directly almost half a million people, and indirectly giving employment to hundreds of thousands of others.

As long as this position continues, and there seems no reason why it should change, South Africa can expect to remain reasonably prosperous, in spite of drought and other setbacks.

But South Africa cannot expect to escape completely scot free from the drop in the dollar gold price.

The possible loss this year of the \$800-million in foreign currency because of the lower gold price has hurt the balance of payments.

Had the 1983 dollar gold price been maintained, South Africa would not have to contemplate being in the red this year to R2,9-billion, but only to R1,7-billion, which is a much less serious figure.

Unfortunately an annual deficit of R2,9-billion is not one South Africa can tolerate for any length of time.

South Africa could possibly finance this defict with foreign borrowing as its credit rating overseas. But ther authorities are unlikely to do this ash loans have to be serviced and South Africa might find herself in the same troubled situation as Argentine.

Reduce imports

So failing a recovery in the gold price or an increase in other exports, it seems that this country has no choice but to take steps to reduce imports if it wants to avoid a serious balance of payments problem.

As previously employed measures such as import control or increased duties on imports are no longer in favour, this really leaves only one course open to the authorities — to reduce imports by curbing consumer spending.

So the Government decided to increase the general sales tax, for the second time this year, from July 1, but suggesting that were the gold price to recover the increase woulkd be rescinded.

The increase is expected to take R100-million a month out of the consumer's pocket, or R1200-million in a full year.

Unfortunately, the depressant effect of the GST increase on consumer spending seems unlikely to last for long. From December teachers are to start getting a huge pay rise which is said could cost the Government an unbudgeted extra hundreds of millions a year.

So even were the gold price to rise it now seems that the Government's need for funds will ensure that GST remains at its present rates — and could even go higher, along with a great many other taxes.

TOMORROW: What should be done about Government spending.

FINANCE

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'Spurt in economy losing momentum'

Mr Owen Horwood

Argus Correspondent

THE SPURT in the South African economy late last year is losing some of its momentum under the impact of the sustained drought and low gold price and will have to pass through a new consolidation phase before the real export-led and sustainable recovery makes itself felt, The Minister of Finance. Mr Owen Horwood said today.

Speaking in the third reading of the Budget Debate, he said it remained Government policy to control the growth of the money supply and Government spending as far as possible and to keep the budget deficit before borrowing to a level which could be financed comfortably without putting pressure on interest rates or having to rely on money creation.

"The country enjoys an exceptionally high credit rating abroad and is already comfortably on the road to attaining the target of R425-million in new foreign loans which it set itself in the 1984/85 Budget.

The country's debt service ratio, that is, the ratio of foreign debt to the value of exports, is less than six percent, one of the lowest in the world.

He said the economy still faced a difficult period of belt-tightening and adjustment to the lower gold price and drought.

Amazing

That was what the prevailing high interest rates, the depreciation of the rand, and the recent increase in taxation were all about.

Taking to task an article by, what he referred to as a Pretoria based bank, (almost certainly Volkskas), Mr Horwood said to say that the state of the balance of payments pointed to a crisis was nothing short of amazing.

South Africa was a developing country and as such it was normal that there should be a deficit in the current account (which was financed by the inflow of capital).

The annualised deficit in the current account, based on the most recent figures, was about R3-billion — fully one-half of which, over a full year would be contributed by the importation, instead of the exportation of maize.

"A current account defict of R3-billion is a moderate figure, even without regard for the low gold price and the drought, and one which closely approximates the post-war average.

"Under control"

"The balance of payments is fully under control, and does not give rise to anything remotely approaching a crisis."

Turning to specifics Mr Horwood said he had decided to institute a formal Capital Market Issues Committee to provide for a more rational approach to the capital markets from the public sector's side.

This committee would co-ordinate all issues of medium to long-term securities by public sector borrowers, including the so-called tap and secondary market operations. The present loan programme had proved too inflexible.

The committee would be chaired by the Deputy Director-General of Finance and would include a senior representative from the Reserve Bank.

It would in future review on a monthly basis the public sector foreign and domestic loans programme.

Monthly schedule

It would also publish a monthly schedule of approved primary and secondary market operations by all public sector borrowers.

He said in recent months considerable progress had been made in redrafting the Building Societies Act and it was expected the new Bill would be presented to Parliament early next year.

He also said that he has been told by the chairman of the De Kock Commission that its final report should be ready for presentation in the second half of this year.

He said there had been much speculation as to the proposed new form of taxation for local government and that there had even been a report that the revenue so raised would amount to an incredible R2-billion a year to pay for the first phase alone.

"It is preposterous to argue that the new constitutional dispensation for local government will cost R2-billion extra."

He said he had undertaken that all interested parties would be fully consulted before any additional or revised sources of revenue for local government were introduced.

/The Role of Trade Unions

THE ECONOMY—2

More and more taxes on way

Financial Editor

In this, the second of three articles on the state of the economy, The Argus Financial Editor DEREK TOMMEY looks at one of the country's most pressing problems — the need to provide more and better services for its rapidly expanding population. He also looks at some suggestions put forward to ensure that the huge and growing demands on the Government for increased spending does not overwhelm the economy.

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THE great American Benjamin Franklin originated the remark that "in this world nothing is certain but death and taxes." Here in South Africa we should perhaps change it slightly to "nothing is certain but death and increased taxes."

In the past few years the Government's failure to adjust the income-tax rates for fiscal drag and the steady climb in the newly introduced general sales tax have resulted in South Africans becoming one of the highest taxed people in the world.

Yet no relief is in sight. Government officials are busily investigating new ways of taking money out of the public's pockets. Under investigation at the moment are a capital gains tax, an employment tax, a turnover tax and an investment tax.

Housing

The Government makes no excuses for its hunger for tax revenues. It is faced with a huge problem in providing basic housing, health, education and infrastructure requirements for this country's rapidly growing population.

South Africa has one of the fastest growing populations in the world. Demographers estimate that there will be another 14-million people living in South Africa in 16 years time, lifting the population from 26-million to around 40-million. Of this number about half will be below 18 years of age.

These figures may excite businessmen and especially manufacturers of children's goods. But they terrify Government officials.

The number of workers who can be taxed will obviously not grow anywhere near as fast as the number of children in this period, which could mean that government spending could grow much faster than revenue, unless tax rates are further increased and an even heavier burden put on the taxpaying public.

The introduction of the new constitution is also expected to intensify the pressure for greater Government spending.

According to Mr Harry Schwarz, the Progressive Federal Party's spokesman on financial matters, while the cost of the new constitutional dispensation is not known, the direct and indirect cost of the new members of Parliament and their support services is likely to be about R15-million to R20-million a year.

He says under the new constitution it will also be necessary to establish separate departments for social welfare, housing, education, local government, agriculture and water supply which are all "own affairs".

The actual cost of the new departments is likely to be most substantial, he says.

"But then comes the real expenditure. This will flow from the aspirations of the new MPs.

"They are not going to sit in Parliament and vote for less money for services for their communities than is voted for white communities. I also think they will have a strong commitment to see that blacks are looked after as well.

"So the demand for the removal of discrimination in services is going to be very substantial.

Discrimination

"Whereas you can remove discrimination cheaply by taking away notice boards, that is the least of the cost of removing discrimination.

"When you start getting to pensions and education and things of that sort the costs are going to be very substantial.

"So I think there is going to be a major demand on the exchequer in the years that lie ahead."

"In addition, if you look at poverty in the rural areas and the homelands, if you look at unemployment, if you look at the need for infrastructure in the under-development areas, South Africa is a terribly capital-hungry country. Here again the demands on the exchequer are going to be tremendous,"he said.

A danger

South Africans thus face the prospect of a further increase in taxes which could threaten not only living standards but also economic activity.

The Federated Chamber of Industries has warned that further tax increases could endanger the economy.

"What is at stake is whether South Africa wil continue to have a dynamic self-financing business community," it said in a recent statment.

Mr Schwarz echoed this complaint, pointing out that the Government would have to be careful that a private sector was left in South Africa that could actually produce the wealth for the Govrnment to spend.

"You can't spend what you haven't got or you will find yourself in a South American situation"

"You have to leave enough resources for the private sector to produce the wealth, to create the jobs and also to pay the taxes."

In a squeeze

Mr Schwarz said it was necessary for the Government to spend money on services and infrastructure to create stability.

"On the other hand you have to ensure that the private sector can produce enough. So we are in a squeeze,"

He said that in future budgets it would be necessary to devise a system of priorities.

"With limited resources we are going to have to decide on what we can spend — on what is urgent.

The question of fixing priorities so as to ensure that South Africans were not overtaxed and the economy harmed has been carefully analysed by one of South Africa's most respected economists, Professor Brian Kantor of the University of Cape Town.

Borrowings

If South Africa is to maintain its optimum growth rate of 5 percent he believes that Government expenditure and taxes should be related entirely to the underlying potential of the economy.

Government spending should not be more than 25 percent of the potential gross domestic product in any year, he maintains, which is probably the case at the moment.

He also believes that Government borrowings should be limited to 3 percent of GDP.

Financing the 22 percent of GDP spent by the Government would then be a tolerable burden for the taxpayer, he says.

Professor Kantor emphasises that it would be absolutely vital for the stability of the economy that the Cabinet accepted these constraints and were forced to fit their own budgets within them.

These limits would also make it easier for the Cabinet to determine spending priorities and to say no more firmly to requests for funds.

Only in cases of national emergencies should the Government be allowed to deviate from these targets, says Professor Kantor.

"Setting such limits to Government expenditure would provide the appropriate environment for economic growth and the Government could look forward to growth in its budgets which would arise out of the strong growth performance of the economy," he believes.

TOMORROW: The big problem — how to curb inflation.

RDM 26/6/84 (49)

R1bn-a-quarter explosion in consumer credit

By HAROLD FRIDJHON

CONSUMER credit, which now constitutes 56% of total bank credit to the private sector, has been growing at a rate of more than R1bn a quarter in the past three quarters.

Writing in Financial Outlook, a periodic publication by the Discount House of South Africa, economist Ms Sue Kell says the demand shows no signs of slowing.

In the first quarter of last year consumer credit grew by R657m while commercial credit rose by R861m. In the second quarter the positions were reversed — consumer credit increased by R856m while commercial credit rose by only R265m. In the third quarter consumer credit rose by no less than R1,184bn while commercial credit increased by R767m.

The increase of consumer credit in the last quarter of 1983 was R1,39m while the level of commercial credit was virtually unchanged. And in the first quarter of this year consumer credit grew by R1,732bn and that of the business sector by R1,161bn.

This demand for credit is not influenced by the levels of interest rates and appears to depend upon individual expectations about salary increases and inflation.

About 30% of consumption expenditure is now on credit compared with 11% in 1974.

"Half of that 19 percentage point increase is probably attributable to the structural change in the demand for credit, notably in respect of the use of credit cards."

Total debt, including mortgages, now amounts to 56% of annual personal disposable income, having risen from 33% 10 years ago.

The burden of servicing that debt in terms of interest and capital repayments amounts to more than 23% of personal disposable income, marginally higher than the peak reached in the US.

Most of this credit is in the hands of white consumers so that the real debt service burden is probably, in statistical terms, even heavier than the bald figures show.

The immediate consequences of this debt explosion were inflated levels of consumption.

The rise in the ratio of short-term credit, excluding mortgages, to about 20% would have been the result in structural changes in the use of credit, but the real rise to 30% indicates excess demand.

If the ratio had remained at 20%, total consumption expenditure would have been R4bn lower.

The higher level of demand affected the perceptions of manufacturers and wholesalers. The import bill rose prematurely while the rate of increase in consumer prices did not fall as much as that of production prices.

The contribution of credit to the spending power of consumers was not evident right across the full spectrum of purchases. Car sales, although down, were stronger than expected. Sellers of personal computers and video equipment had a good year. Expenditure on rent went up by 28%.

In contrast, the property market did not weaken as much as expected and individuals participated in the extraordinarily strong share market.

"Thus the impact of borrowing was both financial and real."

Looking ahead, Ms Kell says that, unlike the situation in 1977-1978, there will be little pent up consumer demand in the early stages of t[he] next upswing. This means that the hoped-[for] export-led growth may not be transmitte[d to] the domestic economy as fast as in prev[ious] cycles.

Of interest rates, Ms Kell says they [will] ease before the end of the year if there [is a] significant slowdown in the demand for [credit].

If the 10% GST "serves as the cold douche which the Budget did not", t[here is] likely to be a sharp correction in new [credit] taken up and rates will fall.

But if the rise in the GST is seen a[s a] temporary setback, soon to be com[pensated] by inflation-related salary increase[s, the cor]rection will be gradual.

Rand under many-sided sie[ge]

By HAROLD FRIDJHON

FOUR factors are combining to cause weakness of the rand. They are:

- The undiminished strength of the dollar;
- The large deficit in the current account of the balance of payments;
- The double-digit inflation rate; and
- The failure of the monetary authorities to contain the high growth rate of the money supply.

In International Comment, the Standard Bank says the rand has been subjected to intense pressure and there has been limited support by the Reserve Bank to maintain it above $0,76.

Yesterday, largely because of the shortage of dollars, the rand

stay out of the market for the time being.

Importers, on the other hand, would be advised to adopt a high level of cover on dollar payables for the next six months.

On the dollar/foreign currency legs of foreign business, Standard says its view on the dollar remains one of continued strength as long as the professional dollar market is supported by high and anticipated further increases in real interest rates.

In these circumstances, exporters are advised to consider a high cover margin on foreign currency receivables against the dollar for the next three to four months.

Importers who are in a position to monitor the markets could stay out of the market for the time

ing trend, should no[t] out."

Barclays says the [rand has] been losing some grou[nd against] third currencies su[ch as the] pound, yen, mark and S[...]. At present the rand is a[...] against these currenc[ies].

Importers who base [com]mitments directly on t[hese] currencies and do [not go] through the dollar to th[ese curren]cies should not take an[y] regard to cover.

Barclays' view is th[at] of the third currencies will not drop much fur[ther] who did not take any [cover be]fore have missed the [...]

Importers who deal [...] should take fairly high [cover for] at least the next mon[ths].

Exporters could sta[...]

27/6/84

SA inflation rate is accelerating

ARGUS 27/6/84 49

Financial Editor Derek Tommey

In his third article analysing South Africa's economic difficulties The Argus Financial Editor DEREK TOMMEY looks at what is probably South Africa's biggest problem — the continued high level of inflation. He also looks at the need to bring the money supply under control

MANY top economists, including the University of Cape Town's highly regarded Professor Brian Kantor, say inflation is South Africa's biggest economic problem.

They maintain that if the inflation rate could be reduced most of the country's other economic problems would disappear.

Whether they are right or wrong there is no doubt that the South African Government should hang its head in shame every time it looks at its record on inflation. For in most of the Western world — except here — inflation is rapidly retreating.

Only 5%

In Europe, North America and Japan, double digit inflation is just a distant

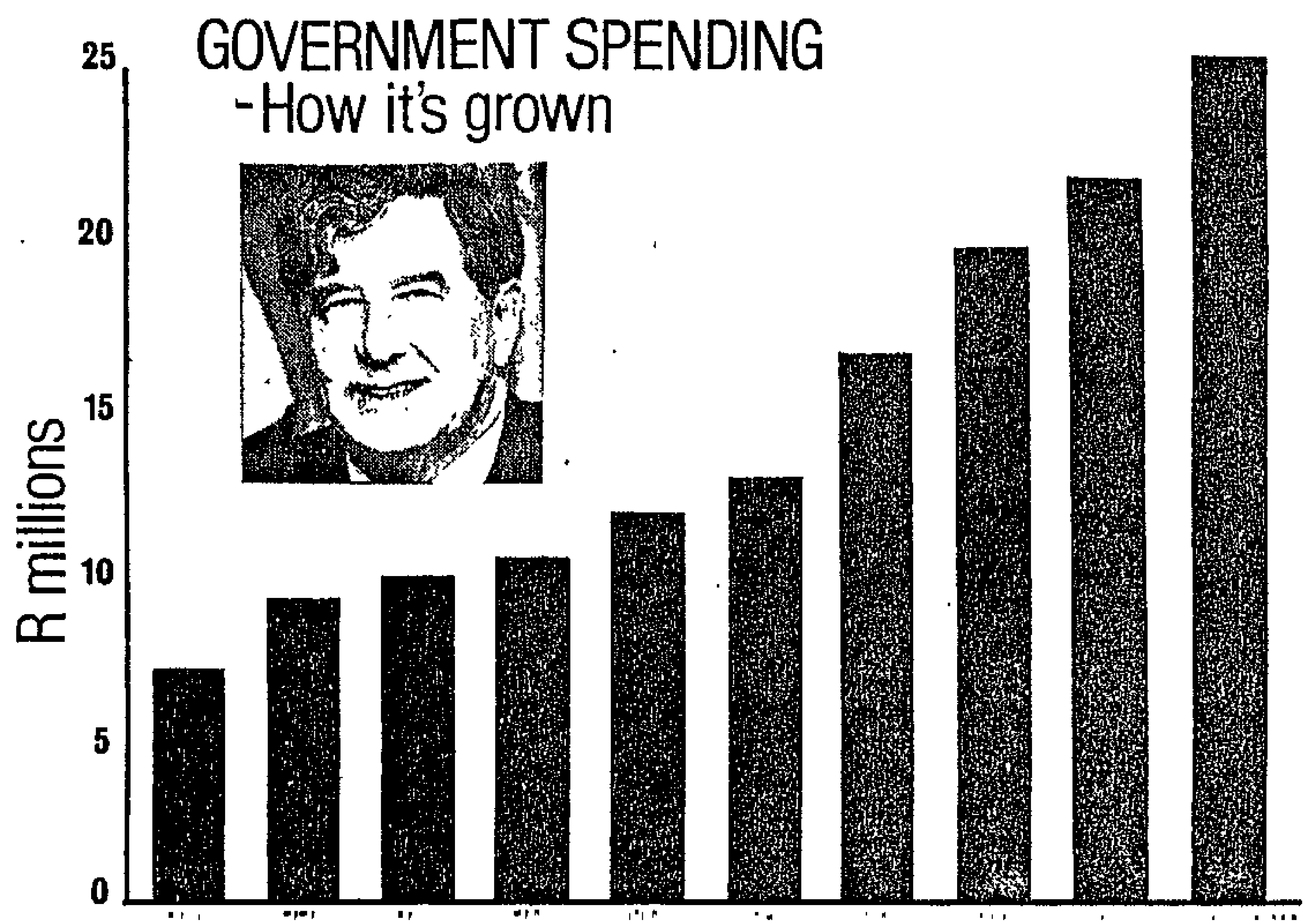
duce jobs and job opportunities. If this process were allowed to go unchecked the eventual outcome would be a stagnant and depressed economy.

Economists put forward different reasons for the cause of this country's high rate of inflation.

Lack of control

Some point to the drought, the high level of defence spending, the high cost of the bureaucracy, to poor management and low productivity, to the high degree of spending on credit and also to the continued decline in the exchange rate of the rand against the dollar.

But while these factors have all contributed to higher prices, it is a moot point whether they can be blamed



Where the blame lies is in the failure of the Reserve Bank to limit the commercial banks' ability to expand their loans and advances, he believes.

"It has long been apparent that the operating procedures of the Reserve Bank are totally inadequate to the purpose of achieving even moderately succesful money supply control," he says."

Reserve Bank officials would probably admit that there is much truth in this claim. In a bid to achieve a more efficient financial system the bank in recent years has stopped relying on direct physical controls to limit the money supply. Instead it has been using indirect means such as open market operations and changes in the rates of in-

Only 5%

In Europe, North America and Japan, double digit inflation is just a distant memory. Most Western countries this year are expecting inflation rates no greater than 5 percent. In the United States prices recently have been rising at an annual rate of around 2,5 percent — the smallest increase since 1967.

Yet in this country the year-on-year inflation rate is almost 11 percent and, far from declining, is again accelerating.

In the first four months of this year prices here were rising at an annual rate of just below 15 percent, and show no signs yet of levelling off.

National disaster

South Africans may have become blasé about such high price increases. But this does not alter the fact that such an inflation rate — which is more than three times that of our major trading partners — is a national disaster.

Most people nowadays know how inflation eats up the money in their pockets and in their savings accounts and reduces their standard of living.

Not so widely appreciated is that a continued high level of inflation in this country at a time when the rest of the world is deflating could put many jobs at risk.

Rising prices reduce the competitiveness of our exports and deter firms from making new investment. Both these developments re-

But while these factors have all contributed to higher prices, it is a moot point whether they can be blamed entirely for the high level of inflation.

Professor Kantor takes a rather different view. He maintains that the basic cause for South Africa's high rate of inflation is the failure of the authorities to control the money supply.

'Until the authorities realise this South Africa will continue to be in trouble," he adds..

He argues that inflation everywhere and at all times is a monetary phenomenon.

"In general, prices cannot continue to rise unless buyers are willing to demand goods at higher prices.

"However, a buyer's ability to spend depends upon the availability of money. A low rate of money supply growth will mean less spending and a lower rate of price increases. It is as simple as that."

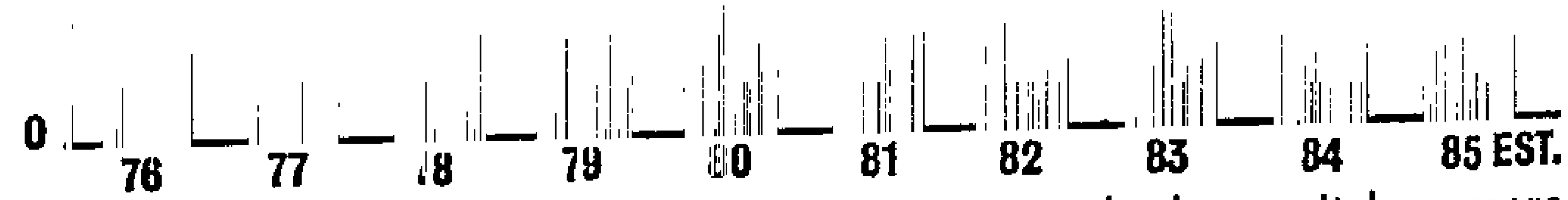
Too much demand

Professor Kantor says inflation is a problem of too much demand, not too little supply.

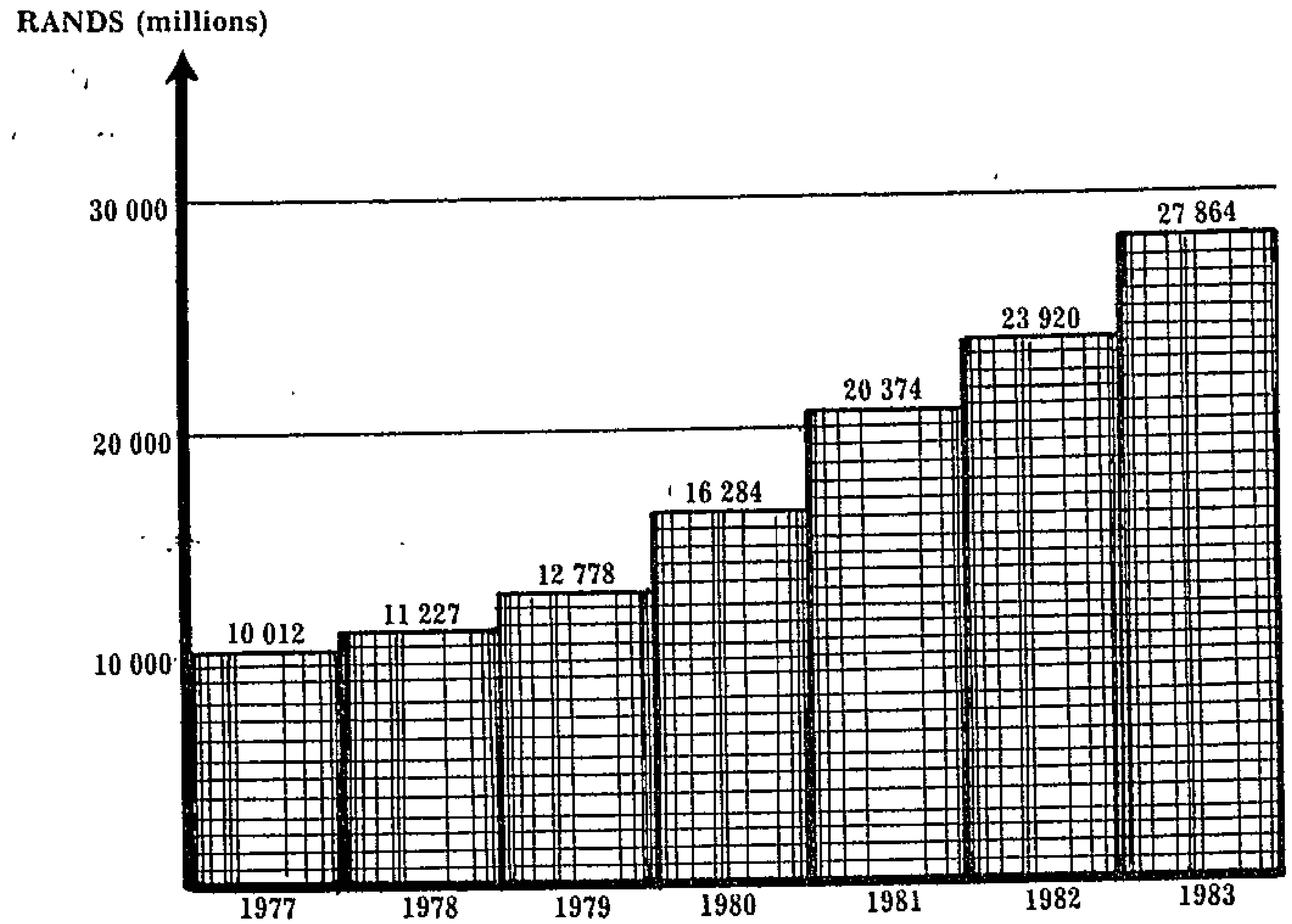
Prices rise either because demand for goods has increased or the supply of those goods has declined.

As in South Africa the volume of goods and services has risen steadily, growing by about 4 percent a year since 1970, highr prices cannot be blamed on a reduced supply of goods.

"Instead, demand has increased much faster than



Government spending is increasing rapidly as this graph shows. It has more that trebled in the past nine years. In 1975-76 it totalled R7,0-billion. This year it is expected to be at least R25-billion



Graphic shows the growth in the money supply since 1977

this — because the money supply has risen so dramatically," says Professor Kantor.

The latest money supply figures issued by the Reserve Bank present a hair-raising picture. In the 12 months ended April the amount of spending money (M1) in circulation in South Africa increased by 37,3 percent. In contrast short-term savings (near-money) showed hardly any change, actually dropping slightly.

The Reserve Bank figures show that the main reason for the jump in the money supply is a sharp rise in commercial bank lending. In the first four months of this year the banks increased their loans by an additional R2,6-billion, bring the increase in the 12 months to April to more than R6-billion, which was equal to a 45 percent increase in their total loans and advances.

But the consumer should not be blamed for borrowing and spending more,says Professor Kantor. "We should be happy because it shows the consumer has confidence in the country and the economy."

market operations and changes in the rates of interest. However, until recently it has not had the success it desired.

However, doubt remains about whether the Reserve Bank ever will be able to control the money supply without resorting to physical measures.

Professor Jan Sadie of the University of Stellenbosch believes that indirect controls do not have enough "bite" to control the money supply in the South African system.

He points out that trying to control the money supply through keeping interest rates high has not worked The consumer has proved to be insensitive to the higher interest rates. On the other hand the producer has had to face a sharp increase in the cost of money.

Put a lid on

But it is possible that the Reserve Bank has also realised that indirect controls alone will not allow it to exert effective control over the money supply.

There are signs that as a result of a slight deviation from its free market principles recently in limiting what commercial banks can charge for certain loans, it has at last been able to put a lid on commercial bank lending and secure control over the money supply.

If this is so then perhaps South Africans can start looking forward to a slightly less inflationary future..

CONCLUDED.

PROFILE

a R645 28/6/84

The ups and downs of Minister Horwood

(49)

BRUCE CAMERON, Political Staff, traces the career of an optimistic Minister of Finance

OWEN PIETER FAURE HORWOOD'S term as Minister of Finance has been as up and down as the mercurial price of gold.

There will probably be debate for years to come on how good or bad he was at controlling the country's finances. Of his ability as a politician there are very few who are prepared to defend him.

Grandson of a member of Cecil Rhodes's Cape Cabinet and son of a Springbok cricketer, he started off life following a course that pointed everywhere but to the National Party.

He graduated from the University of Cape Town in 1938 with a B. Comm. (the fact that this was his only degree was to be thrown at him in later years when it was used as an insult in his confrontation with students at the University of Natal)

With the outbreak of World War Two he joined the Air Force as a pilot but was forced to leave because of ill-health.

Accountant

He joined a Cape Town firm as an accountant and politician and in 1946 married Helen Watt, a sister of the wife of the former Prime Minister of Rhodesia, Mr Ian Smith.

In 1947 be embarked on what was to eventually be an extremely controversial academic career.

Despite his single degree Mr Horwood earned himself a reputation as an informed economist working on numerous commissions, often being asked to analyse and comment on the country's economic problems.

United Party

Politically he supported the United Party and gave it the benefit of his economic advice. Prior to his appointment as principal of the University of Natal he was a popular figure on campus and his ability to explain complex economic issues was appreciated by students — some of whom are sitting in opposition benches in Parliament.

A sportsman of some abilty , he was president of the sports union at the university for a number of years.

He was described in those years as being as "a staunch anti-republican, a pundit who prophesied doom for a South Africa shorn of its Commonwealth ties, a critic of job reservation, a champion of underpaid non-whites, an advocate of African trade unions and an economist who condemned the Government's fantastic Bantustan policy because 'it offends against every cannon of sound economics'".

Changed course

In September 1965 he was elected principal and vice-chancellor and he seemed to change his course. First his criticism of the Government became more muted and he became involved in a growing conflict with the student body.

It led to the suspension of the S R C in Durban a year later and the banning of the student magazine Dome. Also suspended was Mr Roger Hulley, the President of the S R C and now the P F P member of Parliament for Constantia.

The conflict reached such proportions that a committee of inquiry was appointed under Mr Justice Harcourt. The report of the committee was critical of Mr Horwood and did not support his claims that politically inspired trouble makers from outside the university had come to the campus "with the set purpose of inciting students to defy authority."

Joined Nats

In 1968 he secretly joined the National Party and in 1969 to the "jubilation" of the student body he resigned as principal, announcing that he was to join the National Party as a Senator.

Such was the relief at him leaving that the message that he had gone was daubed in paint on the walls of the university.

The university authorities broke with tradition by not awarding him an honorary degree but they did allow him to keep his luxury car.

From conflict with students he soon became known as one of the most sensitive politicians in the business. His confrontations with newspapers and reporters are legion.

Threats

A difficult person to get hold of most of the time he was always rapidly in touch with a reporter, and there were many, who offended him.

He threatened and blustered repeatedly. He told the Anglican Church that he would leave them unless it broke its ties with the World Council of Churches. He warned newspapers of legislation to keep them quiet. In the last general election he voiced displeasure with the building society movement for putting up interest rates on mortgage bonds and appointed a commission but has since then said he cannot control the rates.

His political career within the National Party has had its ups and downs. He was never been very popular among the rank and file but under the protection of Mr John Vorster he climbed rapidly.

Never stood

Unlike most politicians Mr Horwood's political survival and success can be ascribed also to the fact that he never let the electorate judge him.

The only time he came anywhere near was in a by-election in Vryheid in 1978 when he made himself available as a candidate. However there were reports that the might not win the nomination and he withdrew. Otherwise he repeatedly ignored or rejected challenges to stand and fight.

On arriving in Parliament it was clear that his conversion to the National Party was complete. For example in a debate over the Government's refusal to allow M C C Cricketer Basil D'Oliveira and tennis star Arthur Ashe into the county he said the incidents were all part of a "monstrous, communistically inspired plot to take over South Africa."

Granted since then he has moved with the N P and no longer sees, or says he sees, the inclusion of blacks in foreign teams as part of a communist plot.

Vorster's aid

The one place he had to fight elections was in the hierarchy of the N P.

When he stood for the Natal leadership in 1972 against the conservative Mr Joos le Roux of Vryheid, the intercession of Mr Vorster ensured that he plucked victory with a 114-vote majority.

In Parliament meantime he had been surging ahead. Appointed to the Cabinet as Minister for Indian Affairs and Tourism two years after his arrival e was given the Economic affairs portfolio in 1974.

A year later he took over from "Mr Gold ", Dr Nico Diederichs, as Minister of Finance.

Info scandal

Of all the controversies in which he has been involved none will be debated longer or received as much publicity as his part in the Information debacle.

His description of how he did not examine details of some highly contentious projects of the Department of Information and signed agreement to the appropriation of funds is well-known.

His success as Minister of Finance rose with the price of gold and when it was selling around the 800-dollar mark the praise for his abilities was thick on the ground.

But as the price of gold dropped so did the praise and much of it has changed to harsh criticism, although as he is wont to do, Mr Horwood still seems able to find enough people to quote supporting his economic policies.

The praise centered on his tight controls, his refusal to allow money to be used for improving images in constituencies and his refusal to bow to pressure.

But in this week's debate it is on these very points that he was faulted.

One thing that can be said for Mr Horwood is that he must be the most optimistic Minister of Finance ever. Unlike other who often painted gloomy pictures, Mr Horwood consistently talks of better times ahead and how good they are now, no matter how bad they actually are.

SA exports forge ahead

from 30/6/84 ~~220~~ 49

By HOWARD PREECE

SOUTH African exports bounded up sharply in May to R2 156m, the highest monthly level of the year so far, according to preliminary figures from Customs and Excise.

Imports also reached the largest total to date for 1984 at R1 859m.

The net result, however, was a trade surplus of R298m — the best performance yet of the year.

In April, the surplus was only R92m from exports of R1 650m and imports of R1 558m.

The Customs figures include exports of gold, both bullion and Krugerrands, and imports of oil and military equipment.

They are, however, only provisional and should normally be treated with caution.

The official figures come later from the Reserve Bank.

Sometimes, though, Customs comes extremely close to the mark.

According to the Reserve Bank, total exports for the first quarter of this year were R5 569m, whereas Customs puts the figure at R5 576m, virtually identical.

On the import side, the bank says the quarterly total was R5 027m, against the earlier estimate of R5 113m from Customs.

The data from Customs shows that South Africa had a favourable trade balance of R853m for the first five months of this year.

This came from exports of R9 383m and imports of R8 530m.

Exports have shown a modest 7,8% rise over the level for the same period for 1983, when the figure was R8 704m.

In volume terms, that almost certainly represents an actual decline.

There must be some hope, however, that the hefty rise in the May figure points to a better performance over the second half of 1984.

Imports, on the other hand, have been racing ahead.

The R8 530m total for January to May this year was 43% higher than the 1983 equivalent from Customs of R5 960m.

It is quite likely, however, that the recessionary conditions that are expected to characterise the economy in the second half of this year will bring about a noticeable slowing in this rate of import increase.

But it has always to be remembered that the trade figures are not the same as the current account of the balance of payments.

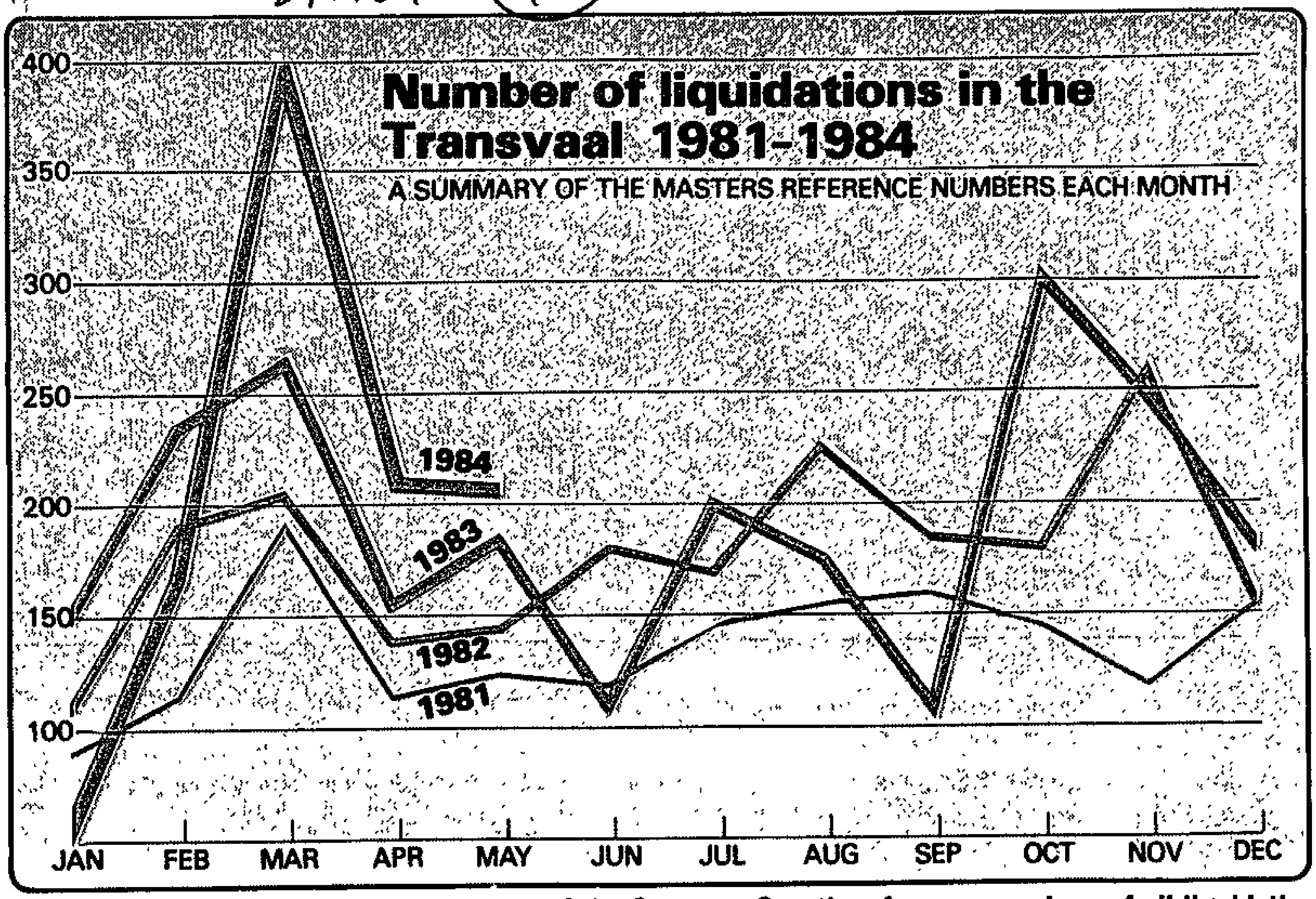
This latter, and more important, figure includes the large net deficit that South Africa runs on services — dividends, interest payments, insurance, shipping etc.

This country is at present running a monthly shortfall on services of at least R300m — it was around R340m for January to March.

So the overall current account will certainly be well in the red for the first half of 1984.

There was an official current deficit of R448m for January to March, which the Reserve Bank reckons was equivalent to nearly R3 000m on a seasonally adjusted annual basis.

RDM 3/7/84 49



The graph gives a summary of the Master of the Supreme Court's reference numbers of all liquidation cases set down in the Transvaal from January 1981 to May 1984. It shows a particularly high number of liqidations at the beginning of the year, reaching a record peak in March.

Argus 5/7/84 (49)

SA economy will weather storms, De Kock says

THE South African economy faces a difficult period of belt-tightening and adjustment to the lower gold price and the drought, says the Governor of the Reserve Bank, Dr Gerhard de Kock.

But the country is well placed to weather the storms at present raging in international banking and finance provided it adheres to its restrictive policies and does not try to replace them with artificial inflationary gimmicks like quantitative import restrictions or other direct controls.

He made these remarks in a speech given in Johannesburg to the Institute of Management Consultants.

Dr de Kock said foreign financial export had found it commendable and almost unbelievable that South Africa should have been able to avoid getting into an over-borrowed position and incurring foreign debt problems.

FLEXIBLE RATES

After all, the gold price had declined more than the price of oil and other primary commodities since 1980. South Africa had also experienced a severe drought.

He believed South Africa had fared better than most other comparable countries because of its market-oriented policies and particularly the flexibility of its interest and exchange rates.

"The combination of higher interest rates and a lower exchange rate for the rand has served the country well."

TOO LENIENT

Dr de Kock said that at times the Reserve Bank's policies had been too expansionary and too lenient.

"With the benefit of hindsight it might be argued that more fiscal policy should at times have been included in the overall policy 'mix'.

"The ideal would have been a lower rate of increase in Government spending and more moderate salary and wage increases in the public sector.

"Failing that, tax rates should have been increased at an earlier stage in order to keep down the deficit before borrowing in the Budget.

ESSENTIAL STEP

"The recent increase in the general sales tax must therefore be welcomed as an essential step to improve the mix of fiscal and monetary policy and to strengthen the economy."

The Reserve Bank at times was also too accommodative in its re-discount and open market policy and should not have permitted monetary aggregates to rise and interest rates to fall as they did in the first half of 1983.

"But after all is said and done, the final outcome was a remarkable degree of balance of payments adjustment combined with a relatively buoyant economy and at one stage a marked, though still inadequate, decline in the rate of inflation.

TURNING POINT

"In addition, South Africa complied fully with the 'performance criteria' laid down by the IMF under the loan agreement of 1982 — and with no foreign debts."

Dr de Kock said the South African economy was now near an upper turning point in the business cycle.

The increase in the past 12 months in spending, output, employment, imports, bank credit and interest rates, together with the emergence of a deficit on the current account of the balance of payments, were typical symptoms of an upturn.

Because South Africa had avoided a foreign debct problem it was in an infinitely better position than most other comparable countries to make the adjustments required in the months ahead.

Racism a threat to workplace survey

Stay 49

5/7/84

By Gary van Staden, Political Staff

There is a strong belief among South African workers that they are discriminated against by the free enterprise system and this belief has grave implications for the economy and for political unrest.

This conclusion is reached in a research project headed by Professor Martin Nasser and carried out by Unisa's School of Business Leadership.

The study found that South African business must give priority to removing racial discrimination in the workplace, and to increasing understanding among their workers of how free enterprise operates.

Professor Nasser warns that if this task is left undone, there will be dire consequences for industrial relations.

"The majority of the unskilled workforce in South Africa believe that most of a company's profit is used to pay the salaries of managers and bosses."

Professor Nasser said: "While this belief is allowed to continue the chances of massive industrial unrest will remain."

Reacting to the survey, which was released today, Mr Chris Ball, MD of sponsoring company Barclays, said that the lack of understanding of business, the need for profits and the free enterprise system posed a serious threat to business in general.

FACE TO FACE WITH OWEN HORWOOD

On handing over

This week, outgoing Finance Minister Owen Horwood, who has managed the country's financial affairs for the last 10 years, spoke in his Cape Town office to *FM* Deputy Editor Nigel Bruce and Senior Editor Neil Jacobsohn on the problems and highlights of his term of office. He dealt with criticism of growing government spending, his struggle abroad to enhance SA's borrowing reputation and depoliticise it — and some of the reforms he would have liked to have instituted.

***FM*: What do you see as the highlight of your career over the past 10 years? We at the *FM* see it as your series of moves towards greater free enterprise and market-orientated controls, which have enabled the economy to adjust more easily to adversity.**

Horwood: Yes, the controls on lending were altered, a foreign exchange market was created, exchange controls on non-residents were abolished, government spending was brought under better control and more resources released to the private sector.

We also introduced significant tax reforms. The maximum marginal rate was brought down from 72% (including a 6% loan levy) on incomes upwards of R28 000 to 50% on incomes upwards of R40 000. Had it not been for the drought and the depressed gold price, I'm sure we could have got the top rate down to 40%.

We also introduced a new, more broadly based tax, the general sales tax (gst). Today, even at 10%, but excluding basic food, it is one of the lowest rates of indirect tax in the world. Something like R600m accounts for the exclusion of food this year, and in a full year it will be R900m.

One thing I want to clear up is that the reason for the recent rise in gst was not a revenue shortage. It was a basic financial measure to get the message to the public that they are spending too much. In fact, the present spending spree frightens me a bit. And how do you brook that? The very best way is to put up taxes.

Another important objective was to reduce the budget deficit before borrowing. It could now be R2,5 billion or 2,5% of gross domestic product. In addition, by reducing pressure on the capital markets, a higher gst must ultimately tend to reduce interest rates.

It is a flexible tax intended for contingency adjustment. Why should I be criticised for raising it as I detected the worsening drought and poor gold price?

Was the decision to exclude food from gst a political one?

It was a considered Cabinet decision. And it was probably the right one. But, then, you see, on top of excluding food from gst, we have been increasing food subsidies substantially. I don't like subsidies, as they disrupt the price mechanism, but in an inflationary climate, what else can you do? Last year, the subsidy on bread alone was R275m. And maize subsidies are going up too.

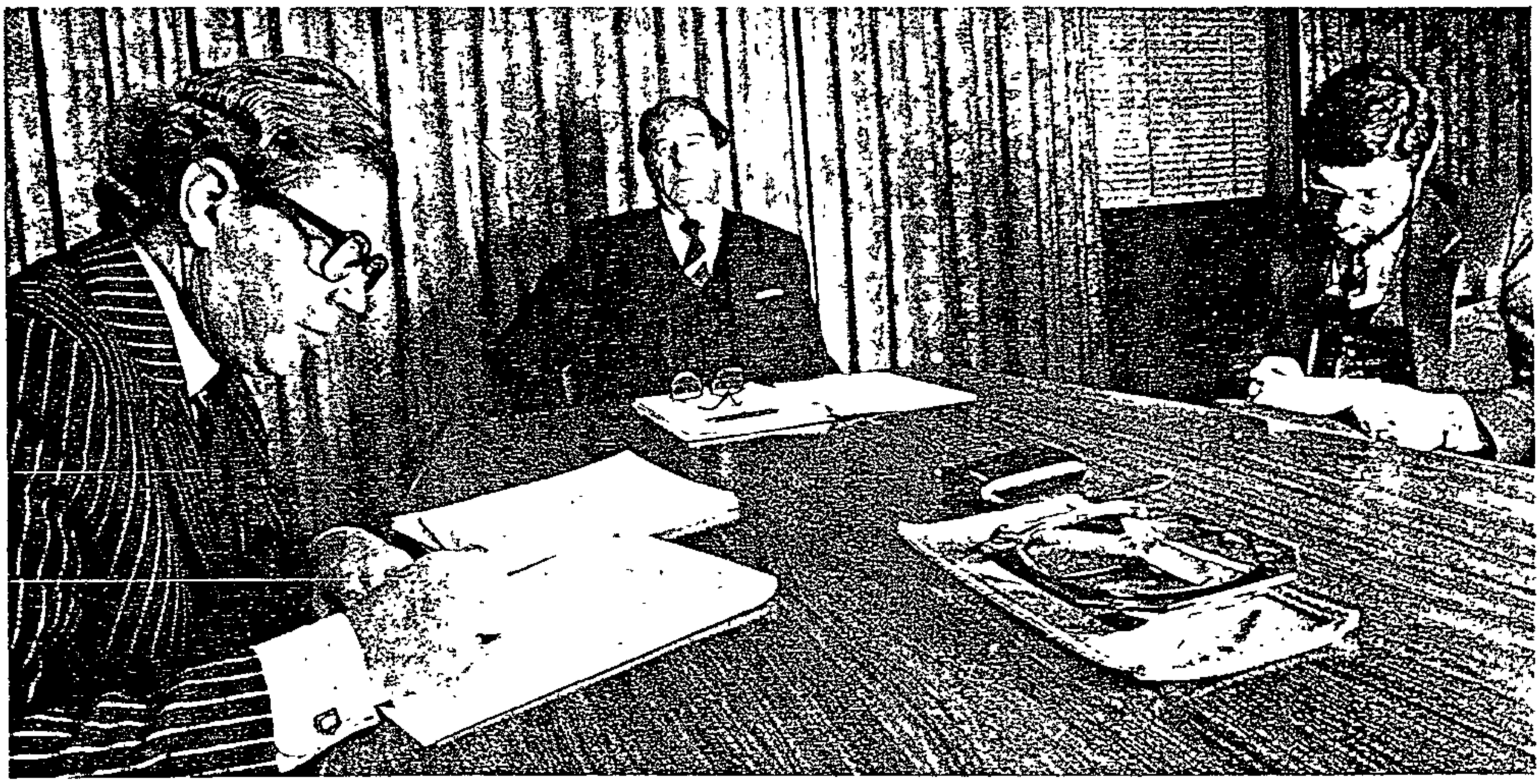
You have been criticised for allowing excessive government expenditure in your last two budgets; and the speed and extent of official disbursements in the first three months of the current fiscal year are worrying many businessmen.

In all good conscience, I cannot go along with that. When I took over, the defence budget was less than R700m. It is now more than R4 000m. And we have pressed on with other priorities. Education, when I took over, was also less than R700m (that is, total black and white education). Today it is more than R4 500m. Health expenditures have risen in that same order. If you take all the infrastructure on black states, it has risen enormously. The money has to come from somewhere.

Today government spending is 25% of aggregate spending in the economy. That is one of the lowest rates in the world. Government spending has increased on average over the past 10 years by just on 3% per annum in real terms. That is one of the best performances in the world. And real expenditure per capita over the past 10 years has remained almost exactly constant. I maintain that is not a bad record.

What is the attitude of international bankers and the IMF to the present level of government spending?

They are the people who look most critically at the SA economy. Their reports over the years have been a source of great comfort. Take the latest rise in gst: the IMF applauded that.



FM's Bruce (l) and Jacobsohn (r) interview Horwood ... a time of significant tax reforms

49

And look also at the countries that are heavily dependent on oil revenues. Where are those countries today? And the gold price has fallen more than the oil price.

We also had the worst drought in living memory. When the story is told of what it did to the economy, some eyes are going to be opened. Apart from creating the need for relief payments, it hit export earnings, especially those from maize. In fact, the impact of maize imports this year on the balance of payments is R1,5 billion. And that is only one crop.

What about the deficit on the current account of the balance of payments?

In the first quarter of this year, we had a deficit on the balance of payments which, if annualised (and that is not very scientific), amounts to R3 billion. But that is only a projection of one quarter. However, supposing there were a R3 billion deficit this year, it is still not excessive. Not long ago, it was double that and we got out of it without any trouble. It is certainly not a critical situation.

With the gold price showing no immediate signs of recovery and the drought, is the situation likely to worsen?

No. What I would say is that unfortunately we were not able to increase gst immediately we saw the need. It can only start to have an effect on demand over the next few months. But let's wait and see.

The situation, however, that we regard as critical is inflation.

But can you really say critical? We are, after all, classified by the IMF as an advanced developing country and there are many of these countries with much worse inflation rates than ours. In fact, our inflation rate on that comparison stands out a mile.

But we trade mostly with advanced industrial countries whose inflation rates have come down remarkably.

Our inflation rate has come down too. Remember that, in mid-1982, it was 15,5% and that has come down to 11%. But the indexes are not all the same. We include indirect taxes in ours; but many countries do not. The more I have thought about this, the more I feel we should have two indexes. And if we did that, inflation on the index excluding indirect taxes would be between 8% and 9%.

One of the criticisms of increased government spending recently is that it is the price government had to pay to win the referendum.

Now, how would you motivate that? I tell you what has increased quite substantially in recent years is salaries and wages in both the public and private sectors.

Have they not increased faster in the public sector than the private?

I've heard that and I think it is something that ought to be investigated. I'm not so sure that it is right. The private sector has had very substantial increases too. I think the Treasury might look at that in conjunction with one or two private interests.

But I fully concede that the public sector has had substantial increases in recent years. We were finding it hard not only to recruit, but also to retain, civil servants. What we tried to do was introduce, especially for the professionals, what is known as occupational pay differentiation. And that has cost money.

And there is another factor that pushed up public spending. It is the cost of servicing public debt. We deliberately adopted a policy of taking liquidity out of the banking system by selling official securities. This involved more than I would otherwise have borrowed.

If you were to analyse the drop in inflation, I'm sure you'll find that policy was a considerable factor. And who was to know

Horwood ... the gold price could have been kinder

that interest rates would climb as they did.

What sort of situation did you inherit 10 years ago so far as foreign loans were concerned?

Not only had foreign loans shot up, but government spending was rising at about 23%. After getting this under control, our international credit rating began to improve. We are now under-borrowed abroad; banks don't want us to repay loans, but roll them over.

In fact, in those earlier years, we often had to pay 1,5% to 1,75% above Libor (London interbank borrowing rate). There was a large amount of political risk built into that premium. Today we are paying less than 0,5% without any political risk being taken into account.

What would you have liked to have achieved before you retired?

I would have hoped the gold price would have been a bit kinder and the drought would have been behind us. If that had happened, I would have been able to bring the top marginal rate of tax down to 40%: and I'm not talking about a gold price of \$600/oz, but something in the \$450 range.

For the rest, I would have liked to have gone a good deal further in relaxing exchange control on residents.

Has the abolition of exchange control on non-residents been a success, given the declining value of the rand?

It was one of the best things I've ever done. It has worked to our benefit enormously, especially so far as to inculcate further confidence in future investors.

Are there other changes you would have liked to have seen?

I would have liked to have weaned the economy rather more off subsidies and to have had the new dispensation for building societies operating. Competition between the societies and the banks is very important. That is a significant point.

I would have liked to have gone further with my ideas on privatisation. Sasol has gone well. I think, looking ahead, that it could also happen with Escom and the transport services. If we can make headway there, we would be able to bring the private sector, where your true productivity lies, more into the economy.

There is a very important inquiry going on into the capital structure of the transport services. It's much too early to say what will eventuate, but who knows where it will lead.

One of your great supports over the years has been the Reserve Bank. But it was rather hostile when you took over.

I have always had the highest regard for all those at the Bank and never doubted their *bona fides*. But there has been a change in philosophy in some respects.

The reason we ask is that it is said there is perturbation at the Bank about your expected deficit before borrowing this fiscal year.

Governor De Kock and the Treasury are involved in all these things. Over the years, we have been a very close-knit team. And, in the last few years, the Land Bank has come up trumps too.

Surely the cost of the new dispensation is going to be an enormous burden for your successor, Barend du Plessis?

Well, you know, we have provided in the budget for education for whites, Indians and blacks. So there's no reason why that should escalate. We've made provision for many categories — health, infrastructure development, and so on.

Businessmen are apprehensive about the Croeser Commission's recommendations of new taxes to improve the revenues of local authorities.

We are not going ahead yet. We're leaving that over to the next session. I did that ... much more consultation is needed.

Do you think your successor will carry sufficient clout in the Cabinet to be able to contain the rapacious spenders among his colleagues?

I believe the Cabinet is critically aware of the need for sound finance. And I believe the Prime Minister will be of assistance to him.

(49) ~~(138)~~ C-Times 6/7/84

Workers believe free enterprise system unjust

Own Correspondent

JOHANNESBURG. — The South African economy is in great jeopardy because most employees believe that the free enterprise system is grossly unjust.

A major study on attitudes to business released yesterday by the University of South Africa exposes such fundamental ignorance and negative feelings about the workings of free enterprise that the private sector, and perhaps even the country's basic social fabric, may be in imminent danger of disruption.

Reacting to the survey, Mr Chris Ball, the managing director of Barclays National Bank — which helped fund the study — said yesterday the survey's findings showed that the basic lack of understanding of business, the free enterprise system and the need for profits posed a serious threat to business in general.

He said that the study clearly indicated that level of dissatisfaction among employees was so great that they were ripe for being sold down the road to socialism, as had happened in Zimbabwe.

The survey, which was carried out by the School for Business Leadership under the direction of Professor Martin Nasser, states in its conclusion that less educated, unskilled and even semi-skilled workers (which comprise the majority of employees) regard themselves as "grossly discriminated against in terms of remuneration and perceive the free enterprise system as one which is beneficial solely to white managerial staff."

A total of 78 companies around the country, each employing more that 100 people, participated in the survey. Questions covered six basic areas: How a business is established, what its running expenses were, how finance is obtained, how better productivity can be achieved, means for wage improvements and how after tax profits are distributed.

Shareholders

One of the most striking findings of the study was that employees right up to, and including, lower management levels were totally unaware of a company's commitment to its shareholders.

Unskilled workers believed that 72 percent of a company's after-tax profits went to management, three percent to worker bonuses and salary increases, 25 percent to re-investment and none to shareholders.

Skilled workers were little better in their conception of profit distribution, believing that 48 percent went to management, 12 percent to workers, 37 percent to re-investment and only three percent to shareholders.

Only when middle to senior management levels were examinded, was the picture at all realistic.

"We are not talking about a black/white split here, there is gross ignorance throughout the system," said Professor Nasser yesterday.

"I am terrified by the fact that even those in management have absolutely no conception of what a share is," he said.

"It is clear from the study that upper management is talking one set of languages and the rest of the employees another."

The dire consequences for industrial relations are therefore obvious, Professor Nasser said.

"There is no real possibility for worker/management negotiations on any sort of democratic basis since the two groups are operating under completely different value systems whose interests directly conflict with one another."

Even if large scale unrest could be avoided, Mr Ball pointed out that the study indicated that economic growth would be severely limited unless urgent action was taken.

"We have to get more people into the economic machine if the economy is to grow but if most employees are unable to understand the machine, what incentive is there for them to attempt to enter it?"

Does not answer the question.

6/20

Dangers seen in labour outlook

E. Post (49) 7/7/84

By CLAIRE PICKARD-CAMBRIDGE

A UNISA study revealing that workers resent the free enterprise system in South Africa has sounded an alarm which management and business cannot afford to ignore.

This is the opinion of Mr Rod Ironside, assistant managing director of General Motors SA, who said involvement and communication with workers was vital to overcome the deficiencies the survey had shown.

"Management cannot afford to ignore the fact that involvement and communication with employees is vital to the success of every country and business," he said.

If employers failed to orientate people properly towards free enterprise, or to accept that conditions were changing rapidly and that South Africa was no longer a cheap country to live in, the present economic system was in jeopardy.

Some businesses were doing a lot to ensure close communciation with workers, but others were not, he said.

"Management must communicate freely with workers and ensure comprehensive personnel planning and training. The key is to tie all this together and have an effective and well-managed industrial relations framework."

One of the findings of the report was that blacks felt they could earn more if whites earned less, or if the company raised prices or borrowed money.

Mr Ironside believed these and other findings revealed a lack of basic knowledge among workers about the relationship between the functioning of a business and the remuneration of individuals in accordance with work input.

It was essential to talk and listen to employees and to teach them the basics of how a business ran, he said. Then they would realise that good work produced both better products and an increased demand, which would create more jobs.

He believed it was very worrying that free enterprise was not understood by most workers, who were under the wrong impression that every company was making money and that workers got very little of the benefit.

"Without the initiative of entrepreneurs and top management there would be no jobs and no production of national wealth," he said.

● Editorial comment — Page 14

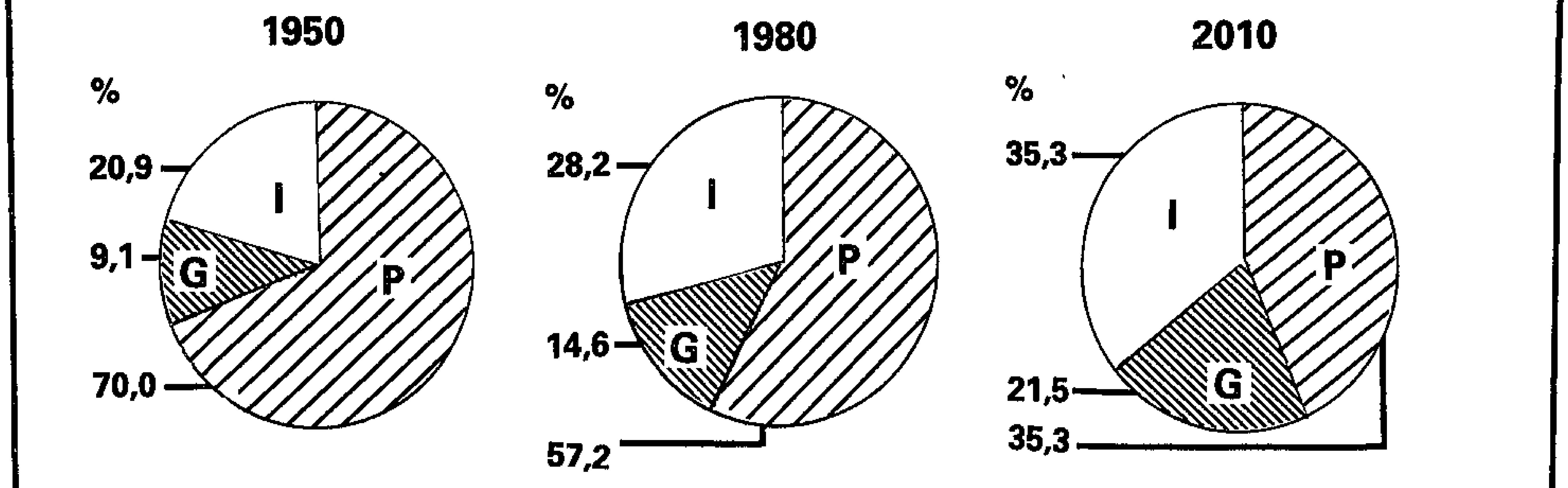
Mr ROD IRONSIDE ... wrong idea

A friendly but urgent note to Barend du Plessis

(49) C Times 7/7/84

The Pattern of Politics

By HERMANN GILIOMEE



Expenditure on GDP: P = Private Consumption, G = Goverment, I = Investment
Source: Aart Roukens de Lange, Institute for Futures Research, Stellenbosch.

EVERY new Minister of Finance sparks off the hope that he will remedy one or two of the serious flaws of the South African economy and curtail some of the costly political excesses.

Since there is almost no chance of the Nationalist government being defeated at the polls we expect our prime ministers and ministers of finance to exorcise the unsound policies of their predecessors and to set out in new, more rewarding directions.

What serious flaw should the bright and promising new Minister of Finance, Mr Barend du Plessis, address?

If he is in search of ideas he can do no better than to take five minutes off to study a fact sheet recently issued by the Stellenbosch Institute for Futures Research.

Based on Aart Roukens de Lange's exhaustive study "The National Accounts of SA (1983)", this two-page sheet tells a most startling and disturbing story of our economy. It is a story which has profound consequences for our political system. No one who has read this sheet can continue to believe, with Mr Horwood, that we have a basically sound economy. It is in fact deeply flawed.

Segments

This sheet shows pie diagrams (see alongside) for the expenditure on the gross domestic product in 1950, 1980 and 2010.

Each pie is divided in three segments according to the proportion of the GDP that were taken up respectively by private consumption, government spending and investment spending.

In 1950, 70 percent of the GDP was spent on private consumption — people spending their incomes on consumer goods. Only 9,1 percent was spent by the government (on infrastructure, local and central government salaries, etc) and 20,9 percent was expended on investment (building factories or shops or buying machines).

By 1980 the pie had come to look quite different. The proportion of GDP spent in private consumption had dropped to 57,2 percent while that of government spending had grown to 14,6 percent and that of investment spending to 28,2 percent.

If present trends continue, a dramatically different picture will exist by 2010. The proportion of private consumption will have dropped from the 70 percent of GDP in 1950 to 35,3 percent. The proportion of government spending will have grown from the 9,1 percent in 1950 to 21,5 percent. And the proportion of investment spending will have jumped from 20,9 percent in 1950 to 35,3 percent.

Income

But money spent on buildings and machines takes away money that workers could spend on consumer goods. Put differently, investment spending siphons off money from the wage and salary bill. This is why the proportion of consumer spending, shown in the diagrams, has declined so sharply since 1950.

Another set of figures computed by Roukens de Lange hammers this point home further. Our post-World War II rate of disposable personal income has been 3,8 percent per annum but since 1975 this has dropped back to 2,1 percent.

The kind of capital investment South Africa has experienced has led not only to a stunted demand for consumer goods but also to a horrifying unemployment problem.

Firstly workers have been replaced by machines. For instance a recent thesis by Mr M de Klerk has calculated that the number of seasonal black labourers on white farms has declined to 520 000 in 1978 from 780 000 in 1969. Partly as a result of mechanization the white farms may have shed nearly two million black labourers over the last 10 to 15 years.

Secondly, capital intensification, or switching from workers to machines, has made it prohibitively expensive to create new jobs. Roukens de Lange has estimated that the cost of creating a new job for a black worker in this manufacturing sector has (in 1975 money values) doubled from R33 000 in 1960 to R61 000 in 1980. (This takes into account the factor of old factories being closed down and new capital being employed.)

All this has helped to produce the escalating unemployment problem of South Africa.

On the basis of careful research Dr Roukens de Lange has found that in 1980 about two-thirds of the economically active black population were employed by the formal sector — people actually receiving wages, salaries and other forms of regular income.

The other third had only a very marginal income out of the informal sector (in squatter camps, relocation settlements, etc) or were unemployed.

If present trends continue, only half of the economically active black population will be formally employed by the year 2000, some 13 percent will be in the normal sector and more than 36 percent will be unemployed.

By the year 2010 only 45 percent of the economically active black population will be employed by the formal sector. The other 55 percent will be a massive *lumpen* proletariat, comprised of desperately hungry people scavenging around for food, as Dr Philip Spies has aptly phrased it.

How did South Africa land in this terrible mess?

One could blame the high black birthrate, or the apartheid policies trying to limit black people in the cities to a minimum, or business which has tried to adopt the American and European capital-intensive system of production.

But blame will get us nowhere — the basic fact is that our economy is not shaped to suit our greatest resource, namely an abundant supply of labour.

Ironically the crisis has been compounded by some of the so-called progressive forces. Take the Sullivan code which tries to improve wages and working conditions of black workers. This has only reinforced the trend of business bidding up the wages of the limited supply of the black workers in the cities before the overall supply of black labour in South Africa has been exhausted. It has led to more capital intensification, more black people being made redundant and a further swelling of the army of unemployed.

To my mind, foreign pressure on business has to an important extent been misguided and counter-productive. Far more good would have been achieved for black people as a whole and for reforming South Africa if foreign pressure had been directed purely at achieving the free movement of labour and the lifting of influx control.

What is to be done?

I have a suspicion Mr Du Plessis will have an answer ready: we shall keep influx control but we shall encourage the relocation of industry to bring work to the unemployed in the homelands.

Economic decentralization is a dangerous and costly fallacy. In spite of all the money spent up to the present on the number of new jobs created in the formal sector of the homelands, this represents only five percent of the new jobs created in the formal sector of South Africa.

What about the new Good Hope incentives?

Gavin Maasdorp shows in a forthcoming study that even under favourable assumptions it will not make much difference. For instance it would deflect 700 000 people from the Durban metropolitan region, but it would not stop the population doubling or trebling itself over a 20-year period.

And both the direct costs and opportunity costs of decentralization are far too high for South Africa to afford, given the shape the economy is in.

There are also other options. One could turn the homelands into concentration camps to prevent the unemployed flocking to the cities. One could stage massive roadblocks. One could continue to raze squatter camps like Crossroads.

One could in the years to come turn a blind eye to hundreds of thousands of black people dying of hunger. One could turn a deaf ear to the truth that only the cities offer the unemployed of the homelands a hope to survive.

One could also lift influx control, use tax incentives to stimulate employment rather than capital investment and provide the unemployed with a low basic income.

As a wise man once said: Men and nations turn to rationality after they have exhausted all alternatives.

[Hermann Giliomee teaches politics at UCT.]

Argus 9/7/84

GDP shows another one percent increase

49

PRETORIA. — Following increases of 0,8 percent and 3,1 percent in the third and fourth quarters of 1983, the total seasonally adjusted real gross domestic product showed a further increase of 1,0 percent — 4,2 per cent at an annual rate — in the first quarter of this year.

Statistics released in Pretoria by the Central Statistical Services office, show that the real production of the non-agricultural sector increased by 1,3 percent and 1,8 percent in the third and fourth quarter of last year respectively and by 0,5 percent in the first quarter of this year.

Manufacturing declined by 0,4 percent and construction declined by 2,5 percent in the first quarter, but all other sectors recorded positive growth rates during this period. — Sapa.

Most workers see no benefits in free enterprise

SA survey does not augur well for bosses

49

~~F72~~

Star 11/7/84

By Gary van Staden, Political Staff

Bosses of South Africa, unite and educate — or your workers will rush into the arms of Socialism.

So says a survey released recently. It examined the attitude of labour forces to the free-market system, finding that free enterprise is under fire and the writing on the wall for South African commerce and industry.

Most of South Africa's workforce — mainly unskilled and semiskilled labour — sees no benefits in the free enterprise system for anyone but the upper levels of management. This perception is not confined to black workers. It includes sections of other population groups — including whites.

Ignorance

The survey, Project Free Enterprise, was headed by Professor Martin Nasser and confirmed what many labour and financial experts have been telling the South African Government for years:

"A great deal of ignorance about business and free enterprise exists among corporate employees in South Africa. Such ignorance is particularly predominant among the less educated, unskilled and semi-skilled workers."

The survey concluded with a warning that the findings do not augur well for the future of industrial relations in this country.

Respondents from a broad cross-section of the economic sector were asked to pinpoint the areas in com[illegible]

Workers in the poorly educated and unskilled category allocated only one percent of running expenses to this purpose.

The inescapable conclusion is that workers feel grossly discriminated against in the area of salaries and wages. They see an average of more than 50 percent of running costs in a company being spent on a minority of managers and bosses, while the majority have to be content with less than five percent. It is only among the higher-educated skilled workers that this perception begins to change.

Shareholders

The results of the "Distribution of Company Profits" category revealed an even greater misunderstanding of the business system. There was a total lack of regard for shareholders, and not one of the unskilled respondents was aware that they

Professor Martin Nasser . . . "a great deal of ignorance".

SURVEY DETAILS

Project Free Enterprise was carried out by the Unisa School of Business Leadership under the direction of Professor Martin Nasser and sponsored by the Human Sciences Research Council and Barclays Bank.

The researchers distributed 3 723 questionnaires to 78 organisations with labour components of 100 or more. The organisations were situated in the Western and Eastern Cape, Natal and the PWV triangle and spread throughout the major economic sectors.

The respondents were asked to distribute a 100 percent total score among different factors according to the importance they attached to each.

Of the total number of questionnaires handed out either in group sessions (in the case of literate respondents) or completed in interview sessions (in the case if illiterate respondents), 76 percent were sufficently complete to be included in the data base.

● Increased productivity and greater mechanisation are dismissed as methods of improving output.

Conclusion one: The survey found a South African workforce that sees few opportunities for personal gain under a free enterprise system; a workforce that perceives a very well off management stratum, while workers languish in poverty; a workforce that neither understands the functions of business nor has a commitment to preserve those functions.

Conclusion two: There is massive potential in South Africa for industrial unrest.

Conclusion three: The workforce is ready to accept the concept of Socialism.

Solutions: Professor Nasser says there are few short-term solutions to the problems. What is required is a long-term programme introducing business and free enterprise economics as a compulsory subject in all

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Respondents from a broad cross-section of the economic sector were asked to pinpoint the areas in company running costs where the most money was spent, and how they saw the distribution of company profits.

In the former category, respondents said the greatest part of running expenses went to paying the salaries of managers.

Discrimination

The percentage of capital allocated by the workers for this purpose varied between 49 and 56 percent in the case of unskilled workers, to between 35 percent and 51 percent in the case of semiskilled workers.

In marked contrast the wages of non-managerial staff were seen to account for an average of just four percent.

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Shareholders

The results of the "Distribution of Company Profits" category revealed an even greater misunderstanding of the business system. There was a total lack of regard for shareholders, and not one of the unskilled respondents was aware that they even existed. They also disregarded the need to buy machinery and raw materials or spend money on advertising.

There was a higher awareness of the need to use profits for financial and capital investments, but by far the largest slice of company profit was seen to wind up in the pockets of managers.

Workers earning less than R200 a month responded that 85 percent of profits were used to pay bonuses and provide salary increases for management, while only one percent was set aside to provide the same benefits to other employees.

Among workers earning up to R1 000 a month this perception altered only slightly, with 72 percent of profits seen as being allocated to management and 12 percent to the workforce.

Other variables, such as occupation level and education level, produced similar results. The lower the respondents' education and skill levels, the greater the perception of magagement gain.

Prosperity

The findings of the survey under the "running expenses" factor are thus reinforced by those under "profit distribution".

The workers, armed with little or no knowledge about how business functions and distributes profits, have reached the conclusion that their work will bring no reward for themselves, but mean increasing prosperity for the business owner.

Other survey findings were:

- An alarming number of lower category workers see price increases in the commodities they produce and the employment of fewer whites as means of obtaining wage increases. If this should fail, the company can always borrow more money from the bank or the Government to pay them more.
- Increased productivity and greater mechanisation are dismissed as methods of improving output.

Conclusion one: The survey found a South African workforce that sees few opportunities for personal gain under a free enterprise system; a workforce that perceives a very well off management stratum, while workers languish in poverty; a workforce that neither understands the functions of business nor has a commitment to preserve those functions.

Conclusion two: There is massive potential in South Africa for industrial unrest.

Conclusion three: The workforce is ready to accept the concept of Socialism.

Solutions: Professor Nasser says there are few short-term solutions to the problems. What is required is a long-term programme introducing business and free enterprise economics as a compulsory subject in all high schools.

Assumption

Free enterprise cannot rest on the assumption that it's a beneficial system for everyone — it must be seen to be so.

● NOTE: The authors of Project Free Enterprise have pointed out that South Africa does not have a true free enterprise system, and that when free enterprise in South Africa is defined and discussed it must be seen in that context. They make special reference to the control of supply and demand by Government boards, and to the fact that different race groups are confined to certain geographical areas.

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Anglo boss's warning on sick economy

By BRENDAN RYAN
Mining Editor

FAILURE to tackle the structural problems of the economy would affect the flow of foreign investment to SA, Anglo American Corporation chairman, Mr Gavin Relly, warned in his annual review.

He said it would be tragic irony if foreign investment — "so valuable in terms of access to technology and employment" — were to become less attractive because of relatively high costs when South Africa's acceptability overseas was showing signs of improvement.

"In a world that is growing both increasingly competitive and protectionist, we cannot afford policies which impair our fundamental ability to pay our way."

Mr Relly said this was why industry was concerned by what appeared to have been the over-hasty and inadequately considered withdrawal of the investment allowances.

The 1984/85 Budget had failed to evince the stern realism claimed for it and there were widespread reservations about the projections for State expenditure and the Budget deficit.

"Moreover, it seemed that the private sector, through the higher general sales tax and corporate imposts, was being burdened with a level of State expenditure which it could ill afford.

"Indeed, after the welcome decline in the late 1970's the public sector component of gross domestic product (GDP) is now close to its previous peak."

Mr Relly said the reason for the increase in GST to 10% seemed to be ballooning state expenditure.

This impression was strengthened by the fact that Exchequer spending in the current fiscal year, making allowance for seasonal factors, was running well in excess of Budget projections.

"When one considers further that the full cost of the new constitutional arrangements has yet to emerge it seems to me that the fears that inflation is not being curbed are entirely justified.

"I do not think we can handle our economic problems on the basis of expecting that something will turn up."

South Africa was not a rich country. It was rich in its image as a producer of mineral wealth and in its human potential, and relatively rich in the context of an impoverished African continent.

"But in world terms it ranks only moderately in per capita GDP."

Mr Relly said the country could not take for granted that it would move into the broad-based and sustained recovery in demand for exports experienced in previous cycles.

"From a small tax base we support a plethora of regulatory bodies, particularly in agriculture, and a bureaucracy swollen beyond all reasonably affordable size by the cost of administering the multitudinous regulations affecting racial affairs."

Reform of the economic system would require from the private sector a greater committment to the principles of private enterprise than it had shown so far.

"The Government was clearly right to proceed by first commissioning expert studies, such as the President's Council report on measures that restrict the functioning of the market system and the White Paper on employment strategy.

"Before long, however, hard and difficult decisions have to be taken. Time is not on our side — the pace of industrialisation in the Far East is proof of that.

"Provided we are determined to maximise our economic growth by removing or significantly reducing all obstacles to the allocation of resources by the market — uncomfortable for many of us though that may be — there is no reason why success should elude us."

MR GAVIN RELLY

THE INFORMAL SECTOR

The case for deregulation

49

In a free-enterprise society, economic activity is generated by people aiming at personal profit. Within certain limits, regulations that hamper entrepreneurial activity are damaging. Yet there are still many laws and regulations that hamper the growth of a black entrepreneurial class through the informal sector.

When it comes to debating development in SA, one argument about regional diversity is commonly heard. This is that a developed First World economy exists in tandem with an underdeveloped Third World sector. Less often acknowledged is the fact that the differing sectors require very different handling.

The hundreds of laws and regulations governing SA commerce and industry, for instance, are based firmly on First World norms. All too frequently, this works to the disadvantage of those from the Third World sector desperately attempting to fight their way free of the poverty trap.

It is hardly surprising, therefore, that in their entrepreneurial attempts, such people tend to ignore the plethora of health and labour regulations, licensing requirements, accounting standards, housing regulations, zoning controls — and a host of other official restrictions. They comprise what is politely termed the "informal sector," and in trying to make ends meet, or build up a capital base, many have put themselves outside the law — and duly paid the penalty.

But the times are changing. There are now welcome indications that government is moving to drop many legal constraints on growth in the informal sector. For example, a recent National Manpower Commission (NMC) report on small business development — accepted in principle by the Department of Manpower — recom-

Financial Mail July 13 1984

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mended a general deregulation of informal-sector activities.

This could lead to one immediate problem, for definitions of just what comprises the informal sector vary widely. However, most focus on the absence of licensing and record-keeping.

Street hawkers — selling everything from flowers to sheep — make up the sector's most visible component. But then there are also people engaged in such diverse activities as knitting and sewing circles, vehicle repair, small panel-beating operations, shebeens, streetside hairdressing, photography, painting, bricklaying, "pirate" taxis, casual gardening — and, perhaps, as many as 400 other avocations.

One of the most lucrative areas of informal activity seems to be the building sector. Many blacks who have learnt painting, bricklaying, carpentry or other skills — probably while working for conventional building firms — go it alone. In fact, some employ others — and there is evidence that much of the relatively minor housing alteration and renovation work in the cities is done by such people.

Untaxed income

Most of these activities would be considered perfectly legitimate, except for the failure, or inability, of those concerned to comply with various legal requirements. From the authorities' point of view, a fair amount of income is going untaxed. And various vested interests, in transport and liquor for example, frequently point — not without reason — to low standards of safety and hygiene.

But there is an important distinction to be made in considering these sub-legal activities. In the industrialised West, any mention of the informal sector tends to conjure up visions of drug dealers, prostitutes, smugglers and others involved in criminal activities. This element, of course, also functions in SA — but here the non-criminal end of the sector is probably vastly more significant in terms of capital formation and employment generation. Influx control and such measures as Section 3 of the Physical Planning Act see to that.

By definition, the size of the informal sector is impossible to quantify. Such businesses do not keep records. Nor, for fear of legal penalties, do they pay taxes or otherwise inform the authorities about their activities. But some attempts have been made to determine the size of the sector — usually through in-depth studies of limited areas. And such studies indicate that anything from 5% to 20% of the black population participates in informal-sector activities.

Some researchers believe participation to be as high as 50%. An unusually thorough look at one neighbourhood in Zwelitsha, in the Ciskei, concluded that 19 out of 21 households enjoyed some form of unrecorded income — and that for 16 it was the principal source of household subsistence. The Ciskei, admittedly, can hardly be held out as a representative model of black activities in SA. But even in the cities, it is likely that many, if not most, households supplement their incomes through fringe operations of various kinds. This is despite the fact of the frequently intense scrutiny of an army of inspectors and policemen.

The plain fact is that it is difficult for any black to ply a trade outside the officially sanctioned labour structures. A hawker who wants to sell his wares legally in Johannesburg's CBD must not only make a licence application (for consideration by several municipal departments), but also obtain the permission of the West Rand Development Board. A licensing board may also require the would-be hawker to advertise his intentions in at least two newspapers in both official languages. The total cost of the application can be as high as R130.

According to a paper by geography professor Keith Beavon of the University of the Witwatersrand: "Under the circumstances, it is not surprising that most of the hawkers in the central area operate illegally, notwithstanding the perils they expose themselves to — arrest, confiscation of their goods and fines of up to R100."

quotable

Milton Friedman:

When you hear people objecting to the market or to capitalism and you examine their objections, you will find that most of those objections are objections to freedom itself. What most people are objecting to is that the market gives people what the people want instead of what the person talking thinks the people ought to want. That is true whether you are talking of the objections of a Galbraith to the market, whether you are talking of the objections of a Nader to the market, whether you are talking of the objections of a Marx or an Engels or a Lenin to the market.

In a market society, in a society in which people are free to do their own thing, in which people make voluntary deals, it's hard to do good. You've got to persuade people, and there's nothing in this world that is harder. But the important thing is that, in that kind of society, it's also hard to do harm.

It's true that if you had concentrated power in the hands of an angel he might be able to do a lot of good, as he viewed it, but one man's good is another man's bad. The great virtue of a market capitalist society is that, by preventing a concentration of power, it prevents people from doing the kind of harm which concentrated power can do.

So I conclude that capitalism *per se* is not humane or inhumane; socialism is not humane or inhumane. But capitalism tends to give much freer reign to the more humane values of human beings. It tends to develop an atmosphere which is more favourable to the development on the one hand of a higher moral climate of responsibility and on the other to greater achievements in every realm of human activity.

Buyer and vendor . . . living on the fringe

49

Informal sector at work . . . set it free

Even if regulations are not enforced — and often they are not — constraints on expansion reduce market efficiency. So the transition to the formal sector is a costly procedure which few choose to undertake — especially as informal operators have virtually no access to bank financing. Black entrepreneurs are also limited by legislation which bars them from owning businesses in white CBDs.

Those who argue for deregulation hold to a widely held belief — that the informal sector, if nurtured and encouraged, has great potential for alleviating SA's unemployment problems.

With deregulation, says Free Market Foundation executive director Leon Louw, "I think you'd see a massive alleviation of unemployment, a massive alleviation of nutritional deficiencies and a massive alleviation of the housing shortage. You must realise that this thing is like a bell — you strike it in one place and it rings all over."

Others disagree. Beavon says that loosening petty regulations "is not getting at the root causes of the problem. The basic economic inequities of apartheid will not be corrected with the sorts of deregulation that have been proposed."

Beavon, who prefers to call informal-sector activities "casual work," says that many people are forced into such activities as hawking because they have nowhere else to turn — and then many of them "make no more than a pittance." Nonetheless, he concedes that deregulation would be an improvement on the present situation.

Business organisations seeking to promote both the formal and informal sides of the small-business sector tend to emphasise the potential of successful informal-sector entrepreneurs. "These people are employing other people while providing for themselves. They should be assisted, not discouraged. The possibilities for expansion are very real," says a spokesman for the Small Business Development Corporation (SBDC), which has been quietly active in promoting measured deregulation.

Over the last two years, the SBDC's "infant enterprise unit" has made small loans to more than 600 informal-sector entrepreneurs who would ordinarily have had great difficulty securing financial assistance.

Government, of course, holds the key to deregulation. The greatest obstacle facing any would-be reformer, however, is the administrative fragmentation of business regulation. Laws affecting the informal sector are widely dispersed among various departments at national, provincial and municipal levels. In an effort to overcome the problem, the NMC has recommended that the Department of Commerce's Council for the Promotion of Small Business oversee and co-ordinate possible action towards deregulation.

But what form would deregulation take? The NMC has made no detailed recommendations on how the "alleviation of restrictions" should actually be brought about. (Outside analysts have suggested blanket exemptions from restrictive legislation based on a business's size, longevity or locality.) Many laws are involved.

Laudably, the NMC has called for the scrapping of all regulations based on race — at any rate as they apply in the small-business sector.

A senior commission official says: "The government cannot condone law-breaking, but it can try to make it easier to comply with the law. As things now stand, we know about informal-sector operators, and we try not to harass them. We want to help these people, not put them behind bars."

He admits, however, that as long as certain regulations stay on the books, the status of the informal-sector entrepreneur will remain tenuous. "Things are moving," he says, "but they are moving slowly."

Deregulating the informal sector will not solve SA's economic problems. But it should be part of an overall effort to lift ideological and bureaucratic restraints on the economy.

The issue boils down to one of free enterprise against State control. Regulation, after all, also involves issues like the Group Areas Act, the opening of business districts to all races, and constraints on the mobility of labour (and of black entrepreneurs) — which all, in turn, affect the formal sector.

Total deregulation would therefore require a thoroughgoing reform of the country's social system. That is unlikely to be forthcoming in the immediate future. It is, however, encouraging that government recognises the need to withdraw, as far as official ideology allows, some of the petty regulations that hamper the would-be entrepreneur.

Só leer werkers die vryemarkstelsel ken

15/7/84 (49) Rapport

Deur DEON BASSON

OPLEIDING wat werkers touwys maak in die werking van die vryemarkstelsel is wel beskikbaar. En dit word wel aan werkers gegee. Sover Sake-Rapport kon vasstel, met bemoedigende resultate.

Ná die uitreiking van 'n verslag oor die vryemarkstelsel deur Unisa se Skool vir Bedryfsleiding wat verbasende feite oor werkers se sieninge oor die werking van die vryemarkstelsel aan die lig gebring het, het moontlike opleiding om dié probleem die hoof te bied weer skerp in die kollig gekom.

Sake-Rapport het verlede week berig dat die vorige hoof van die Skool vir Bedryfsleiding en nou LV vir Waterkloof, dr. Org Marais, meen dat opleiding wat werkers 'n insig gee in die werking van 'n maatskappy kan help om werkers se siening te verander.

Sake-Rapport het dié week aanlegte van Nampak en Metal Box besoek waar opleidingsessies van die sogenaamde 6M-kursusse aan die gang was.

Aandeelhouers

In die kursusse word die werking van 'n maatskappy op 'n praktiese wyse aan werkers voorgestel. Skaalmodelle van die aanleg, die maatskappy se hoofkantoor, 'n handelsbank, toerusting, geld, grondstowwe, mededingers se aanlêe en klaarprodukte help om die boodskap op 'n visuele grondslag aan werkers oor te dra.

Sake-beginsels soos waar 'n maatskappy geld kry om 'n fabriek op te rig, word ingeskerp. Ander aspekte soos die feit dat aandeelhouers ook belange het, dat loonverhogings dalk die maatskappy se produkte minder mededingend kan maak en die verdeling van winste kry ook aandag.

Die voorstellings is in beginsel dieselfde as die bekende spel Monopoly. Byvoorbeeld, as 'n onderneming lone sou verhoog, kan die wins dalk minder wees wat weer groei en werkgeleenthede kan benadeel.

Die opleiding bestaan uit vyf modules wat in vyf sessies van sowat twee uur elk aangebied word.

Getoets

Mnr. Shaun Beazley, groep-opleidingsbestuurder by Metal Box, is baie tevrede met die resultate wat behaal word. Hy sê dat werkers byvoorbeeld voordat die kursusse aangebied was, in die algemeen geglo het dat die aanlê aan die besturende direkteur behoort en dat winste in sy sak beland.

Ná 'n kursus word werkers ná drie maande weer getoets en kan 'n sterk verskuiwing in hul siening gewoonlik waargeneem word.

OPLEIDING word wel aan werkers gegee sodat hulle die werking van die vryemarkstelsel beter verstaan.

Die maatskappy het reeds 347 blanke en 3 019 swart werkers op die kursus gestuur.

Die kursus word aangepas om in te pas by die praktiese situasie van elke aanleg. Dit word gedoen sodat werkers hulself kan vereenselwig met die besondere omstandighede wat heers by die aanleg waar hul werk.

Maar die kursus word nie net deur Metal Box en Nampak aangebied nie. Oorspronklik is die kursus deur die Nasionale Instituut vir Personeelnavorsing ontwikkel en geadministreer.

Die kursus is sedert 1975 ontwikkel en is van 1978 beskikbaar. Van April vanjaar word dit deur die Nasionale Produktiwiteitsinstituut geadministreer.

Volgens mnr. Gerard Smith, projekbestuurder by die NPI belas met die kursus, is 45 000 werkers reeds deur die kursus bereik. Dit behels 260 maatskappye en 300 intrukteurs. Instrukteurs word deur die NPI in Pretoria, Kaapstad en Durban opgelei waarna hulle dan die opleidingsessie by hul onderskeie maatskappye waarneem.

Mnr. Smith sê dat navorsing getoon het die kursus beslis gunstig deur vakbonde ontvang word. Veral tydens nywerheidsonrus is dit duidelik dat daar 'n groter begrip vir die bestuur se posisie is.

Dit kos R3 890 en sluit die opleiding van die instrukteur en 'n volledige handleiding in.

Mnr. Beazley meen dat die kursus nie duur is nie. Werkers word ook nie vir lang tydperke aan die werkvloer onttrek nie.

'n Groep van 10 tot 12 werkers woon gewoonlik 'n sessie by. Groot getalle werkers word dus ook nie aan die produksieproses onttrek nie. Die kleiner groepies is ook daarop gemik om aktiewe deelname van werkers aan die kursus te bevorder.

Prof. Martin Nasser, wat aan die hoof gestaan het van die Unisa-span sê dat die 6M-kursus 'n moontlikheid is wat ontgin kan word. Die skool vir Bedryfsleiding het self 'n prestasie-motiveringsprogram ontwerp wat gunstige resultate lewer.

'n Dinkskrum word nou tussen die Skool vir Bedryfsleiding, bedryfsleiers en die owerheid gevorm om die probleem te pak.

RDM 17/7/84 (49)

Japanese bide time on barriers

The Japanese Government has banned direct investment in SA but Japanese companies are free to reap huge profits from exports to this country. In the second of a series on SA's relations with its trading partners, Industrial Editor DAVID FURLONGER examines the Japanese attitude to SA.

JAPANESE manufacturers are unhappy with SA's protectionist policies and want to see the local market opened up to foreign competition.

While government officials from both countries insist that trade relations between SA and Japan are excellent, certain differences exist on the question of trade barriers.

SA manufacturers don't want to see the limited home market laid open to mass-produced, cheaper imports.

Export-orientated Japanese companies, however, are keen to pour more products into this country. But, as in many other export markets around the world, they are faced with strict controls to protect local industry.

Many Western countries have had to act firmly to stop their markets being flooded with cheap Japanese goods.

Japan itself has established import quotas on some agricultural products to protect its own farming sector. Industry, however, is generally left to take care of itself — something it does with conspicuous success.

Critics of protectionism say industry in other countries could be equally successful if it, too, were forced to compete on the open market. Local manufacturers would be forced to match exports for price, quality and quantity, and abandon the in-built blasé attitude that afflicts protected industries.

According to Mr Takashi Shibuya, economic affairs counsellor at the Japanese Consulate-General in Pretoria, many Japanese manufacturers consider their product superior to SA-made equivalents.

"Japanese companies consider their quality better than SA. They can't understand that while there may be demand from SA consumers for certain goods and they can't get them from SA producers, neither are they allowed to get them from Japan.

"SA consumers know Japanese quality is good and want it but the price is too high. An example is the ban on completed cars from abroad and the 66% local content programme. People know the car produced in Japan is very good but they can't get it. It is also cheaper in Japan."

Mr Shibuya adds: "Japanese companies may suffer but so does the SA consumer. I can't see how this problem can be resolved."

There is also the feeling among some Japanese exporters that they are at an unfair disadvantage in SA which, they say, has a system of favoured and less-favoured trading partners.

This system is exemplified by interim duty, which may be applied during a dumping inquiry.

Mr Shibuya says this occurred recently when SA producers accused the Japanese of dumping mallic acid on the local market at below Japanese market prices.

The Board of Trade imposed an interim duty on imports of mallic acid, which is used in foodstuffs, while the investigation of dumping was in progress. Had a so-called favoured country like Britain or the US been involved, says Mr Shibuya, no interim duty would have been imposed.

"Some Japanese companies claim they are treated unequally but they appreciate it is almost impossible to change the situation.

"Fortunately, the case in question was a very rare one. When the Board of Trade imposes interim duty, it inevitably leads to confrontation."

He says there have been other dumping claims from SA companies who turn these into protection claims.

"There has been some confrontation with Japan on dumping. SA industrial policy is quite different from Japan."

Not everyone may sympathise with a country whose government has banned investment in SA, because of apartheid, but is happy to see the Japanese economy benefit from the huge profits earned through exports to this country.

Mr Shibuya says Japan is keen to end the investment ban, along with restrictions on sporting, educational and cultural links with SA, but cannot do so while apartheid remains and the South West Africa issue is unresolved.

"There is very little sympathy among Japanese for SA and there are some groups who believe trade relations should be removed altogether. But it is a very small movement. Japan realises it is impossible to add pressure to regulate trade with SA."

While he expects the Japanese Government to react positively the moment apartheid disappears, Mr Shibuya does not believe it will withdraw if it becomes more entrenched — a likelihood should the Conservative Party ever leave its Northern Transvaal power base and come to power.

"It is very difficult to answer what would happen if the Conservative Party came to power and SA moved further right. But I believe apartheid is a black-and-white issue, that there is no grey area. Whether it's the National Party or the Conservative Party backing it, Japan opposes apartheid.

"If the SA Government becomes more rightwing, that is no reason for the Japanese Government to be involved. It will continue to let Japanese companies make up their own mind. That's my view."

Mr Shibuya says his task in SA is to improve the climate for private sector trade between the two countries.

Most of this trade is from Japan to SA but there is also some interest in the other direction.

SA's traditional major exports to Japan are minerals and maize. This country generally supplies 70% of Japan's maize imports.

While other areas are limited to SA exporters, Mr Kuniyasu Kobayashi, director of the government-funded Japanese External Trade Organisation (Jetro) in Johannesburg, believes there is a future in Japan for SA wine.

He says: "Japanese people are drinking less of the traditional Japanese drink, sake, these days and more wine. The quality of SA wines is very good and there is increasing awareness of them in Japan. I believe SA wine may well have a future there."

Natal Mercury, Wednesday, July 18, 1984

MXI 49

Money men say it's going to get worse

Mercury Correspondent

PRETORIA—South African consumers were warned yesterday of grim austerity for at least the rest of the year — with the threat of interest rates going even higher.

Economists say the recession will worsen.

They predict higher mortgage bond rates — most were only increased earlier this month by leading building societies — and minimal wage increases as company profits shrink.

Consumer spending is expected to be cut by the record individual debt level, increased hire purchase rates, higher GST and the 11 percent inflation rate — which is expected to exceed 12 percent for July.

Volkskas chief economist Mr A T Engelbrecht said yesterday the economy would move deeper into trouble.

Unemployment

He said: 'We have been getting poorer for the past three years, and the process is continuing.'

He warned that shrinking consumer purchasing power would lead to production cuts and greater unemployment.

Consumers would have to face the fact that the free-spending days were over.

Painful adjustments in living standards would have to be made until the economy began to pull out of recession.

However, the pattern of austerity developing was part of the country's strategy to press the inflation rate down.

This would be a prelude to the upswing which would take place when the dollar weakened — as it inevitably had to — and the gold price and the rand strengthened.

'Meanwhile we must grit our teeth and tighten our belts a few more notches,' said Mr Engelbrecht.

Workers could expect only small pay increases this year because of falling company profits.

But the economist said: 'There is no need for panic. Exports are picking up, imports must fall.

'This will strengthen the balance of payments — now in deficit — and lead to lower interest rates.'

Barclays Bank's chief economist, Dr Johan Cloete, said the target of the higher prime rate was to cut consumer spending.

'But we will have to wait two or three months to see whether consumer spending has fallen significantly, or whether a further increase in interest rates will be necessary,' he said.

Under the impact of the higher interest rates, the recession would become more serious, said Mr Cloete.

The senior general manager of the Perm, Mr B M Kemmey, said it had no immediate intention of raising interest rates in response to the 1 percent rise in the prime rate to 22 percent.

Must wait

Perm bond rates were increased from July 15 — up to R20 000 from 16,25 percent to 17 percent; from R20 000 to R40 000 from 16,75 to 17,50 percent; from R40 000 to R60 000 from 17,25 percent to 18 percent; and above R60 000 to 18,75 percent.

The managing director of the Allied, Mr H R Pascoe, also said there would be no immediate reaction to the higher prime rate.

Mercury 19/7/84

(49)

'Bracket creep' — the assault on your pocket

THREE and a half months ago Mr Owen Horwood, carnation in buttonhole, rose in Parliament to present his Budget and to announce he had succeeded in two objectives — not to raise GST and not to raise personal income tax.

South Africans, already buffeted and battered by gale-force inflation, hardly had the wind to cheer, but they did manage a gasp of relief.

It's history, of course, now, but GST has gone up from 7 to 10 percent.

And income tax?

Well, the rates might not have gone up ... but you're paying more — 44,6 percent more then you did in the 1983-84 tax year.

By March 31, 1985, the Receiver of Revenue expects to have collected R7 650 million in personal income tax, R2 361 million more than he did up to March 31 this year, as financial commentator Martin Spring has pointed out.

Govt figures

These figures are not his calculations. They come from a Government document — the estimates of revenue for the current financial year.

But income tax didn't go up, the minister said.

So how come?

The answer is a phenomenon known as 'bracket creep,' which has been described as an excruciating refinement of the torture of 1 000 cuts.

It is inflicted on the man and woman in the street by the reluctance — perhaps even refusal — of the Government to do anything about the system which ensures that as a worker's salary rises to keep in step with ever-rising costs so does his tax rate as he is pushed willy-nilly into a tax bracket where he must pay a higher rate.

Time was when a South African could look forward to handing over about one month's salary to the Receiver.

He might not have liked it, but when he looked round the world he realised just how well off he was.

But now it's a vastly different story.

Statistics quoted by Mr Spring show that from 1980 to 1983 the pay of the average skilled worker rose 54 percent — from R9 204 to R14 200.

Taking that average skilled worker as a married man with two children, and allowing for no other income-tax deductions, his tax commitment went up 151 percent.

If he were unlucky enough to be awarded rises by his employers at 1,5 the percentage rate of the national average, his tax commitment soared to 163 percent of what it was in 1980 — a massive 54 percent more than the average.

Some reward for being better than the rest!

Perhaps the most astonishing thing about this assault on the taxpayer's pocket has been the total indifference on his and her part.

A few voices have been raised in anger, but there has been no political backlash to speak of.

We have gone on digging deeper and deeper into our pockets in silence.

We have watched — without even a whimper — the Public Service grow by 49 percent to 253 562 from what it was six years ago when the Government promised it would rationalise it and the then Secretray for Finance Mr Joop de Loor pledged that its numbers would be cut by the simple expedient of not replacing those who left or retired.

Now a massive one-fifth — more than R5 000 million — of total Government spending goes on salaries and other payments to that quarter of a million.

As tax payments have soared, so have mortgage bond rates. They're at their highest level in South African history — and among the highest in the world.

Homeowners in South Africa are paying twice as much interest on their bonds as those in parts of Europe — and 40 percent more than those in the U S. Only South American countries such as Brazil, Chile and Argentina — and Israel — are higher.

Rocketed

In Australia it is between 12 and 14,75 percent, depending on the amount of the bond; in Britain, until last week's rise, it was 10,25 percent; in the U S it's an average 13,25 percent; in Germany, 8,3 percent; in France, 12,5 percent; in Holland, 8,5 percent; and in Italy 18 percent.

Before and during the first half of World War II the rates stood at 6 percent. By 1943 they had dropped to 4,75 percent and by the late 50s and early 60s had crept up to 6,75 percent.

Between 1964 and 1974 they settled at about 8,75 percent and then rose to 11 percent where they stuck until 1980.

Then they began to rocket, peaking where they are now.

Took 5 years

It used to take about five years to start reducing capital on one's bond; now it's twice as long — and a prospective homeowner has to earn far more even to qualify for one.

Of course, rates are not rising in isolation; interest rates are going up too.

But this is no consolation. You pay more, but you don't get more.

So ... who's to blame? The gold price and the Government.

Gold determines South Africa's level of liquidity. When the price is up, money flows into the country, easing the money supply and allowing rates to fall. When it's down, it's just the opposite.

The Government cannot do much about that.

And it could do little about the disastrous drought.

But economists point out that what it could have done was to have stopped runaway consumer — and its own — spending long ago.

By **Brian Parkes**

Now the brakes are on, and with a vengeance.

And things are going to get worse — all the economists agree on that.

This week they predicted even higher mortgage rates, something foreshadowed by Mr Horwood when he outlined the Government's plans to put the building societies on the same footing as the banks.

Gone were the days of 'cheap' bonds, he said.

Inflation is also expected to rise.

The buffeting the rand has taken from the dollar might aid the country's export drive, the economists agree, but it will push up the imports bill tremendously and that must filter through in the next few months.

'It means that the inflation rate will accelerate — and accelerate rapidly,' warns Mr Spring.

Mr A T Engelbrecht, chief economist of Volkskas, says: 'We have been getting poorer for the past three years ... and the process is continuing.'

Barclays Bank's chief economist, Dr Johan Cloete, agrees that the recession will worsen and warns that workers can only look forward to minimal rises.

In spite of that, Mr Spring predicts, that bracket creep could become bracket gallop.

'The Receiver may well find that his estimates are on the low side and that he ends up with a lot more than that R2 361 million he expects to take out of our pockets,' he said yesterday.

'Small wonder that tax avoidance appears to be South Africa's greatest growth industry.'

EDITORIAL comment in this issue by J O McMillan, A G Fishley, N G Elliott and B Parkes. Political headlines and sub-editing by R J MacMillan, contents bill by J Barker, cartoon by P Lessing, all of 12 Devonshire Place, Durban.

SPECTRUM ISSUE: Money

Sky-high SA rates

Argus 19/7/84 (49)

JOHN D'OLIVEIRA, Argus Foreign Service, London, and ANDREW WALKER in New York compare interest rates in top countries with those in South Africa

SOUTH AFRICA'S prime bank rate of 22 percent puts her spiralling interest rates way above Europe's highest.

And the South African hire-purchase rate of up to 27 percent is virtually double the US rate of 13,9.

The Australian prime rate is running at 14.5 percent to 14.75 per cent. Bond rates at present vary from 12 per cent to 12.94 percent.

Italy currently leads Europe with a prime lending rate of 17 percent but this is considerably higher than the European average and it is coupled with Europe's highest inflation rate, 11,3 percent.

In an effort to bolster the falling pound, Britain recently increased the bank rate, pushing the prime lending rate up to a distressing (for Britain) 13 percent and mortgage rates to between 12,5 and 13 percent.

This is the biggest increase in the mortgage rate for five years and, in one fell swoop, will push up the British inflation rate by Almost a full percentage point.

At present Britain's consumer price index is climbing at a modest annual rate of 5,1 percent and government officials still insist it will fall to below five percent by next year.

Even if the relatively high mortgage rate persists, this will mean an inflation rate for Britain of less than six percent for 1985.

Germany, with a prime lending rate of eight percent and an inflation rate of 2,8 percent, Holland, with a prime lending rate of 7,5 percent and an inflation rate of 3,6 percent, and Switzerland with a prime lending rate op 7,5 percent and an inflation rate of 2,9 percent, lead the Europeans at present.

The rates for other major countries are as follows:

Country	Prime rate	Inflation rate
Australia	14,75	5,9
Belgium	14,75	6,8
Canada	13,50	4,8
France	12,25	7,8
Sweden	12,00	8,9

South Africans facing hire-purchase rates of up to 27 percent and possible bond rates of 20 percent could be excused for feeling more than a little jealous of the rates charged in the United States.

An American buying a car today on a 48-month HP agreement would be charged 13,9 percent by a commercial bank, the same rate as last year.

And American automobile finance companies, looking to boost sales, are charging about 12 percent.

The South African home buyer could be excused for failing to understand why Americans are complaining about their bond rates. US rates have risen this year but they stand at less than 15 percent.

Conventional US mortage rates are now 14,6 percent, while the increasingly popular adjustable rate, which now accounts for about 65 percent of the market, starts at a little over 12 percent.

Americans are feeling so badly done by at being charged up to 14,6 percent that construction and sales have dropped off by as much as 30 percent in some areas in reaction to the bond increases, say construction firms.

But builders are not faring as badly as they did in 1982, when building sales plummeted as the bond rate "soared" to a record high of 16,75 percent.

The prime rate is causing some concern in the United States. It has risen just over two percentage points this year to 13,5 percent, and there are fears that it will reach 14 percent before the end of the year.

Consumer borrowing in the US has caused some surprise, with borrowing growing in most sectors except for housing, despite the "high" interest rates.

The Federal Reserve said this week that consumers took on more than R13-billion in May, representing the biggest monthly increase on record.

The consumer instalment debt is growing at about 19 percent this year, compared with an 11,5 percent rise last year.

Economists point out, however, that while having to pay more for credit (16,5 percent for personal loans and 18,7 percent for credit card buying), individuals are not as concerned about the increased cost of borrowing as they used to be.

A possible reason is the increased rates they are being paid on their deregulated bank deposits and savings accounts. Individuals are earning nine or 10 percent or more on savings now that they are allowed into the money market.

Inflation is a worry in the United States. Major econmic forecasting services warn that inflation could run at between five and 6,5 percent this year.

And renowned economist Milton Friedman says the US would be "fortunate" if inflation did not rise to 10 percent or higher by the end of the year.

Treasury Secretary Mr Donald Regan does not share the worries. He says inflation should remain at about four percent, "or slightly higher."

Japan cuts to five percent

The Argus Tokyo Correspondent reports low rates

AMONG Western industrialised nations, Japan has been most successful in holding down inflation and keeping interest rates to the bare minimum.

The Bank of Japan last October lowered its official discount (prime) rate half a percentage point to five percent where it remains today. It had been 5,5 percent for almost two years, a ridiculously low rate when measured against the experiences of the United States, Western Europe and now South Africa.

Stability

Economic stability has been maintained for so long that it would be regarded as a national disaster or the first magnitude if the bank rate suddenly had to be raised over, say, six percent.

The low rate has tended to weaken the yen against the US dollar because of an outflow of speculative capital in search of larger returns — high American interest rates have been a major attraction for the past couple of years.

Rather high

Nevertheless Bank of Japan Governor Haruo Maekawa justified the five percent level as necessary for Japan to attain a sustained economic growth based on stable commodity prices.

In fact, Mr Maekawa told reporters in announcing last October's cut that the discount rate level was still rather high in view of Japan's very low inflation rate.

Both the wholesale and consumer price indexes have been held down to extremely low figures for the past few years — somewhere around three percent increases annually on average.

Housing and land costs have stabilised after a runaway period in the early 1970s, and the biggest impact on the cost-of-living index in recent years has been regular increases in public transport costs, now among the world's highest.

Mortgages from banks don't vary with changes in the interest rates. depending on the bank and the customer's status, the interest rates on housing loans are anywhere from 6,5 to 9,5 percent.

Commercial interest rates followed the central bank lead downwards last October. The short-term prime rate is now 5,5 percent, while the long-term prime rate is 8.2 percent. The coupon rate on 10-year government bonds is currently 7,3 percent.

Consumer debts pile up

By Staff Reporter GRAHAM BROWN

CONSUMER debts are outpacing corporate indebtedness because consumers are borrowing more despite higher interest rates in a bid to maintain their lifestyles, according to Mr Alan Mankoff, managing director of Dun and Bradstreet.

Last year, he said, consumer debts had exceeded corporate debts for the first time, and the trend was accelerating this year.

Higher sales tax was partly responsible, he said, as was the easier availability of credit stemming from the proliferation of credit cards.

Other indications of growing indebtedness included:

- Last year the value of judgments for non-payment of accounts for consumer goods jumped 63 percent to R31-million, and judgments relating to rent were up 69 percent to R7-million.
- In January this year judgments against bounced checks rose 110 percent to R3,4-m.
- Some 746 companies were liquidated over the first three months of this year — 31 percent more than during the same period last year.
- The value of civil judgments against companies for debt in January/February was R4,6-m — 50 per cent up on the same period last year.

Mr Mankoff said many companies appeared to be extending their 30-day credit limit to 60 or even 90 days. Debtors were delaying payments because this meant they could delay borrowing from banks at prohibitive interest rates.

"Creditors are trying to keep up their relationships with late-paying customers. They do not realise they would be better off without such customers.

Building society spokesmen reported no increase either in arrears on mortgage bond repayments or on failures to maintain monthly contributions to subscription share accounts.

But one building society executive noted that the increase in mortgage bond interest rates on July 1 would not bite before August 1, when the higher instalments would be due for the first time.

People were inclined to give priority to their bond repayments because they knew they would lose considerably if building societies foreclosed on their houses.

The Department of Inland Revenue reported no change so far this year in the amount of outstanding income tax payments.

RDM 24/7/84 (49)

Trend upward, predicts economist

SA June-end inflat rate rises to 11,7%

By HOWARD PREECE

SOUTH Africa's inflation rate rose to 11,7% in the 12 months to the end of June, according to the official consumer price index (CPI).

This compares with 11% at the end of May and is the highest annual level since the third quarter of last year.

The CPI looks certain to increase again for July, with the net effect of the rise in general sales tax to 10% from the beginning of the month more than offsetting the exemption of basic foodstuffs from GST.

Some economists think the inflation rate could be up to 13% by the end of July.

The Department of Statistics says that the CPI for June rose by 1%.

A key role in this was played by food prices which bounded up by 1,7% last month to take the annual rate of increase to 13,75%.

The CPI in June was 291,2 against 288,3 in May and 260,8 in June 1983.

At the beginning of this year, Mr Owen Horwood, the Minister of Finance, said he expected inflation to drop to around 8% in 1984, perhaps down to 7,5%.

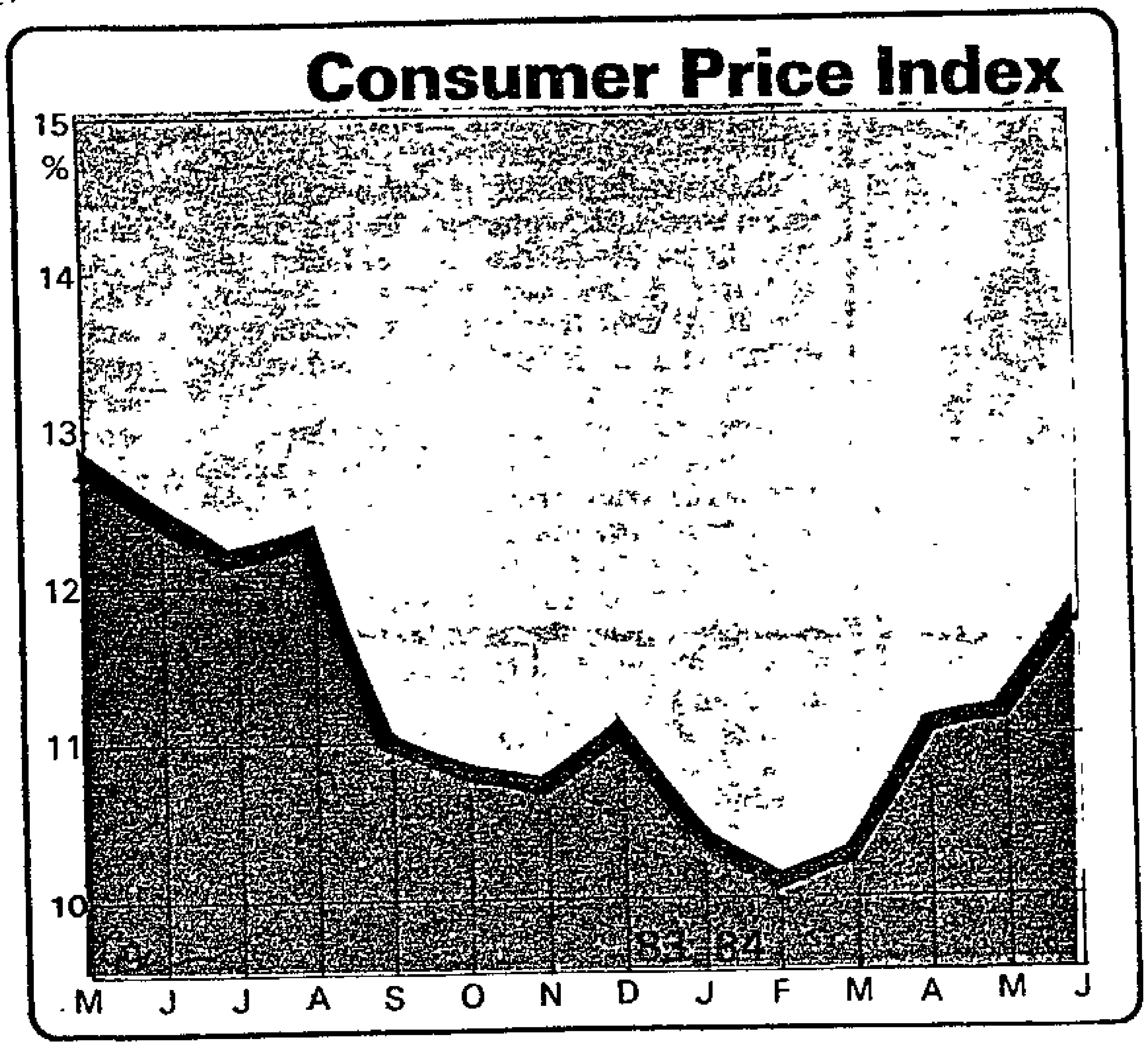
It is clear, of course, that this target will be nowhere near met.

Indeed, most economists now think the Government will be fortunate to keep the rate down to the 10%-11% range.

Recent months have shown a steady upward trend from the 10% annual level recorded in February — the lowest in over five years.

"The trend in the inflation rate is upward for the rest of this year," Mr Louis Geldenhuys, chief economist of Senbank, told Sapa yesterday.

He said the depreciating rand would make a big contribution to its increase during the rest of the year.



However, with gold still under severe downward pressures there is little prospect of any early reversal in the rand's fortunes.

Even if were to improve soon there would, in any case, be a lagging effect.

By the same token, the upward impact of the *de facto* devaluation of the past months has by no means yet filtered through fully to consumer prices.

All this makes it abundantly clear that the authorities will have minimal scope in the near future to ease monetary policies.

Rather, they might be tightened further.

Nor can more tax rises be ruled out over the 1984-85 fiscal year.

An apparent paradox of anti-inflationary policies is that they usually make the short-term position even worse, before the longer-term benefits are felt.

Higher interest rates, for example, obviously add to inflationary pressures.

Companies which have to pay more in interest charges will try to pass on the extra cost in higher prices.

Dearer mortgage rates are reflected directly in the consumer price index.

But if tough monetary and fiscal policies are pursued for long and determinedly enough they must eventually exert on inflation.

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RDM 24/7/84 (128) (49)

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June-end inflation rises to 11,7%

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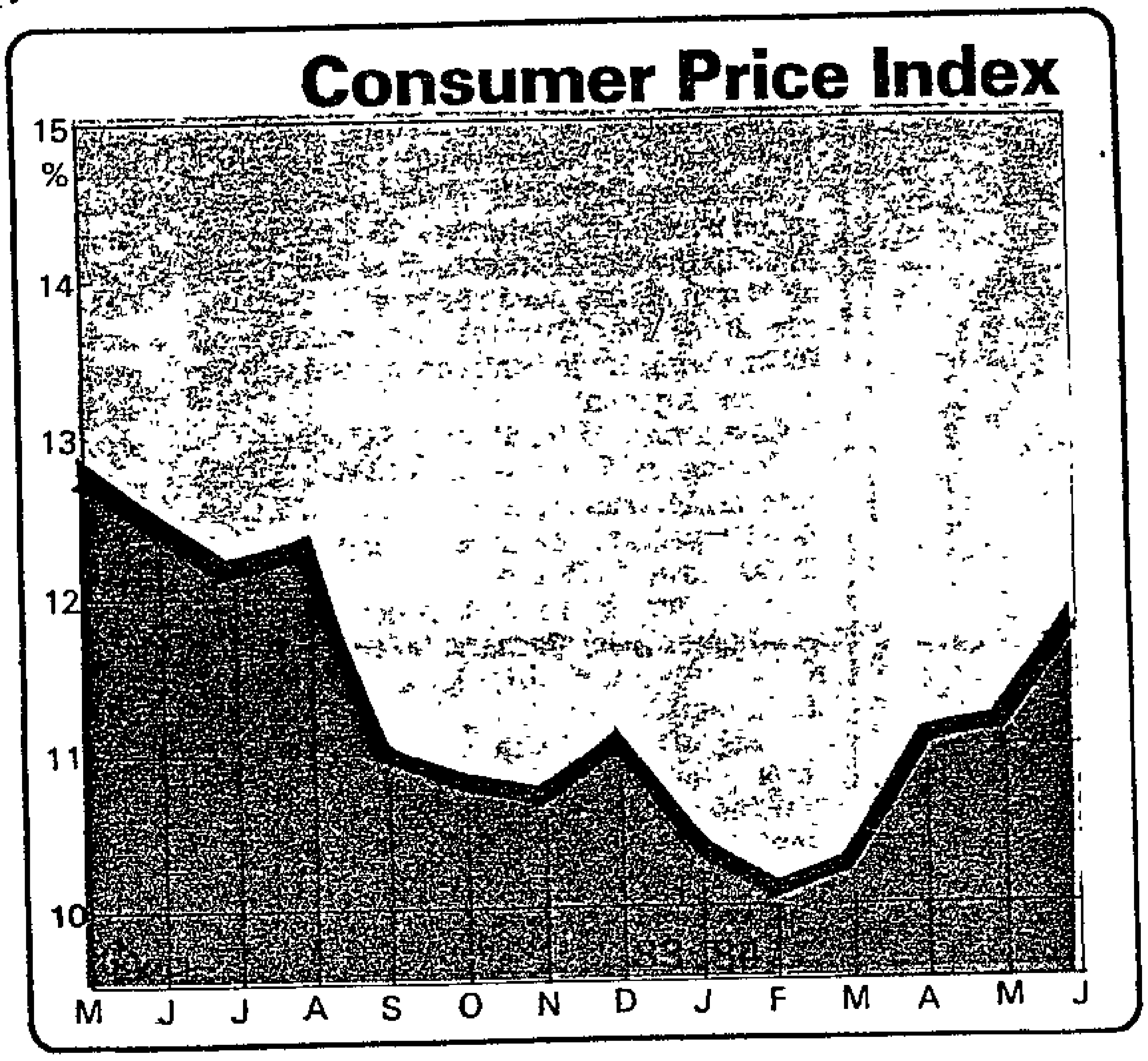

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Nor can more tax rises be ruled out over the 1984-85 fiscal year.

An apparent paradox of anti-inflationary policies is that they usually make the short-term position even worse, before the longer-term benefits are felt.

Higher interest rates, for example, obviously add to inflationary pressures.

Companies which have to pay more in interest charges will try to pass on the extra cost in higher prices.

Dearer mortgage rates are reflected directly in the consumer price index.

But if tough monetary and fiscal policies are pursued for long and determinedly enough they must eventually exert a downward effect on inflation.

When, however, monetary policies have previously been lax — as they have in South Africa — the time delay is that much longer.

With broadly defined money up by 19% in the year to May, and the narrowly defined M1 measure up by 32%, all the cost-push inflationary factors in the economy can exert an upward pressure on prices for quite some time yet.

Then, as the monetary squeeze really begins to grip the economy, this is likely to depress real economic growth so that the impact is seen in rising unemployment as well as in falling inflation.

Keep the squeeze on long enough, though, and inflation must certainly come down.

The problem, however, is that inflation is now so entrenched that the cost of cutting back the rate in terms of jobs and output is sure to be unhappily grim.

But nearly all economists believe there is no way of avoiding severe monetary and fiscal policies over the next year.

What many would like, in addition, are direct measures to try to reduce the structural weaknesses in the economy that make inflation much more difficult in practice to reduce than in other more responsive economies.

Mr Geldenhuys said yesterday: "It may be argued that the GST increase is not inflationary, but it is part of the inflationary process because it could lead to more wage demands."

Mr At Engelbrecht, chief economist for Volkskas, told Sapa prices of commodities were likely to continue rising as a result of the higher unit costs incurred in manufacturing brought about by lower production levels with the economic downturn.

Big R10 000m JSE slide

Mercury Correspondent

24/7/84

(49)

Business Mercury

JOHANNESBURG—About R10 000m has been lopped off the values of shares listed on the Johannesburg Stock Exchange over the past five weeks. The latest fall in the gold price has at last dented the remarkable confidence which the JSE had shown during 1983 and most of the first half of 1984 in spite of a series of major economic setbacks.

It is true, of course, that there was something of a mini-boom in the economy in the last two quarters of 1983 and the first three months of this year.

But that was more of a mistake — the result of extravagant increases in Government expenditure and a consumer spending spree fuelled by too low interest rates — than the product of deliberate policy.

Threat

As such it was seen by most economists, but not so much investors, as almost certainly making things worse for South Africa in the longer-term.

The country's biggest single financial threat — including the whims of the gold market and the crippling drought — is an inflation rate that has been entrenched above 10 percent each year since 1973.

The mini-boom has made much more difficult any major progress in tackling this crisis.

But in mid-June the JSE was still riding high.

The Rand Daily Mail 100 industrial share index was around 1 050, some five percent off its record level of 1 105,3.

Slump

The RDM gold index was also around 1 050, slightly further away from its record but still astonishingly high — more than twice the level of the end of June 1981, for example.

Gold shares have, of course, been bouyed by the slump in the rand against the dollar which has kept the rand gold price at a high level.

Even so the resilience of the JSE only made sense — and questionable at that — on the assumption of another early gold boom.

It finally seems to have dawned on Government, business and investors alike that there is actually no guarantee of this.

Diversity

Hence the decline in share prices — though there has certainly been no panic and even today general levels are still remarkably firm.

But all the weaknesses of the country's economy, long apparent to those who cared to look, are now painfully evident.

South Africa, for all its trumpeted diversity of resources, is still essentially a one-crop economy.

Gold accounts for almost half the country's total exports.

With two years of crippling drought to contend with as well as the gold slide the South African economy has not surprisingly has gone painfully backwards since 1981, even with the recent mini-boom.

Real gross domestic product fell by 3 percent last year after a 1 percent drop in 1982.

The first quarter surge in 1984 and the buying orgy ahead of the July 1 general sales tax rise should be enough for a token rise in real GDP this year, perhaps 1,5 percent.

But when an annual population growth of 2,6 percent is taken into account it is clear there a hefty drop in average per capita living standards has occurred over 1981-84.

Unemployment

Unemployment is naturally rising among blacks.

The government's own Manpower department admits that by 1987 the effective jobless rate could reach 22 percent.

Many companies are battling to stay afloat, and clearly not in the mood for expansion.

From early 1983 to now the prime rate overdraft rate has soared from 14 percent to 22 percent, and it is still under upward pressures.

This severe economic downturn — the worst South Africa has had since the 1930s — might not have been so bad, perhaps, if it had at least been accompanied by substantial long-term benefits.

But that is not really the case.

ere is precious little evidence of that .

Inflation, the most deep-seated financial problem, is currently running at 11 percent annually as measured by the consumer price index.

It seems certain that there will be a double-digit rate for 1984, the eleventh year in succession.

The balance of payments is also a constraint.

Deficit

The current account showed a deficit of almost R3bn on a seasonally adjusted annual basis in the first quarter of this year.

For the six months January to June the actual shortfall must have been around R1bn.

South Africa has suffered cruelly, of coursem from by events outside of its control.

The two years of drought devastatated agriculture, putting great strain on the current account of the balance of payments.

The slumping rand will basically look after this, but at the cost of a further sharp twist to the inflationary screw.

In any case South Africa has much to blame itself for.

Mr Owen Horwood, the retiring Minister of Finance, has long preached the gospel of "financial discipline".

The practise ? has been rather different.

Supply

In 1982 and 1983 the broadly-defined M2 money supply measure increased by 17,4 percent and 16,5 percent while the narrower M1 bounded up by 16,2 percent and 26,5 percent.

For the 12-months to May this year the rates are 19 percent and 32 percent.

That is alarming by any standard.

So has been the persistent heavy overshooting each year in the 1980s of the state spending estimates in the various Budgets.

It is not only monetarists who find this record alarming.

No wonder inflation is so high.

Maybe South Africa's fortunes will turn.

A bumper agricultural crop and an upturn in gold would be a massive help — although inflation would still put a huge restriction on economic growth.

But there is no guarantee that these things will happen.

The stock market's new caution is surely correct.

Mercury 24/7/84 (49)

Further hammering for economic scene

Financial Editor

THE ECONOMIC scene was hammered again yesterday as the rand fell to new lows against the dollar, the gold price remained below $340 and money market interest rates rose sharply presaging another prime rate rise.

Inflation went upwards in June to 11,66 percent.

The rand fell to 64,85 US cents just before noon yesterday — further low point in the two-year plunge. It closed at 67,00/10 on Friday to produce an effective three percent devaluation.

The strength of the dollar and the declining gold price were cited as the reasons for the fall in the rand. The previous last low of 66,20 was on July 11. Later in the day it closed at 64,70/80.

Head

Gold was fixed yesterday morning at $335,25 compared with the opening $335,50/336,25 and Friday's close of $340,50/341.

Gold in post fix trading was quoted at $335/336 and closed at $335.

On the money market in Johannesburg, three-month liquid bankers acceptances were trading at around 19,85 percent at mid-session yesterday, up sharply from around 19,50 percent on Friday and a fix of 19,60 percent at the opening, dealers said.

The margin between prime and the BA is now 2,15 percentage points and banks need about 1,50 points to cover their costs.

The resumed upward trend has prompted speculation of a further hike by the Reserve Bank in its cost of accommodation to banking institutions to hold down speculation against the rand, and also raises expectations of another rise in prime rate from the current record 22 percent which was set only a week ago, they added.

Not all dealers agree that the Reserve Bank will make such a move.

Dealers told Reuters last Saturday that market expectations were for a further rise in prime to 23 percent.

Spending

This was geared to inflation, which was reported higher yesterday, and the central government's inability to hold down spending.

The money market shortage stood at R2 200m on Saturday.

National Acceptance's Mike Wells reported that there is an unexpected increase in demand for borrowings from companies. This will push up interest rates.

South Africa's consumer price index rose one percent in June after a 0,77 percent rise in May, pushing the year-on-year inflation rate to 11,66 percent from 11,01 percent, Central Statistics Office figures show.

The index, base 1975, rose to 291,2 in June from 288,3 in May and 260,8 in June 1983. A year ago, inflation stood at 12,37 percent.

The food-only index rose 1,68 percent to 314,4 from 309,2 in May, giving a year-on-year rise of 13,75 percent against 11,58 percent in May. The index was 276,4 a year ago.

GST rise

Economists interviewed, by Sapa, prdicted that the inflation rate for the year as a whole would be 11,5 to 12 percent.

The big leap from 11 percent in May to 11,7 percent in June has taken most experts by surprise as the GST increase on most commodities from 7 to 10 percent had not yet come into force and the sharp decline of the rand against major currencies, began occurring only towards the end of June and thus had minimal impact.

'The picture looks bleak. It will be surprising if the inflation rate for the year is much below 12 percent,' said Dr Johan Cloete, chief economist for Barclays Bank.

'The trend in the inflation rate is upward for the rest of this year,' said Mr Louis Geldenhuys, chief economist of Senbank, who said the depreciating rand would make a big contribution to its increase during the rest of the year.

'It may be argued that the GST increase is not inflationary but it is part of the inflationary process as it could lead to more wage demands,' he said.

Inflation

'The July year-on-year inflation figure is expected to be of the order of 13 percent.'

In addition to the GST increase and the weakening rand, the steadily-rising interest rates which were likely to push up mortgage rates again would keep the inflation rate for 1984 well above the 10 percent target, Dr Cloete said.

Mr A Engelbrecht, chief economist for Volkskas, said prices of commodities were likely to continue rising as a result of the higher unit costs incurred in manufacturing brought about by lower production levels with the economic downturn.

RDM 26/7/84 49

Frozen food market growing fast

By PRISCILLA WHYTE

THE R38m-a-year frozen food market is growing at 10% annually — more than twice the rate of the bread and maize market.

Mr Arnold Pretorius, deputy managing director of Associated Bakeries — part of the Premier group — attributes the dramatic growth to changing lifestyles.

"The working housewife is attracted to the frozen food market and the TV dinner is also here to stay."

Associated SA Bakeries entered the frozen food market three years ago. It includes burgers, pizzas, pies, frozen meals and desserts in this sector.

After spending 14 months surveying the market for acceptable ready-made meals, it bought out an existing factory in Cape Town.

Frozen meals, launched in April, have been well received on the Reef, in Natal and the Cape, according to Mr Pretorius.

At the moment the target market is the A and B income groups of marrried females.

Mr Pretorius says growth will come from increased consumption rather than population growth.

The first stage of the marketing strategy is the consumer market but the industrial sector will also be penetrated.

The electrification of Soweto means there is also potential in the black market.

Mr Pretorius says the launching of new products into the retail sector is not plain sailing because competition is fierce.

The bread market, he says, is worth R800m a year and has not felt the recession.

"But if the downturn continues there might be an increase in consumption as the man in the street finds he has less to spend."

He believes the drought has promoted the bread-eating habit.

The shortage of white maize has made the commodity less acceptable to consumers.

SA exports to Italy climb

By PRISCILLA WHYTE

EXPORTS to Italy increased by 5,9% last year, to R399m, while Italian exports to SA slumped 15,85% to R516m.

The Italian-SA Chamber of Trade and Industries added that these figures do not include large precious metal sales.

Mr Danilo Benevelli, secretary general of the trade association, says he does not expect two-way trade to improve between SA and Italy before the end of the year.

He notes that the lira appears artificially strong against the rand.

One rand is worth 1 185 lire while only two months ago it equalled 1 380. The dollar/rand exchange rate also favours SA in its trade with Italy.

Major exports to Italy last year consisted of minerals R189m, metal goods R69m, textiles R69m, chemicals R8m, animal products R6m, vegetables R4m, paper and paper products R3m and foodstuffs R3m.

Italian exports to SA consisted in 1983 mainly of minerals R4,485m, chemicals R27m, plastics R20,5m, textiles R45m, tiles and ceramics R34m and machinery R232m.

Mr Benevelli says the investment opportunties in Southern Africa are attractive to Italian industrialist.

Opportunities are available particularly in the independent states, such as Bophuthatswana, which has a lower corporate income tax rate of 40% compared to 50% in SA.

ROM 26/7/84 (49)

Shortfall in net service payments

First-half BoP deficit R900m

By HOWARD PREECE

SOUTH Africa had a deficit of about R900m on the current account of the balance of payments in the first half of this year.

This estimate is based on the preliminary export and import figures for Janury to June from the Department of Customs and Excise.

According to Customs there was a trade surplus of R1 124m for those six months.

In June there was a favourable balance of R272m from exports of R1 924m and imports of R1 653m.

But the overall current account continues to run in the red because of a large shortfall each month — it averaged just over R330m for January to March this year — on net service payments.

These items include dividend and interest payments, insurance, shipping and tourism.

Given the likely adverse effect of the rand depreciation on services there must have been a net foreign exchange loss on services of around R2bn in the first half of 1984.

Take the provisional R1 124m trade surplus from that and an overall deficit on the current account of some R900m for January to June seems reasonable.

It has to remembered, of course, that the Customs figures are early, unofficial guidelines to the country's trade record.

The official statistics come from the Reserve Bank.

According to the bank's quarterly bulletin there was a current account deficit of R448m for January to March 1984.

But it calculated that this position was actually worse than it appeared because it was equivalent to a deficit of R3bn on a seasonally adjusted annualised basis.

However, it does appear that the current account position has been improving in recent months.

In the first four months of the year Customs reported trade surpluses of R176m, R78m, R208m and R92m respectively.

For May the figure was R298m — the best so far this year — and in June it was R272m.

Even so, it will be seen that these surpluses are still not sufficient to cover the shortfall on services.

Obviously the latest slide in the gold price is hardly helping the current account.

However, the steep decline in the exchange rate value of the rand against the dollar is giving hefty support to export earnings in rand terms.

At the same time, the sharp rise in the rand price of many imports must curb demand for them.

But there is a cost to this process, to be paid in terms of inflation, because of the higher rand prices of imports generally.

For the six months to June South Africa's import bill, Customs says, was R10 183m.

That is over 37% up on the 1983 half-year level of R7 405m.

However, imports earlier this year were running at well over 40% up on the 1984 equivalents so the trend is falling, albeit rather modestly.

Customs says that in the first half 1984 exports totalled R11 307m against R10 421m for January to June 1983.

That is an increase of only 8,5%.

Allowing for the fall in the value of the rand it means that export volumes have performed disappointingly.

Sapa reports that a breakdown of the trade figures shows that Europe remained the major importer of South African goods during the first six months of this year, with exports to the continent totalling R2 966m.

This was followed by Asia, which imported commodities totalling R1 396m.

Exports to America fetched R1 099,8m.

Europe remained the largest supplier of goods to South Africa during the first half of this year, with the figure topping R4 444m.

South Africa imported goods worth R1 973m from America, while imports from Asia totalled R1 847m.

Imports from Africa amounted to R225m.

S African economy is in big trouble — Economist

49 Star 28/7/84

The Star's Foreign News Service

LONDON — South Africa's "worst recession since the 1930s" might loosen its grip if there is a break in the drought or an upturn in the gold price, but the country's deeper problems would remain untouched, says the influential Economist magazine in a hard-hitting review of South Africa's economy.

It sees the country as essentially a one-product economy, weighed down by a falling real GNP, rising unemployment and taxes, a balance of payments about R1 000 million in the red, and a colossally expensive commitment to the policy of apartheid.

The Economist also alleges that "for the past two years businessmen, and especially professionals on the Johannesburg Stock Exchange, have avoided acknowledging this" - the gravity of this recession.

"Many were hoping for a revived gold boom to rescue them but the gold price has kept falling. South Africa, long plagued by high inflation and recently by drought, is in undisguised trouble."

The Economist warns that the situation could "seriously incovenience the neo-apartheid policy of Mr P W Botha".

Unemployment is rising and by 1987 the effective black jobless rate could top 22 percent.

And whites, too have seen better days, it said. They were now paying 19 percent for mortgages without tax relief "and there could be more to come."

The review adds: "All this pain might have been worthwhile if it had been accompanied by an attack on the structural weakness of the South African economy. But there is little evidence of that."

Only politics will balance South Africa's books

Moses Maubane: "Our future depends on what PW Botha will do."

WHEN Moses Maubane, Afribank's chief executive and managing director, left the comfortable academic life at the then University of Botswana, Lesotho and Swaziland seven years ago, two crucial challenges faced him.

One: He had to succeed and satisfy his urge to make a positive contribution to the advancement of his people.

Two: He had to succeed in a black-orientated and black-owned business operation.

"Most of my colleagues said I was making a serious mistake, particularly about joining a black organisation. But I'm happy that the opposite has happened," chuckles Mr Maubane, who has since risen to become one of the most important black voices in the country's corporate world.

In addition to his services in the Free Market Foundation, he serves on the Association of General Banks, on United States-South Africa Leadership Exchange Program and is treasurer of Atteridgeville's Thabong Home.

"While lecturing, I felt I had reached a stage in my career which required me to make a change. I was beginning to miss the real world. I needed something more than the theory of things," said Mr Maubane.

He took the plunge and joined the growing black business giant, the National Federated Chamber of Commerce, as an executive director.

And he adds: "Joining Nafcoc came at an interesting time after my academic background. It was one way to make a positive contribution to black advancement."

This bundle of business brains and energy was born 43 years ago in the then black Pretoria township of Bantule.

It is when Mr Maubane talks of the future that you forget that he is a trained chartered secretary and holds a diploma in banking.

He is also a member of the SA Institute of Management, Institute of Marketing Management and the Association of Commercial and Financial Technicians of SA.

"My feelings are that the future for blacks is exciting in some respects — exciting because we can succeed.

"My optimistic view depends very much on what Prime Minister PW Botha and his party see as the best interests of the country," he said.

"They will have to move towards the political accomodation of blacks."

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Afribank boss Moses Maubane . . .

A slice of the cake is all we ask

IN RECENT months the concept of capitalism has come increasingly under heavy fire from blacks from all walks of life.

Blacks are becoming more and more disenchanted with what they perceive to be an economic system bent on benefitting a small portion of the population.

In addition there has been charges by very influential people in the black community, particularly those who are in the political arena, that capitalism in South Africa is practised on racialistic lines.

They have as a result coined the phrase "racial capitalism".

During March 1983 I myself had this to say at a conference in Johannesburg: "If efforts towârds the establishment of a black capitalist class were not stepped up, South African blacks would be driven into the adoption of a more radical system in order to redress the unfair situation prevailing".

And "there is a very strong possibility that we will soon have to contend with foreign concepts like Marxism".

At that conference where the charge of "racial capitalism" was made, a news report was circulated which read as follows: "Some 800 blacks representing about 200 organisations unanimously adopted a manifesto at the weekend identifying racist capitalism as the real enemy and planning to work for an establishment of an non-racial socialist republic."

We are told South Africa is a free enterprise system economy.

I can, therefore, venture to say that broadly speaking South Africa does not have a free enterprise economy.

And I am saying so knowing this is actually drawing swords against quite a great number of well-thinking people, including those who profess to be supporters of the black cause.

However, I do believe that it would be totally irresponsible of myself or any other right-thinking person, to really equate the system of free enterprise in South Africa with the true and genuine article.

In a sense one can say that South Africa has a mixed economy with very strong socialistic leanings.

I do not have to explain to township dwellers what it means to live in these townships.

To me nothing is more socialistic than the entire framework of township life in all its facets.

If you look at the means of production in the township, one is struck by the fact that the assets that really matter are not in the hands of the people or the entrepreneurs, but are really in the hands of the State or para-State organisations.

Even if one takes a more benign look at the country as a whole, one is struck by the fact that that there is an anomaly in the whole set up.

WORKERS GIVE THE NOD TO SOCIALISM

SOUTH Africa's workers don't see any benefits in capitalism for anyone except the bosses. There is also great potential for industrial unrest and the workers are ready to accept socialism.

These are the recently-released findings of a study carried out by Project Free Enterprise headed by Professor Martin Nasser at the Unisa School of Business Leadership.

The report has sparked off intense debate. Afribank managing director Moses Maubane gives his view.

Wealth is concentrated in the hands of a few wealthy people or highly powerful combines or organisations whereas the bulk of the people do not really seem to be benefitting from the wealth of the nation as such.

Again I would like to point out that if one were to look at effects of the mixedness of this economy on the nation as a whole, one is struck by one thing, and that is apartheid and its policies is a very costly luxury to a nation which can least afford it.

I believe if one were to quantify in money terms the cost of pursuing the policies of separation and so forth in this country, that cost would indeed be mind-boggling.

You know that the more than 22 million blacks are for all intents and purposes excluded from the mainstream of the so-called free enterprise economy in South Africa.

My argument is that it is not possible to increase the black man's participation nor to be able to sell the acceptance of a system which is not seen to be beneficial to them under the prevailing economic dispensation.

It is equally important to realise also that to make black capitalists, we would have to accept that we cannot achieve this purely in a vacuum.

If we believe that we can create black capitalists in a vacuum we have to realise that we are totally deluding ourselves.

Usually white people, in an attempt to smear the black people's legitimate right to demand equality of treatment, bringing up the argument of the one man, one vote bogey.

The one man, one vote bogey is supposed to be the very thing that white people fear as they see this as an attempt by the majority of the black population to dominate them.

I do not think that blacks really intend to dominate anyone but are simply asking to be given an opportunity to share equally with all people of this land.

The matter of education is obviously of utmost importance.

The availability of good quality education is of the utmost importance to the black masses.

If we do not overhaul the differentiated systems and so-called separate but equal education, I do not think we will achieve any significant progress in the march towards opening up the economy.

It is great cause for concern that the equitable distribution and thus the ownership of wealth in South Africa, is to say the least, highly skewed.

It is a formula for disaster to have more than 68 percent of our wealth concentrated in roughly 16 percent of the population.

It is a well-known fact that the Government of the day has been prone to sacrifice economic common sense on the alter of political expediency.

Small wonder then that today South Africa is relatively far from realising its economic potential.

Policies such as the border industries and the deliberate holding down of the economic growth of the country are party of our past economic legacy.

The history of the trade union movement in our country is not a happy one.

Much has to be done to break down the fears and distrusts that seem to characterise black and white management labour relationship.

But one must be aware that black people, who are the ones who are said to be causing the disruptions, have many genuine grievances against the system.

And we have to be aware that this is the price we have to pay in not having involved organised black labour earlier in its formative stages into the main stream of the economy.

However, its success (free enterprise) as an overall economic order supported by all South Africans will depend on the extent to which the Government is prepared to move towards doing away with the laws which presently impede both black business and individuals from full and meaningful participation.

How willing and courageous will the Government be to introduce fundamental reforms?

Will these reforms help to a great extent to make blacks of all political persuations give the system the chance it deserves? Are we going to be able to find answers to the problems of the distribution of wealth which the socialist order purports to be able to solve?

Business Day/LABOUR

WDM 2/8/84

Social unrest seen as price of stagnation

(49)

By MIKE JENSEN
Financial Reporter

SOCIAL unrest is inevitable unless action is taken to change the direction of the economy, says a Natal University professor.

If current economic trends persist, overall unemployment will rise to 25% by the end of the next decade. In the more densely populated areas it could be as high as 30% to 35% and conditions in which one in three is out of work will inevitably be socially disruptive, says Development Studies professor Jill Nattrass.

Writing in the Human Resources survey of the influential periodical, Leadership SA, she says growing unemployment levels are the product of high population growth rates, a slowing down of economic growth, an increasing tendency toward economic concentration and the use of more capital-intensive production methods.

"In any developing economy it is the industrial sector and its satellites, the commerce and service sectors, that are the areas which one would expect to dominate economic progress. Unfortunately, these are the very sectors in which the rate of job creation is slowing down."

Reviewing the policies proposed to increase or create new employment opportunities, she says problems have arisen in all three of the main techniques.

These are: Fostering the growth of the non-agricultural sector of the economy as a whole, encouraging a switch in production techniques from the capital-intensive to the labour-intensive and generating a relatively faster growth rate in sectors using more labour-intensive production methods.

Encouraging the growth of the non-farm sector has usually included the following measures:

- Increasing the domestic savings capacity of the economy through the formation of savings institutions and tax concessions for savers.
- Increasing the rate of capital formation with investment allowances for taxation purposes, tax holidays and state provision of infrastructural capital.
- Creating a suitable labour pool by providing education and training programmes as well as labour recruitment outside national boundaries.

While these measures have generally worked well to produce economic growth, they have largely failed on the employment side, says Professor Nattrass.

Increased capital formation has been accompanied by the increased use of capital-intensive production methods and the movement of people from rural to urban areas has meant the labour supply has grown faster than job creation.

"As a result of this failure it is no longer accepted that economic growth alone can successfully solve the employment creation problem."

Attention has thus focused on encouraging the use of labour intensive production methods designed to prevent the under-pricing of capital and the over-pricing of labour.

Similarly the price of capital is usually too low because the domestic currency is overvalued, leading to unrealistically low prices of imports. In addition, imperfections in capital markets have led to an oversupply of funds in the urban areas and scarcity in the less-developed rural areas.

Proposals designed to encourage growth rates in labour-intensive industries have concentrated on three main strategies — export promotion, income redistribution and the development of small-scale industry and commerce (particularly in the informal sector).

Export promotion policies have been attractive since developing areas are seen to have a natural trade advantage in the production of commodities with a high labour input. Increased earnings of foreign exchange have also been an incentive.

But countries using this method to increase employment face a number of problems, says Professor Nattrass.

"They have to obtain access to the markets of the developed economies, which is often difficult because in many instances these markets are heavily protected by tariffs and there are often substantial transport costs.

"Secondly, they must be able to produce a commodity that can meet the sophisticated needs of these markets, which is frequently beyond the scope of their technical ability."

A number of Latin American studies suggest significant employment spinoffs could result from a more equitable distribution of income. The reason is that low-income groups spend more of their wages on food and labour-intensive commodities than on the luxury goods bought by high-income groups.

One such income redistribution strategy gaining favour among planners is the Basic Needs Approach, says Professor Nattrass. Fostered initially by the International Labour Organisation, this technique seems to have great promise in southern Africa.

"By planning to produce commodities which meet the basic needs of the low-income group, one ensures that, providing the price is right, there is a market for the output.

"This significantly reduces the risk element in investment projects and enables planners to make the optimum use of limited capital resources."

(49) D. Dispatch 2/8/84

Strikes increase as economy slumps

JOHANNESBURG — Five times as many workers were involved in strikes during the first five months of this year than in the same period last year, according to government figures.

The figures also reveal there were almost three times as many strikes between January and May than during the same period last year and that the everage length of strikes is increasing.

These statistics have been revealed by the Director-General of Manpower, Dr Piet van der Merwe, who said the sharp rise in strikes was probably the result of economic conditions which had prompted both increased wage demands by workers and a tougher stance towards them by employers.

His comments follow warning by trade unions with large black memberships that increases in general sales tax, as well as price rises in basic fooodstuffs and services, were fuelling worker militancy.

The increase in strikes recorded in the official figures is even greater than that noted by a leading labour relations consultancy, which earlier this year reported a 40 per cent rise in strikes over the first quarter of 1984.

DR V.D. MERWE

According to the Department of Manpower's figures, there were 160 strikes between January and May this year, involving 35 754 workers. In the same period last year there were 54 strikes involving 7 098.

The average strike lasted 2,6 days in the first five months of this year, compared to 2,2 days in the same period last year.

If the present trend continues, this year's strike figures are likely to rival those for 1982, when 394 strikes involving over 141 000 workers were recorded — the highest figures in the past decade.

Commenting on the figures, Dr Van der Merwe said 1983 had seen "moderate" wage demands by workers, while this year employers had been faced with relatively high wage claims.

"But as the recession bites deeper, employers find themselves increasingly unable to meet these demands and are forced to adopt a stronger stance than in the past," he added.

Dr Van der Merwe said the state of the economy was proving a "double-edged sword" for labour relations. "Employees are finding it harder to make ends meet, while employers are finding it harder to raise wages — this obviously causes conflict." — DDC

The people want an equal share of the wealth

49 C. Press
5/8/84

EQUITABLE distribution of wealth has been the catch phrase of the socialist camp from as far back as the 19th century, at the time of the Socialist International under the auspices of Marx and Engels, right up to 1919, when Lenin & co. changed the Socialist International to Communist International.

In the congresses of the Socialist International and Communist International, the capitalist-socialist controversy characterized the tone of the proceedings. It was international capitalism versus international socialism.

This bout carried itself over into the territories of Africa as international capitalism translated itself into colonialism and neo-colonialism in Africa. What both the West and East could not understand, up to this day, was the trend and character socialism took in Africa.

The character of socialism in Africa came to be known as African socialism — a concept distorted and misunderstood not only by the East and West but even by some of the Africans, particularly those who have not yet outgrown the Western colonial mentality whatever their level of education.

While socialism has one basic principle, the program of implementing this principle can never be the same from country to country as long as the countries differ in culture, belief and wealth.

A writer of dispute

VUSI NKUMANE still thinks of the 1981 Azanian People's Organisation congress in Pietersburg where he delivered a controversial paper.

In his capacity as chairman of the black consciousness-inclined Music, Drama, Art and Literature Institute, he stepped on a number of toes when he was prevented from explaining his paper, which warned of inroads by liberals and Marxists into black consciousness movements.

That paper was later intended to be used at a symposium planned for soon afterwards.

But the symposium never took place.

Today Mr Nkumane, manager of the Council for Black Education and Research, a part-time economics tutor to the SA Council for Higher Education and a teacher at Soweto's Ipelegeng Community Centre, sees it like this: "The effects of that paper still haunt Azapo."

But it has never been easy for Mr Nkumane, who spent 12 years on Robben Island a year after he matriculated at Pretoria's Kilnerton High in 1962.

Here lies the confusion of failing to understand African socialism. African socialism is socialism practiced by the Africans in relation to the historical socio-economic objective conditions prevalent in Africa. This is to say the prerequisites of understanding African socialism are:

African history
African culture and
The wealth of Africa relative to its labour force coupled with entrepreneurship.

Understanding the first two parameters will shed light on why the African majority would prefer socialism to capitalism. The last parameter will shed light on why the African socialists will, against the will of the East, ask for loans and investments from the West and even send their students predominantly to the West while rejecting capitalism.

Zimbabwe is a typical example of this behaviour. Africans of my calibre are not perturbed by Mugabe's economic policies for we fully understand why he applies them. Hence we were not shocked or surprised when Machel signed the Nkomati agreement. It was the relationship between the abundant wealth of Mozambique versus the inadequate capacity of its manpower which resulted from Portuguese colonialism.

A study of African history will throw more light onto this assertion. On the other hand, African culture will show why African socialists cannot do it the Russian or Chinese way. Simply because they are neither Russians nor Chinese — they are Africans. They are Africans because their culture is African. Why, then, in terms of the South African objective conditions, is socialism more attractive than capitalism? The answer to this question is both historical and environmental.

According to European history, European socialism was a product of the relationship between the capitalists and the working class. Of significance is that both these classes were members of one nation. Hence the struggle between the two was a class struggle, not a national one.

Sociologically speaking, it was an internal clash of the cultural values of one nation. According to the structural functionalist analysis, the capitalists as representatives of the bourgeoisie were the conformists and socialists as representatives of the workers were the deviants who had to be sanctioned. Hence the class struggle.

On the other hand, according to African history, African socialism is the maturity or highest stage of communalism known as Ujaama in Swahili and Ilima in Nguni-Sotho. (Note the common stems - ma in both Ujaama and Ilima).

This is to say socialism in Africa is a continuity of communalism into a modern framework of economic systems. It is a development, a promotion and projection of primitive African communalism into a present dynamic and modern method of economic growth.

In this sense, socialism in Africa is an African cultural value. Hence, for Africans it is both normal and logical to be socialist because that is where their humanity lies. To be a socialist is to be human and to be a human is to be socialist.

From a structural functionalist viewpoint it is the other way round in Europe. In Africa you are a deviant if you are not a socialist. Capitalism in authentic African culture is synonymous with dehumanization. This is why it can never be acceptable. You have to deculturize or de-Africanize and Westernize an African to make him accept capitalism. The same condition also applies to communism.

Environmentally, the Africans have suffered and are still suffering as a nation. Unlike the social struggle in Europe where the struggle is between the haves and have-nots of one nation, in South Africa the struggle is between the haves and have-nots of two distinct nations.

The present problem is how to implement the principle of socialism on the present socio-economic conditions created by colonialism and neo-colonialism. The class struggle will take over as a result of some of the African nationalist governments putting on the boots of their former masters. The tendency is that such leaders fail to liberate themselves from western cultural values which are inevitably conducive to capitalism.

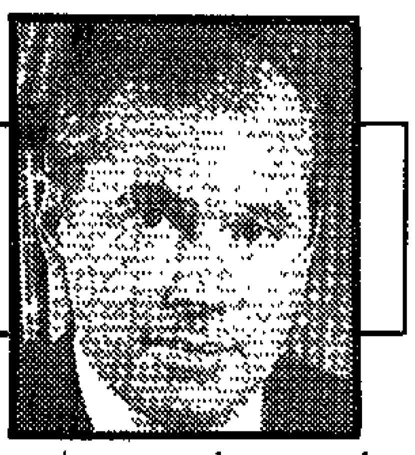
S. Tribune 12/8/84 (49)

AUGUST 12/84

Why South Africa is going through its worst economic recession since the

The price of racism's red tape

By CHRIS BALL
Managing Director of Barclays Bank



SOUTH Africa is going through its worst economic recession since the 1930s. To pretend otherwise would be unrealistic and foolish, as recent Government moves in a bid to end the inflation spiral must result in a period of austerity and belt tightening for many of our population.

For the past two years the Government, businessmen, and especially professionals on the Johannesburg Stock Exchange have avoided acknowledging the fact that this recession is here. Many hoped for a revived gold price to rescue them. But the gold price has kept falling and South Africa, plagued by high inflation, low productivity, and recent drought, is in undisguised economic trouble.

We had a mini upturn in the economy in the second half of last year, but it came too soon which was a pity. I think we must appreciate that the drought over the last couple of years plus the reduction in the gold price since 1982 levels has caused an evaporation of liquidity. Despite this absence of liquidity there has been a crazy consumer boom which we could not afford. The reason for it has been simply the reluctance of the Government to impose restraints and discipline during a period of political activity — the referendum and now the coloured and Indian elections.

Government strategy in the past few years has been to neutralise the political opposition in the country by admitting the gravity of the economic situation to the minimum extent necessary. This strategy has depended in part on the Government's ability to spend on programmes to benefit special interest groups such as farmers and civil servants and now, if they accept Mr Botha's offer, Indians and coloureds.

But where is the money to come from in future?

In the last four budgets Mr Horwood provided for increases in Government expenditure of 14 percent, 16,8 percent, 11,5 percent, and 10,3 percent. The actual increases were 19,8 percent, 19,9 percent, 16,8 percent, and 16 percent.

It is therefore no surprise that South Africa has failed to get inflation down to the levels reached by its main trading partners. It is the Government itself that, far from setting the public consumers a good example, has been a prodigious spendthrift.

One main reason is apartheid and the bureaucracy that goes with this system where one third of all white workers are employed by the public sector. We have one million civil servants in South Africa and colossal sums are squandered on the red tape of racism.

Regardless of one's political affiliations, perhaps there is some truth in the fact that the Government has been in power too long. There is a certain callousness and lack of sensitivity about some of their actions.

I am being outspoken because rationality requires people to say what they think.

I am reminded of that very successful South African-born Israeli foreign minister who went on record as saying that many nations return to rationality only when they have exhausted all other possibilities. I think we have just about got to that point.

We must ask ourselves are we going to retain a stable western-type economy or are we going to move to something like a quasi-South American state?

We have to face the fact that the likely course of America and the dollar at this point will not be good for gold and there are very few factors that indicate gold is going to rise in price to any significant degree. Therefore there is not going to be significant support for the South African economy from exports next year.

The sharp depreciation of the rand is likely to accelerate the rate of inflation and it could rise to 15 percent within the next few months. We are therefore going to have relatively high interest rates. Business will cut back sharply in all directions, including salary and wage increases, and on new and fixed investments.

Now all this is pretty depressing and means we will have low and even negative growth over the next 12 months.

In fact the real growth rate for 1985 will probably be below that for 1984. Even if the gold price should increase substantially a sustained recovery can come about only when the inflation rate has been brought under control.

We have a new Minister of Finance, Barend du Plessis, who did a great job in his first portfolio. I think generally the business community welcomes his appointment and has very high expectations of him.

If I was to become Minister of Finance at this time, this would be my advice to myself:

- — do not do too little too late.
- — extend the free market operating concepts as rapidly as possible to all Government bureaucracies.
- — get interest rates down. The present levels are unacceptable and do untold damage to the whole structure of the economy.
- — in order to achieve a reduction in interest rates, get the inflation rate down. Here I have some concern for the apparent lack of interest shown by certain members of the Government in achieving this goal.
- — remove as rapidly as possible all legislation in South Africa which perpetuates the bureaucracy of apartheid and infringes on the freedom of economic activity.
- — cut down the waste of money on the bureaucracies of the homelands. We spend R2,2-billion per annum subsidising the governments of our semi-independent nation states.
- — suggest to the Prime Minister that he should form a small economic council representing the interests of the whole community. The present economic advisory council does a good job but it is too big.
- — publish my intentions regarding reducing the rate of inflation and what I, as Minister of Finance, would ask the Prime Minister to do to achieve this.
- — publish very clearly and forcibly exactly what increases there would be in Government expenditure in the next 12 months;
- — and stick to it. I think that would make clear to people that I as Minister was determined the rate of inflation was going to come down.

If the government is serious about lowering inflation, then interest rates must come down

Finally, I should like to end on a positive note by saying I commend Minister du Plessis for his boldness and for making a forceful entry on to the scene at a time which certainly requires both action and resolve. However, in this case I do think the Government has over-reacted and done too much too late.

If, nevertheless, it gives clear unambiguous evidence that it is serious about lowering inflation, then it will only be a matter of time before interest rates come down.

Big Brothers, remove the crust from YOUR eye before we take the crumb from ours

SET AN EFFICIENT EXAMPLE TO INSPIRE YOUR WORKERS TO PRODUCE MORE

By COLLEEN SHEARER

THE message from The System is: Tighten your belts, Consumers!

But can we do it without hurting ourselves? And others?

The problem is that cures usually cause discomfort and a cure certainly is needed for the disasters the dollar and drought have inflicted. But with those whose enlarging girths are the cause of their tight belts, loosening them could be therapeutic when one considers the overweight enjoying a new slimline. A more energetic line. A more productive line.

Just as business ills usually start at the top — the manager inspires (or otherwise) his entire staff and operation — then, too, the cure should start with The Boss.

Granted, many consumers spend too much too foolishly on things they do not need, but there are those who are finding it onerous to keep their heads financially above water.

The little men and women cannot really influence the economy of a country by dutifully saving, saving, saving as the economists and The System urge in an almost testy tone (Why *won't* those consumers stop spending — we wouldn't be in such a mess if they'd practise frugality).

But just imagine, Big Brother, where would you be if we did? If the little people save so much, won't the wheels of industry slow down, put people out of jobs, and exacerbate the problem?

Ah yes, there are some economies we little people can apply by making sure we get value for money, by taking time over purchases, by reading every clause in a contract, by making comparisons before committing our cash, by studying menus before we order, by buying what we need before what we want.

This would earn us the respect of Big Business who would then have to employ new ways of parting us from our money (even though they profess to wanting us to save!). But we would be too smart and finally, mercifully, Big Business would get the message —

We must become more efficient and productive.

That is the bottom line to recovery.

So Big Boys, managers, let your belts loosen. Forget the perks and plush lunches, the Grand Cru and crab, and examine the crust in your own eye before seeing the crumb (which fell from your table) in ours. You must set an example, an efficient example, and instead of working out how you can avoid tax on income and expense account, look to ways of inspiring your staff to produce more. We'll buy it because we'll respect you.

Suggestion number one is get to work at the same time as your staff and get down to work at once — preferably with your coat off. Don't order coffee as an automatic reaction to sitting down in your swivel chair (didn't you have breakfast?) but go through the mail and memos which your soon-to-be-inspired secretary will have placed on your desk. A workmanlike desk, devoid of silly executive-style gimmicks like The Thinker or clicking balls. What a waste of money they were if you're thinking of stopping *us* from spending.

When you've planned your day, go out among the staff — yes, in your shirtsleeves — and let them see you are interested in them and the way they work, not just the fruits of their labours. Have eyeball to eyeball meetings with your workforce because shared thoughts will generate new ideas which, being from the workforce familiar with working conditions, will work.

Result? Productivity will take off and profits increase. And the workforce should benefit by taking home more money — to be spent and keep the wheels of commerce turning. You can base salary increases on productivity — and not service — we'll respect that if we respect the Boss.

Yet Save, says The System, Save. I reckon my way is better. The System will still get the money, but this way via income tax and company profits instead of by imposing more and more GST on less and less money.

An area which demands urgent attention is payment. Much of Big Business is quite unconscionable about slow payment — 60, 90, and even 120 days to settle their debts, yet the supermarket chains and discount houses demand cash from us! — meantime, shrewdly investing the money they owe.

A much healthier economic system for everyone would be if *all* dealers were to be paid within 30 days, with a penalty for late payment.

That would keep money in circulation, save the manufacturers from increasing basic prices to overcome 120-day-old debts which, in unrelenting time, always come back to the consumer in the form of higher prices. ALL credit should be disciplined, not just the consumer's.

Another thing that bothers me is the banks. In the old days if a customer wanted a loan he spoke to the manager. Today you seldom get past the smiling young lady at the counter (her beam acts like a laser barring you from the inner sanctum) and you might also miss out on a real experience. This of facing a bank manager who has one glass eye, and that eye is more sympathetic than his real one when the subject of an overdraft arises . . .

Yes, it taught customers to respect him, and money. Undoubtedly. Real serious Nedbank stuff . . .

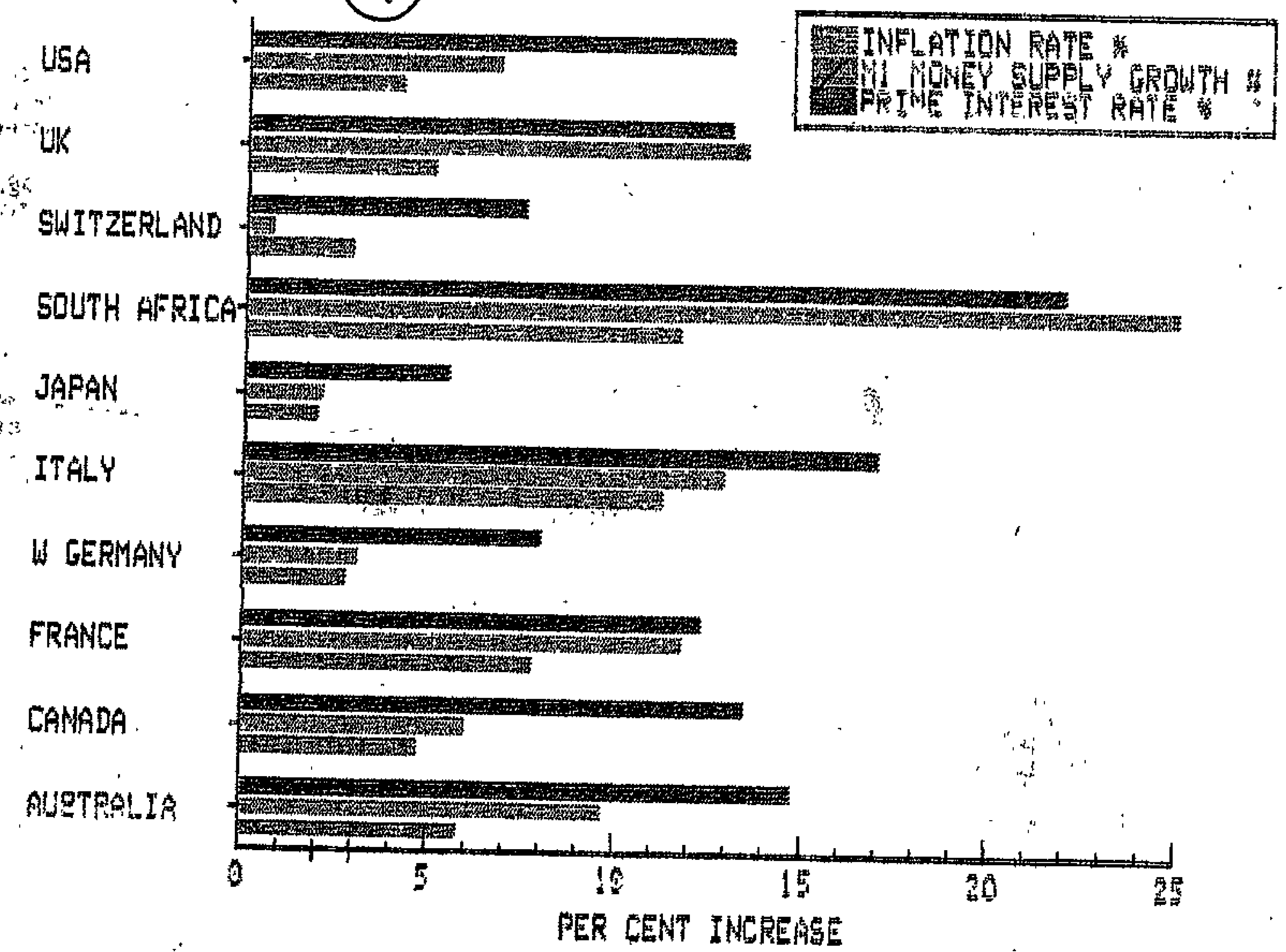
But today what is even worse for the consumer's welfare than being refused an overdraft is being granted credit card facilities with a largesse which borders on the imbecilic. It is virtually pushing people into debt and the heavy suspicion lurks that as the banks make up to five percent on all credit card transactions, they are reluctant to curb this lucrative area of spending.

This is when your bank manager is no longer your confidant, and you are no longer his valued customer. No, you are merely a means to more profit, even though he won't have *earned* it.

That is the sheet anchor of a sound economy — that everyone, from The Boss down, should *earn* their wages and so restore the integrity of that valedictory presentation — a well-earned retirement.

Ah yes, it's productivity that will fill our economic sails once more and set us on a profitable course, but the Captain must know how to sail his ship, otherwise the unproductive shall perish.

RDM 16/8/84 (49)



THE weak state of the South African economy is highlighted in an international survey of economic indicators in Western countries by Simpson, Frater, Stein & Strong. A comparison of average figures for the last 12 months shows South Africa to have the highest inflation rate, the highest prime interest rate and by far the highest M1 money supply growth rate.

'Capitalism is alien to urban blacks'

(49) Star 16/8/84

By Andrew Beattie

Urban blacks are not equipped to compete in private enterprise and find the legal system oppressive, says Mr J H Booyens, a lecturer in politics at Potchefstroom University.

Mr Booyens was lecturing last night to the university's Institute of Politics and Africa Studies on the socio-economic plight of urban blacks.

Mr Booyens's lecture concentrated mainly on phenomena in poor black urban communities.

Various studies had shown that, although blacks had been introduced to the concept of private ownership some time ago, it did not fit in with their culture.

Particularly in the poorer communities, families were expected to share commodities with neighbours and, if they failed do so, they became victims of derision and gossip.

An indication of the success of this type of sharing was the fact that there was no evidence to suggest that ghetto blacks starved during the Great Depression of the 1930s.

Another sign of the urban blacks' inability to participate in the broader economy was the proliferation of "stokvelle", or "informal credit mechanisms", whereby a group of people in the community would "club in" and cash could be given to one member at a time to buy goods.

In the past century, black farmers in areas such as Transkei and Ciskei had been able to produce a surplus which could be marketed but, apart from this limited example, the black culture had not embraced capitalism.

Among the statistics obtained by Mr Booyens from various studies in urban black communities were:

- The average breadwinner in a township near Grahamstown earned only R134 a month.
- More than two-thirds (68 percent) of all Sowetan breadwinners had educational qualifications lower than Std 8.
- Half of the breadwinners for families in the townships around East London were women. In Soweto this figure was 18 percent and it was, perhaps, as high as 51 percent in the older Reef townships.
- Of all childbirths, 70 percent occurred outside marriage.
- Of all crimes 30 percent involved violence.

These, and other studies, indicated that many urban blacks lived in a social environment in which there was a conflict between traditional and modern values, a breakdown of the nuclear family unit, alienation, extreme lack of privacy, alcoholism and frequent violence. To add to this, many children were forced to work from an early age.

Mr Booyens said that those who wished to better their lot by furthering their education usually chose an academic, instead of a technical, course of study.

"It is as if they believe that their way to the corridors of power will be facilitated by sitting behind a desk with a pen.

"Urban blacks are pessimistic — they feel as though they are puppets with no control over their own future and see the legal system as oppressive.

"They do not plan for the future and they do not build castles in the air. Their life is a constant struggle to survive," said Mr Booyens.

22/8/84

Oil price decline could spell stagflation for SA

By Professor Roger Gidlow

The quadrupling of oil prices in the early 1970s marked the end of a period of almost uninterrupted growth in real income in western countries as a whole and the start of a decade of anemic economic growth and high inflation.

These conditions proved to be highly beneficial for South Africa in the sense that two prodigious economic booms were generated on the back of surges in the prices of precious metals.

When official oil prices fell by $5 a barrel in early 1983 this was associated with a fall in the price of gold of roughly $100 an ounce, and the bullion markets have yet to recover from this shock.

Now the oil markets are again looking vulnerable along with the precious metals.

The question, therefore, is whether the South African economy is due to be dealt yet another unanticipated shock on top of these already inflicted in recent years through world recession, falling commodity prices and droughts.

To start with it is not at all clear whether oil prices will decline.

The role of Saudi Arabia is crucial in this respect.

The Saudis are reported to have cut their production to barely more than four million barrels per day from 5,5 million barrels a few months ago, and Iranian exports are also believed to be declining.

These developments, along with signs that non-Opec producers such as the United Kingdom and Mexico are closely collaborating with Opec, provide some tentative grounds for assuming that prices can hold.

On the other hand, if they don't South Africa will be negatively affected, and the grounds for this assertion are provided by simulation exercises undertaken by the London stockbrokers Phillips and Drew.

The brokers conclude that if official oil prices fell from $29 a barrel to $22 the rate of inflation would be directly reduced on average by 1,5 percent in the industralised countries.

When the indirect effects of falling oil prices on wages and costs of production are taken into account the final reduction could be even higher.

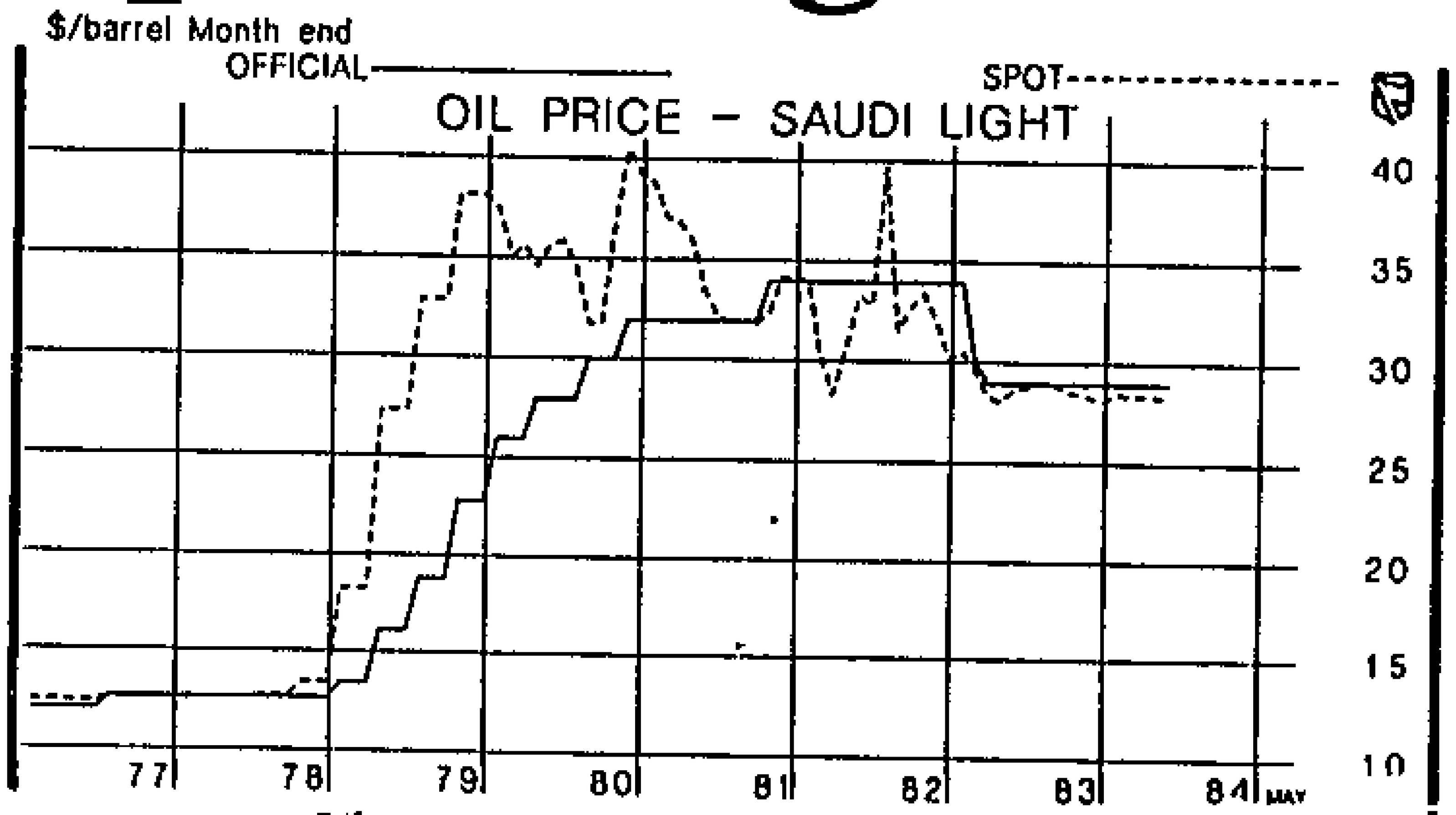
The Third World debt crisis would be complicated by a drop in oil prices.

It could well be that the benefits to Brazil would be more than counterbalanced by the extra strains imposed on Mexico and Venezuela.

What is more, pressures would be exerted on American banks which are over-extended in loans granted to the oil industry.

Nevertheless, even when allowance is made for these factors, the price of gold could still fall markedly as inflationary expectations are diminished, and this, in turn, would weaken the rand yet again in the foreign exchange market.

On the positive side, economic growth in the non-communist countries should benefit from a fall in oil prices, and thereby spill over to South Africa.



Oil price ups and downs since the 1970s.

The balance of payments positions of most industrial countries would benefit.

According to Phillips and Drew a reduction of $7 a barrel would yield a collective improvement of $15 billion in the current account position of industrial countries, and the higher real incomes would be spent on extra goods and services, thereby boosting the imports of these countries.

At the same time, Phillips and Drew argue that the cutback in imports by oil producing countries would be modest, purchasing $6 less of imports for every $10 fall in oil earnings.

The end result would be a higher volume of world trade.

This would boost South African non-gold mining exports, but it is still doubtful whether this benefit would fully compensate for the potential fall in gold earnings.

South Africa now desperately needs a sustained expansion in exports if there is to be any chance of a meaningful economic recovery in the next two years or more.

A drop in oil prices might condemn South Africa to an extended period of economic stagnation and high inflation.

Argus 22/8/84 (49)

Exports at record level lift trade surplus

EXPORTS hit a record R2 200-million last month, up from R1 920-million June, according to Customs and Excise figures.

This helped lift South Africa's trade surplus to increase to R464-million from R271-million in June.

However, the surplus was well below the R592-million for July last year.

IMPORTS ALSO UP

Imports also rose, to R1 730-million from R1 650-million.

Figures for the first seven show the surplus of R1 590-million sharply down from R31610-million a year ago.

Exports for the seven months totalled R13 500-million, while imports were valued at R3 610-million.

RDM 22/8/84 (93)

JULY TRADE SURPLUS IS THE BEST YET

By HAROLD FRIDJHON (49)

SOUTH AFRICA had a balance of trade surplus of R464m in July. This is the best monthly figure achieved this year.

It follows a surplus of R271m in June, and R298m in May. The total surplus for the first four months of the year was R554m.

The encouraging feature of the figures is that July exports were R274m higher at R2,198bn, but imports rose by only R81m to R1,734bn. It is still too early to judge whether the rate of imports has slackened, an important factor in trying to restore South Africa to economic health.

Compared with the first seven months of last year, when the positive balance of trade was R3,612bn, the total balance of trade for the seven months of this year was R1,588bn, resulting from exports of R13,504bn and imports of R11,916bn.

But this balance of R1,588bn does not put the current account into surplus. Service payments abroad account for about R300m a month, according to the average of the published figures for the first three months of this year. These payments are for dividends, interest, shipping, insurance and tourism.

Assuming the rate of R300m a month for service payments — although with the depreciation of the rand this could now be higher — net service payments would amount to about R2,1bn for the seven months. This suggests that the deficit on the current account of the balance of payments is now around R512m. This is an improvement, but certainly insufficient for the country's needs. The current account must be brought into surplus by cutting back on imports.

The July figures released by the Commissioner for Customs and Excise show the major destination of the country's exports was Europe, which bought R3,586bn worth of goods last month. Asia followed with R1,741bn and the Americas with R1,335bn. Africa took only R513m worth of exports and Oceana R100m.

The largest volume of imports came from Europe, with total purchases of R5,245bn. America was the next biggest supplier with R2,333bn. Then followed Asia with R2,198bn. Imports from Africa were a mere R258m and Oceana R150m.

Imports of classified goods, such as oil, and adjustments made to bring these figures into line for balance of payments purposes, amounted to R1,73bn.

12 SA firms going bust every day

ROM 25/8/84 (49)

By GEOFFREY ALLEN

SOUTH African businessess are currently being liquidated at the rate of 1,4 each hour of every working day — and that's before the Government's draconian anti-inflationary measures announced on August 3 have taken grip.

During the past four months, an average of 12 firms a day have been into final liquidation.

In addition, consumer hire purchase spending in the first six months of this year has risen 40% over the same period last year to a massive R9 900-million while total savings have dropped 1,5% to R4 700-million over the same time span.

The message from liquidators and a major international credit agency was: "You haven't seen anything yet."

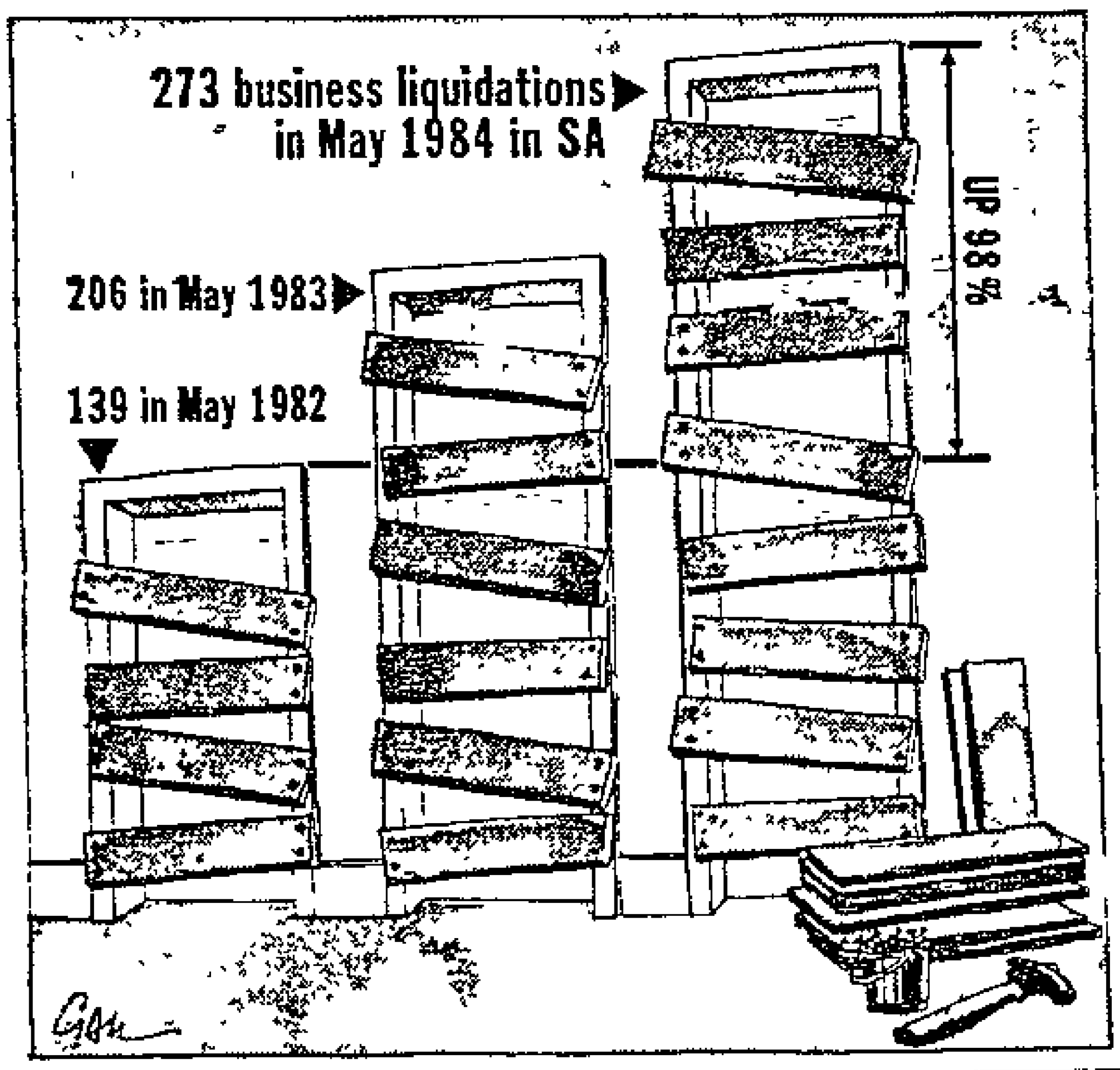
Hold on to your hats is the firm signal.

In the first five months of this year, 1 195 firms were liquidated and leading liquidators say this is just a start.

A doyen of liquidators, Mr Albert Ruskin, said the increase in bank prime lending rate has not had time to take effect yet.

"But it will have a marked effect soon.

"A large part of the problem is that people start businesses on borrowed capital and run up overdrafts and then when this sort of thing happens they simply cannot pay the bills," he said.



Mr Neil Bowman of Westtrust said there had been a marked increase in liquidations over the past four months.

Normally it is small companies which go to the wall but, according to Mr Bowman, middle-range companies are now also feeling the pinch.

"If you consider that a business with a R2-million overdraft has to pay R500 000 in interest a year without redeeming a cent of the capital, you can understand the extent of the problem," he said.

One of the companies he is currently handling is the fertiliser company, Henhill.

"When the drought came along that was that. The company simply could not cope with the lack of demand," he said.

The statistics are startling:

- In May 1982, 138 companies were liquidated.
- In May 1983, 206 companies were liquidated.
- In May 1984, 273 companies were liquidated.

That's a 98% increase from 1982 to 1984.

Civil judgments for unpaid debts against companies rose 47%, from R1 800 000 in February 1893 to R2 700 000 in February this year.

Mr Alan Mankoff, managing director of Dun and Bradstreet which monitors individual and company indebtness and credit-worthiness, said the civil actions took place during a mini-

Dockers go for second strike at Britain's ports

LONDON. — Delegates of Britain's dockers yesterday voted for the second strike by Britain's port workers in just over a month, posing a further threat to an economy already buffeted by a 24-week coal stoppage.

Sapa reports that officials of the Transport and General agreement, paralysed 61 ports for 12 days.

There were signs, however, that the south coast ferry port of Dover, where stranded lorry drivers threatened to riot last time, and the east coast container port of Felixstowe, might not join the new stoppage.

Here w... go aga...

NEW DELHI. — An... Airlines steward on ... Boeing 737 hijacked hore yesterday was his third enforced ... Pakistani city, an... spokesman said.

He said Mr D K M... on board an Indian plane hijacked to ... July and was also on hijacked to Lahore ...

Mr Mehta's la... jackers are Sikh ... armed with dagg... yesterday released ... sengers, including a ... tack victim.

Last night they ... surrender if the ... offered political as... if 14 Sikhs, currently ... hijacking, were ... Sapa-AP.

● See Page

RESIDENTS SMIL...

The ward councillor for Cheltondale, Mr ... yesterday, while a resident, Mrs Louise ...

By NICOLA BEKKER

CHELTONDALE PARK has been saved — and lovers of the cherished patch of suburban greenery yesterday emerged victorious after a six-year battle with the Johannesburg City Council.

But although Cheltondale residents were grinning all the way to the park, the council was not happy.

A notice for an application for leave to appeal was lodged in the Rand Supreme Court yesterday after a judge ruled against a council scheme which proposed flattening the park to make way for a public road.

Coun... for r...

Rawicz, Mr W... Mr Irwin R... Ms Daphne M... entered into a ... with the auth... vember 1978.

The park, Mr ... said, was a "... ished amenity" ... ren, dog-wal... cricketers, sun... kite-flyers.

However, to ... the park is ... Hypermarket, built in 1978.

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Mr Neil Bowman of Westtrust said there had been a marked increase in liquidations over the past four months.

Normally it is small companies which go to the wall but, according to Mr Bowman, middle-range companies are now also feeling the pinch.

"If you consider that a business with a R2-million overdraft has to pay R500 000 in interest a year without redeeming a cent of the capital, you can understand the extent of the problem," he said.

One of the companies he is currently handling is the fertiliser company, Henhill.

"When the drought came along that was that. The company simply could not cope with the lack of demand," he said.

The statistics are startling:

- In May 1982, 138 companies were liquidated.
- In May 1983, 206 companies were liquidated.
- In May 1984, 273 companies were liquidated.

That's a 98% increase from 1982 to 1984.

Civil judgments for unpaid debts against companies rose 47%, from R1 800 000 in February 1893 to R2 700 000 in February this year.

Mr Alan Mankoff, managing director of Dun and Bradstreet which monitors individual and company indebtness and credit-worthiness, said the civil actions took place during a mini-boom towards the beginning of the year.

Since then, the Government has increased the bank prime lending rate from 22% to 25%.

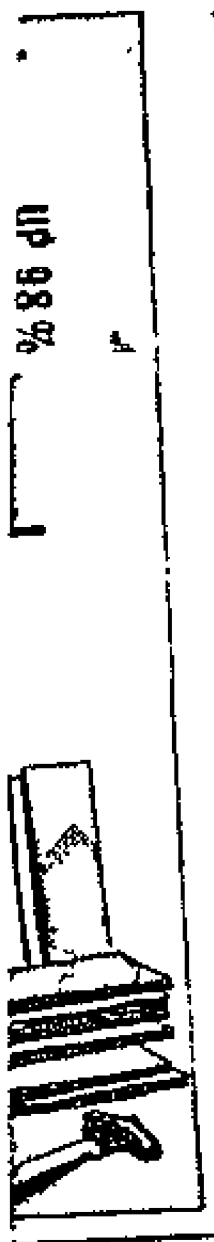
Most lenders, however, can force the price as high as 28%.

"There will probably be a significant deterioration in payments in the coming months until say the end of 1985 or the first quarter of 1986," Mr Mankoff said.

"As a warning to small bussinesses the slogan 'Business as Usual' is going to be very dangerous.

"They are going to have to re-examine every transaction to ensure that they can be paid within the period stipulated in the terms of agreement," Mr Mankoff said.

Until April this year, voluntary personal bankruptcies rose 12% over last year to 335 246, with cash debts of R200-million outstanding



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RESIDENTS SMILING ALL THE W...

The ward councillor for Cheltondale, Mrs Claire Quail, and local children cele... yesterday, while a resident, Mrs Louise Mitchell and her cousin, Stuart M...

Council plan for road fails

By NICOLA BEKKER

CHELTONDALE PARK has been saved — and lovers of the cherished patch of suburban greenery yesterday emerged victorious after a six-year battle with the Johannesburg City Council.

But although Cheltondale residents were grinning all the way to the park, the council was not happy.

A notice for an application for leave to appeal was lodged in the Rand Supreme Court yesterday after a judge ruled against a council scheme which proposed flattening the park to make way for a public road.

Mr Justice F C Kirk-Cohen ruled in favour of Cheltondale residents Mr Ashley Tugendhaft, Ms Daphne Rawicz, Mr William Lane, Mr Irwin Rabinowitz and Ms Daphne Murtagh, who entered into a bitter row with the authorities in November 1978.

The park, Mr Tugendhaft said, was a "much cherished amenity" for children, dog-walkers, casual cricketers, sun-seekers and kite-flyers.

However, to the north of the park is the Norwood Hypermarket, which was built in 1978.

Because of traffic problems at the Hypermarket, the council, owners of Cheltondale Park, proposed to build a road through the park to link up with the existing road.

In May 1978, the council sent a bulldozer to plough through the park to begin the road construction, apparently without authority to do so.

And so began fierce op... position from Progressi... Federal Party councillo... and residents in the area. ... petition against the r... link was signed by 1... residents.

Only after residen... threatened to bring an ... terdict against the c... cil's management comm...

WP take on Bulls

Mail Reporter

WESTERN PROVINCE, the defending Currie Cup rugby champions, will seek to hold on to their four-year unbeaten home record and their current A Section leadership when they entertain Northern Transvaal in Cape Town today.

Province and Northerns are battling Free State for the two A Section semi-final places. Struggling Transvaal play against Northern Free State at Ellis Park.

● See Back Page

Currie Cup rugby live on TV today

TV Correspondent

THE CURRIE Cup match between Western Province and Northern Transvaal at Newlands will be screened live on TV1's "Sport '84" this afternoon.

But that's all the rugby there is on the box this weekend and during the two sports programmes next week.

"Winter Sports Special" tonight features highlights of the Austrian Grand Prix on August 19.

Other items this afternoon are:

- Motor racing: National Champions... meeting, Kyalami.
- Horse racing: The R150 Clairwood Gold Vase.
- Table tennis: SA v Int... tional Team, first Test, ... ban.

The international ... tics meeting in Pretoria ... tween SA and the U... Israel withdrew — will ... "Sportfokus" on Tuesd...

Wednesday's "Spo... sion" will feature hig... of the Budapest Grand ... Athletics.

Govt told: Cut spending or else

Argus 28/8/84

49

Financial Editor

IF THE economy was to be restored to health the Government must cut its spending, even if this meant it had to retrench staff, the Governor of the Reserve Bank, Dr Gerhard de Kock, said today.

Dr Gerhard de Kock ... retrench staff if necessary.

He told the bank's annual meeting in Pretoria that the Reserve Bank was following a tight money policy aimed at curbing inflation and improving the balance of payments in order to prepare the way for more rapid economic growth.

"If there is not enough fiscal policy in the overall policy 'mix', interest rates will have to shoulder too much of the burden and remain high for too long a period."

This would hurt among others "drought-stricken farmers, small businesses and those home-owners who do not enjoy the benefit of subsidised mortgage loans".

"I cannot over-emphasise the critical need for cutting back public-sector spending, whether by privatisation, the termination of certain services or even the retrenchment of less productive staff."

The central Government's total salary and wage bill had increased 30 percent between the first quarter of 1983 and the first quarter of 1984, he said.

De Kock said the Minister of Finance had undertaken to make a further statement on the position as soon as possible.

This was to be welcomed "as it is important for business concerns and the general public to be able to judge the impact of fiscal policy in the period ahead as accurately as possible".

He said the main instruments of monetary policy in use at present remained the market-orientated methods of public debt management, open-market operations, rediscount policy and intervention by the Reserve Bank in the foreign exchange market.

Worst of both

His message was a hard one. The country faced a difficult period of belt-tightening.

The authorities could not afford to bank on a falling dollar or a recovery in the gold price, but had to tackle the existing problems by pursuing an appropriately restrictive mix of monetary and fiscal policies.

In order for present policies to exert their full effect, the country in the short term had to be prepared to experience the worst of both worlds — a recessionary tendency in the economy, coupled with an accelerating rate of inflation.

Dr de Kock said present indications were that the real gross domestic product would show a rate of growth of roughly three percent this year.

RDM 29/8/84 (49)

'State job trims needed'

By PAUL BELL

IF State jobs have to be cut back, it will have to be done by a process of natural attrition, in terms of the Government's rationalisation programme, Dr Gerhard de Kock, Governor of the Reserve Bank, said last night.

He was commenting on his speech at the annual meeting of the bank yesterday, in which he referred to "retrenchment" as a possible option to cut public spending.

And he stressed the approach adopted by the SA Transport Services.

SATS has cut staff by about 40 000 to 239 000 in a two-year economy campaign and has almost wiped out a projected budget deficit for 83/84 of R634m.

Dr De Kock said private sector employment graphs reflected very clearly the state of the business sector. Public service graphs did not, but he was not suggesting people be fired.

He said in his speech: "I cannot over-emphasise the critical need for cutting back public sector spending, whether by privatisation, the termination of certain services or even the retrenchment of less productive staff."

The Minister of Finance was investigating these options and a statement would be made soon.

Last night, Dr de Kock said the important thing was to cut on Government spending.

The situation in which the Government's wage bill had risen 30% between June 1983 and June 1984, should not be repeated.

GERALD REILLY reports from Pretoria that the suggestion of possible retrenchments has caused a nervous tremor in the public service.

Salaries paid to Government workers according to the Minister of Internal Affairs, Mr F W de Klerk, amount to more than R5 000 million a year — about 20% of Government spending.

The chairman of the Federation of SATS Trade Unions, Mr Jimmy Zurich, said yesterday: "We have done it in the railways."

Mr Zurich said that despite staff cuts of 40 000 "the railways are still running and productivity has increased".

The cuts had saved the railways tens of millions of rands a year.

The president of the Public Servants' Association, Dr Colin Cameron, said raising productivity in the service was a major priority. An outside organisation would probably be called in soon to review productivity.

● The Minister of Internal Affairs, Mr F W de Klerk, last night denied reports that large-scale salary improvements were taking place in the civil service.

● See Business Day

Kom 29/8/84 (49)

De Kock warns of hard times ahead

Harsh medicine here to stay

By HAROLD FRIDJHON

A STRONG hint that the present "strict measures" to cope with South Africa's economic difficulties would not be short-lived was given yesterday by the Governor of the Reserve Bank, Dr Gerhard de Kock.

In his address at the bank's annual meeting of stockholders, Dr De Kock said:

"Provided that we persist long enough with these policies, even after the balance of payments has moved into surplus... the long-term interests of the South African economy will be well served."

He warned the country was facing a difficult period of belt-tightening and adjustment. The economy had moved into a temporary new downturn that would only be transformed into an upturn at a later stage.

Nobody could tell how deep and protracted the recession would be. It depended on many factors, among them the behaviour of the dollar, the gold price, the commodity markets and the climate.

It would be irresponsible for the authorities to base their policies on assumption that these factors would be favourable.

The drastic corrective measures announced on August 2 indicated policy would not be based on wishful thinking but on following a restrictive mix of monetary and fiscal policies, assisted by tighter hire-purchase restrictions.

These policies were designed to:

- Reduce the rates of increase in bank credit and money supply;
- Reduce the rate of increase in total spending and to cool down the economy;
- Reduce further the volume of imports and to increase exports to transform the already declining deficit in the current account of the balance of payments into a substantial surplus;
- Reverse the tendency for the rand to depreciate against the currencies of major trading partners;
- Strengthen the net gold and foreign exchange reserves, mainly through the repayment of official short-term credits;
- Stop the tendency for the rate of inflation to accelerate and eventually to achieve a marked decline in the inflation rate; and
- Provide a sound foundation for rapid real economic growth on a sustainable basis.

It would take time for these policies to exert their full effect.

"In the short-term we must be prepared to experience the worst of both worlds — a recessionary tendency in the economy coupled with an accelerating rate of inflation," Dr De Kock said.

"The recession will be the combined result of natural economic forces and the present tight monetary policy. And the anticipated acceleration of the inflation rate will be the inevitable consequence of the overspending (by both the public and private sectors) and the large depreciation of the rand during the year."

The beneficial results of the present strategy would emerge in due course. The drop in the rand appeared to have been arrested, if not reversed.

"As imports fall further and exports rise in the months ahead, the balance of payments on current account should continue to improve and can be expected to show a sizeable surplus in 1985, even without any material rise in the gold price."

There would come a stage when the net official foreign reserves started moving, the rand appreciated and ultimately "there should be a significant decline in the rate of inflation — the ultimate policy".

"If this strategy is to work, it is highly desirable that monetary policy should receive the full support of fiscal policy.

"If there is not enough fiscal policy in the overall policy mix, interest rates will have to shoulder too much of the burden of adjustment and will remain high for too long a period," Dr De Kock said.

It would require Herculean efforts by the Government to prevent its total spending and "deficit before borrowing" from assuming unduly large proportions in 1984/85 and 1985/86, thereby undermining the official strategy against inflation.

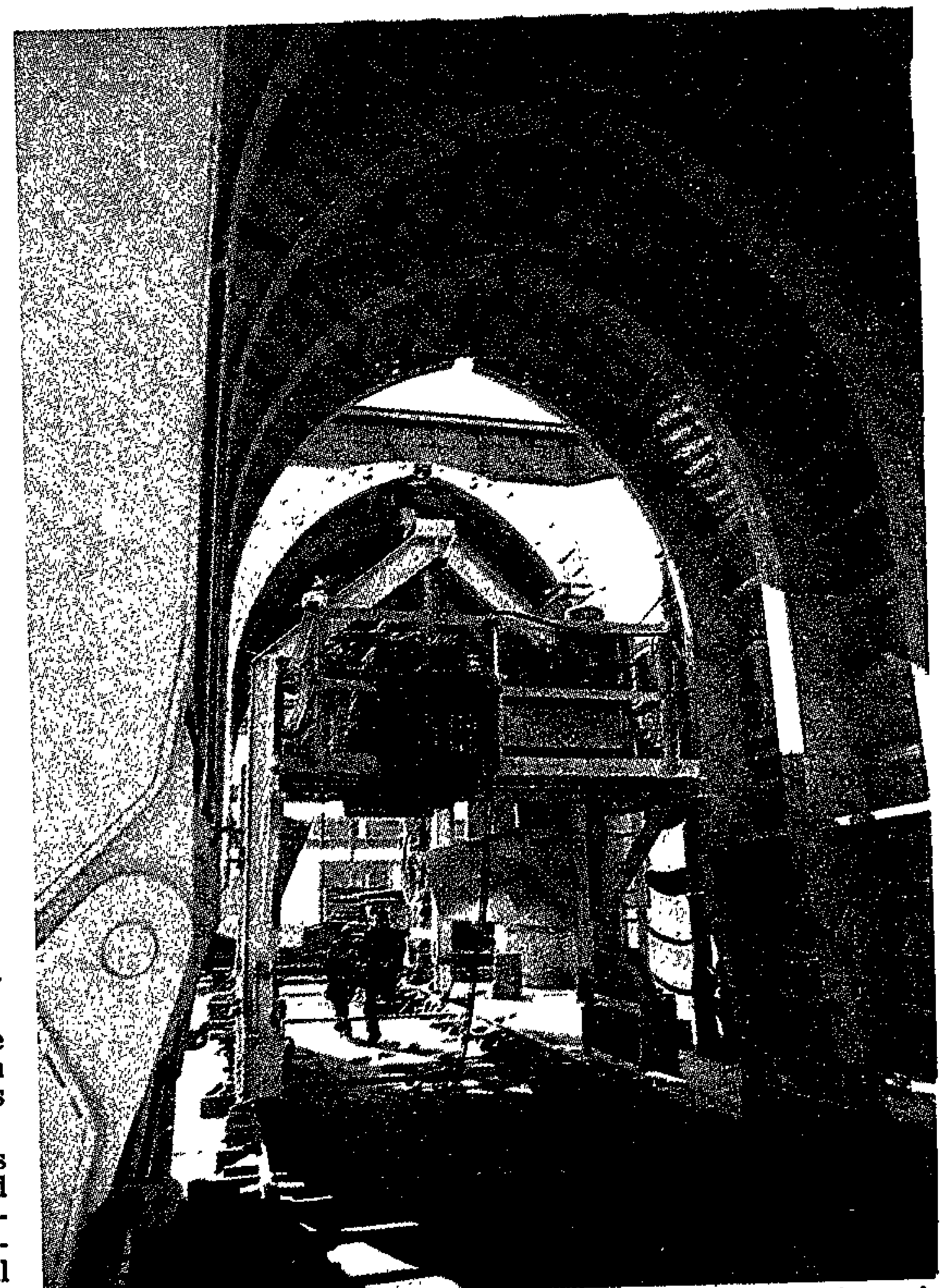
"I cannot over-emphasise the critical need for cutting back public-sector spending, whether by privatisation, the termination of certain services, or even the retrenchment of less productive staff."

Turning to the new managed floating exchange rate system, introduced last September, Dr De Kock said it had proved invaluable to the Reserve Bank in coping with the strength of the dollar and the volatility of the gold price.

He emphasised that the depreciation of the rand during the past year could not be attributed to the new system.

"Given the strengthening of the dollar, the decline in the gold price, the drought, the rise in spending, and the fiscal and monetary policies pursued, the rand would have depreciated or been devalued under any set of technical exchange rate arrangements, and probably by more than under the system in operation."

The floating rate had helped to counter speculative capital movements, including leads and lags in foreign payments and receipts, he added.



The final two 6m-long sections of a 78m-long hydraulic telescopic shutter for use in the Hex River railway tunnel is given a workshop test at Form-Scaff's Nancefield factory. The shutter, constructed in 13 6m sections over a period of six months, costs R75 0000.

The Economy **by Gordon Kling — 3**

Mercury 31/8/84 (49)

Major policy change needed

SOUTH AFRICA may be undergoing a structural as opposed to a cyclical change in its economy that will permanently alter its growth prospects.

The gold-induced boom of the early eighties broke a trend of lower economic growth rates which established itself through the sixties and seventies and now seems set to reassert iteslf with a vengence in 1984 and beyond.

Prospects for real growth this year are conservatively put at nil. Next year is another story but it depends on the same variables.

Key characteristics of previous cycles have changed. Where once the rand/dollar exchange rate moved in cycles against the differential inflation rate between the two countries the trend line has now been bisected, for the first time indicating to the Director of the Bureau for Economic Research at the University of Stellenbosch, Professor Attie de Vries, that gold is expected to remain low.

Growth

'I think we can expect a long-term weaker rand against the dollar.'

The bureau had originally expected the exchange rate to come down to 50 U S cents to the rand in 1988. It's almost there now.

The weaker exchange rate does help the nation's growth prospects by earning more rands from gold sales in dollars (the gold price can remain the same but if the rand drops 10 percent against the dollar, proceeds to the mines will be up 10 percent) and by making exports cheaper and imports almost prohibitively dearer.

Prof de Vries accepts the views of top advisers to major Western governments who believe S A will have to embark on a major change in policy to beat the current slump.

It's hard to accept that gold may not come to the rescue as it has done in the past, but for the first time ever there are a great many holders of the yellow metal who have seen their investment dwindle in value for a long, long time without paying any interest while it happened. Disillusionment is a possibility.

'In the long term you could be a one-commodity banana republic,' said one foreign adviser who made no secret of his disregard for gold.

Far from encouraging investors in his home country to hold back for a while until the economy improved in S A, he was urging investors to come in for quick gains from high interest rates right away then get out... well ahead of the upturn being predicted early next year by several local economists, politicians and businessmen.

UCT Professor Brian Kantor, for example, is adamant that the economy is simply experiencing a short cycle. 'Things will look better six months from now.'

Caustic foreign advisers reject this view outright.

'If the dollar plunges tomorrow and gold goes up that will be BAD for your balance of payments.

Export loss

'Look at the rest of your economy. Normally you produce too much maize and export at a loss; the same goes for other products. Then you have domestic protection for relief from the total onslaught outside ... the joke of Atlantis (Diesel Engines) ... the expense of Sasol in the wake of weak oil prices... almost forcing yourselves into a self-contained economic system like the Soviets would like to be ... an autarky.'

Import substitution and strong protection of local industry might not be a good thing in the long run.

'Gold would have to perform miracles if you are to avoid big problems, but you're going to run out of it anyway in 20 years.'

Overseas belief is that when it comes to the problem of gearing up the economy to do without gold the industrialised West will not prove a very good customer for the republic's other exports of raw materials.

The West, they reason, is moving away from smokestack industries towards technology and services that don't require a big materials-import input.

Cartels

Obvious markets lie in black Africa but will they have the money and will they be prepared to deal with S A?

Another problem is extensive cartelisation of industry in S A which is seen as a major hurdle in the fight against inflation. But on top of it all is the belief being sent abroad by the experts stationed here that the S A economy can't work with just four million whites.

'You have to have a system of sharing the wealth to make people work for it. Otherwise you face the biggest economic cost of apartheid: you don't get marginal production (the extra portion of work above costs in economic theory that makes a profit) so you don't get real gain.'

Following on this view is the feeling that the deterioration in the economy has not been fully brought home to the people, probably deliberately, because of the new-deal expectations, which in turn led to a failure to adjust to the new circumstances facing the country.

Social implications have also assumed far greater significance with the new set-up and these can be expected to worsen in the event of heightened competition between the population groups for a greater share of the same cake, perhaps even a smaller one. Particularly if the slump is not short-lived.

'There has been a lot of talk that the lean times will leave S A in a good position to take advantage of the upturn when it comes, but I would challenge this kind of statement,' said one top foreign expert. 'Unless there are major policy changes you will still have the same labour constraints as before.'

Here the attitude of black labour is regarded as crucial. The reasoning goes that it's one thing to be unhappy with the political dispensation, but there would be two big grievances if a man is out of work as well.

President of the 115 000-member Federation of South African Trade Unions (Fosatu), Mr Chris Dlamini, agrees this is at the core of present difficulties but he maintains the workers are taking responsible positions.

No fall-back

'In a place like S A where workers don't have any fallback in the form of savings or unemployment insurance I would definitely go for job security rather than concentrate on higher wages.

'I can see chaos if more people aren't employed because it's a question of starvation if you don't have work. The first people to be hit are blacks, and if they don't have enough to live on they are likely to act.'

● *This concludes the current series.*

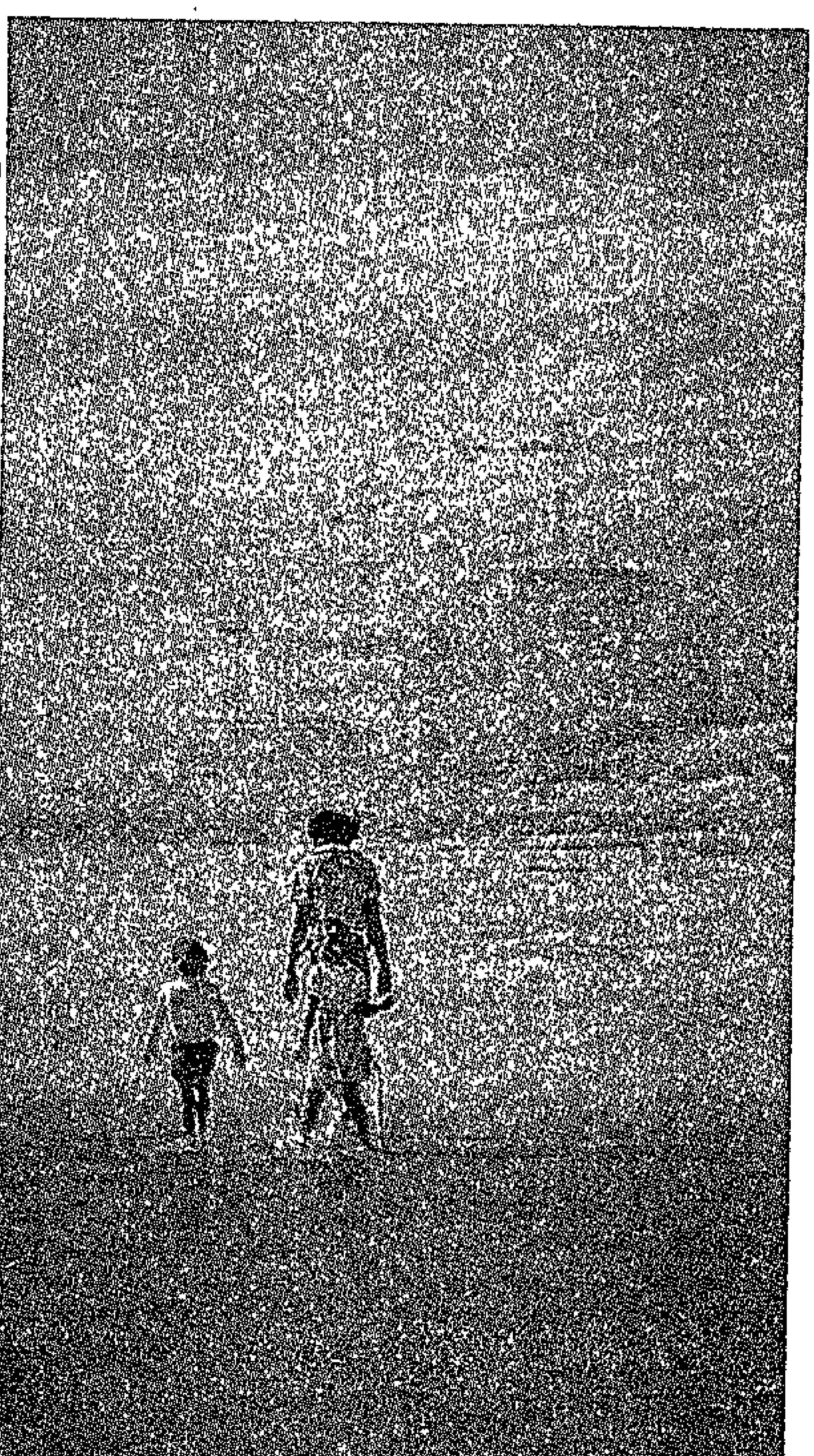
Barend clamps down on homeland and parastatal billion budgets

Govt reins in free spenders

~~270~~ 49 S-Times

9/9/84

By David Carte



Costly Koeberg ... stricter control on the way for Escom spending

AFTER ordering all State departments to cut their budgets by 7,5%, Minister of Finance Barend du Plessis will slam the brakes on free-spending parastatal organisations and the homelands.

Details of the 7,5% spending cuts in the next seven months — amounting to a staggering 12,9% annualised — will be announced in the next fortnight.

The cuts, which turn Owen Horwood's last Budget on its head, will be made to capital and current spending. Some State departments will have to lay off staff.

Discipline

In another move to restore financial discipline, the budgets of the National Housing Commission and the Atomic Energy Commission will be returned to the main Budget from which they were removed by Mr Horwood. It is possible Escom will also be brought into the main Budget.

Mr Horwood removed the parastatals to keep Budget totals down and flatter State spending trends. As a result, these organisations have not been answerable to Parliament and some have spent too freely.

Dr Joop de Loor, Director-General, Finance, told Business Times: "We must get these organisations back on the main Budget so that Budget totals reflect the true level of State spending. We also need checks and balances on these organisations."

Pressure

Jan Smith, the chairman of Escom, acknowledged that Escom was facing heat from the authorities about its heavy spending and that it faced pressure to cut expansion.

Mr Smith said: "It takes years to build a big power station, so we have to think long term. Every time there is a short-term downturn, people point at us and say we are overspending.

"Electricity demand has grown at 8,5% historically and in spite of huge expansion, we have battled to keep capacity ahead of demand. Demand grew only 2,5% in 1982, 2,2% in 1983 and this year is expected to be up by 6,5%, so the pressure is on for us to slow down."

State priority committees are expected to ask Escom to reduce its growth projections to 5%, even if this means brown-outs during peak demand and slowing down black township electrification.

Such reductions could trim tens of millions from Escom's budgets and could depress growth in the construction, steel and engineering sectors.

Until recently, Escom and parastatals have been the only State spenders granting large amounts of work.

In the past, while government departments might have appeared to have been holding to real spending according to the main Budget the parastatals could carry on spending. Their spending was determined by their ability to borrow and to put up fees for their services.

Inflation

Huge spending by State corporations and soaring electricity, steel and other costs have been major sources of inflation.

Another reason why the parastatals are to be brought to heel is that they have been a major force in trebling South Africa's foreign debt to nearly R30-billion in recent years.

The Wim de Villiers Commission's report on Escom is expected to be released in about a fortnight. This could be a bombshell.

The government is negotiating to pay Transkei, Bophuthatswana, Venda and Ciskei (the TBVC countries) their grants on a project basis.

In the past, these former homelands received amounts running to more than R1 000-million a year. These handouts have been the major source of income for the poverty-ridden former homelands. Only Bophuthatswana has significant other income.

Wasteful

The South African authorities are concerned about wasteful spending by former homelands, which have poured millions into government buildings, airports and other prestige projects.

To make sure money is not squandered on status symbols, says Dr de Loor, the SA Government is to negotiate sponsoring specific projects agreed on with the TBVC governments.

Argus 13/9/84 (49)

FINANCE

SA on economic powderkeg, top businessman warns

JOHANNESBURG. — A call for the curbs on consumer spending to be brought to an early end was made here by two top South African businessmen.

Mr Jack Cohen, joint managing director of Tedelex, told a meeting of furniture manufacturers and retailers that unless the curbs were removed soon South Africa could be sitting on a political as well as an economic powderkeg.

"Already in areas unrelated to the furniture industry, such as civil engineering, employment has fallen by 24 percent in the past two years.

"Labour strife, without even considering the impending miners' action, has risen to unprecedented levels with more than 160 strikes involving 35 000 workers having been officially recorded from January to May this year.

"With so much conflict still in the offing does the Government dare fan these flames and invite potential disaster through empty stomachs?"

"We cannot afford to have thousands more out of work and we must relentlessly campaign with every means at our disposal to alert the Government of the critical state of our industry and we must agitate for an early removal of the curbs," Mr Cohen said.

The curbs and their timing were, an error of judgment. "There is a growing prospect that the shock treatment, while it may reduce inflation, will do so at the cost of lower employment.

"Responsible business people recognise the danger of overspending by the consumer, with its concomitant drop in savings levels, and we recognise also the dangers of high inflation and low productivity.

"But more dangerous to all of us is the high risk now, under current restrictions, that the very consumer that the Government is trying to protect will find himself jobless as a consequence of factory closures or retrenchments.

"This will certainly be true of the furniture industry and the motor car industry, where just last week Ford and Sigma imposed stoppages and short-time — signals that cannot be ignored.

"The very weak rand has caused prices to rocket, and this, coupled with the murderous bond rates now prevailing, is already cooling off the economy and there is little doubt that there would have been a significant decline in sales as the recession continued anyway."

OVERKILL

Mr Raymond Ackerman, chairman of Pick 'n Pay, told the Finance Writers Club in Johannesburg that the government's financial austerity measures imposed at the beginning of last month were an "overkill."

The private sector and the consumer were being blamed for what was chiefly the Government's responsibility. Moreover, there was no clear commitment by the Government to cut back on spending to the extent expected of businesses and consumers.

"Too much money will be sucked out of the consumer and businessman's pockets. But the Government has also got to prune expenditure. It is important for it to admit that its expenditure is too high and that it will take action to curb it. But we do not get any feeling of confidence that the Government will cut back on its spending," he said.

Every effort should be made to ensure that the mooted further increase in the price of bread next month did not occur. The current financial squeeze on the consumer and the extent of unemployment were too severe — a further increase in the bread price would be "cardinally stupid sociologically."

CHAMBER WORRIED

Meanwhile, the Cape Town Chamber of Commerce will put forward a resolution at the Association of Chambers of Commerce congress in Maritzburg next month urging the Government to keep its spending down to a level the country can afford.

In its weekly bulletin the director of the chamber, Mr Brian MacLeod, says members are concerned by "the high and accelerating level of Government spending" while the economy is in its present state.

"Government spending for the four months to July is running at 18,4 percent above last year, which is 4,5 percent over the average budgeted expenditure for this period.

penditure, well in excess of its budget estimates, has generated scepticism in the private sector over the ability of the Exchequer to control spending by the departments.

"Expenditure for 1984-85 is set at R24,9-billion and constitutes 25 percent of gross domestic product.

"The chamber is concerned that this expenditure target will be exceeded and that the economy in its depressed state simply cannot afford public sector expenditure of this magnitude." — Sapa.

Business Day/THE WORLD ECONOMY RDM 13/9/84 (49)

Why recovery may already be over

IT MAY be that the *best* part of the world economic recovery is already behind us.

The international economy may now be near the peak of the current business cycle, in which case it could be not until the late 1980s that a significant acceleration in economic growth — or any decline in worldwide unemployed — can be expected.

The reasons for expecting a decline at least in the rate of growth of most industrial countries begin with economic statistics. The leading indicators, which tend to foreshadow peaks and troughs in economic cycles, have started pointing to a slowdown, not only in Britain, where the recovery is already three years old, but also in the US and West Germany.

But blips in the statistics would hardly be a cause for concern on their own. Economic forecasters generally acknowledge that predicting the precise timing of cyclical turning points is about the least reliable trick in their repertoire.

Some of the indicators economists use for these predictions can be extremely volatile; stock market prices and investment intention surveys, for example, can turn out to be reflecting temporary factors like strikes or political tensions as much as underlying economic forces.

Unfortunately, there are deeper reasons for apprehension. They can be divided into three groups.

First, there are specific economic developments which have occurred already, but will continue to exert an influence on events in the period ahead.

Then there are the natural cyclical tendencies always present, to greater or lesser degrees, in market economies. These are the fluctuations in output which occur because businessmen's decisions on stockbuilding and investment are influenced not just by the present level of demand, but also by their expectations about future demand, which are seldom quite accurate.

Finally, there are the policies pursued by governments and monetary authorities. During most of the post-war era, governments consciously attempted to counteract the cyclical tendencies in their economies; but since the political revolution of the late 1970s against Keynesian theories about demand management, the impact of government policies on the business cycle has been a controversial and uncertain issue.

What makes the current situation discouraging, particularly for the 31-million people who are still unemployed in the OECD area after the last recession (to say nothing of the billions in developing countries who are even more dependent on OECD growth), is that all of these forces could soon be pushing in the same downward direction and in a mutually reinforcing manner.

Consider first what has already happened. The most important of these developments has been the dominance of the US economy in the current recovery.

The leading role which America has taken is shown most obviously by the gap of nearly 4% between GNP growth in the US and Europe. And the GNP figures actually understate the true force of the US locomotive.

Because of the strength of the dollar, much more than usual of America's domestic expansion has spilled over into overseas demand. The biggest beneficiary has been Japan (exports to the US make up 29% of total overseas sales for Japan; only 9% for West Germany). But even Europe has recovered largely because of the booming demand for its exports.

If Europe had relied entirely on homemade economic expansion, or if President Ronald Reagan had heeded Europe's moral indignation about budget deficits, the world might still be stuck in a self-righteous slump. For Europe's firm abstinence from reflationary domestic policies failed to promote spontaneous recovery.

In almost all European countries, *domestic* demand has grown more slowly than *total* economic activity, implying that the growth of exports was the main driving force behind recovery.

This relationship between domestic and external sources of economic recovery is sharply reversed in America and Britain, the only two major countries which stimulated their domestic economies with big fiscal expansions in 1983.

The difference of 5,5% between the growth of domestic demand in the US and Europe this year is one striking measure of the underlying strength in the two continents' economic recoveries.

The warning implicit in all these statistics is that the world recovery may be quite vulnerable to a slowdown in the US economy. This is where the natural cyclical tendencies come in.

These inbuilt forces presumably still exist, as they have throughout economic history, despite the forecasts or assumptions of steady growth built into many governments' budgetary plans — notably the 4% growth annual rate from now until 1989 forecast recently by the Reagan Administration.

Partly as a result of these natural cyclical forces, the US economy is likely to decelerate in the next 18 months. Indeed, the financial markets, along with most economists, assume that the slowdown has already begun.

The OECD's July forecasts showed America's growth rate declining to an annual rate of 3,5% in the second half of this year and 2,5% in 1985. The recent upward revision, to nearly 9%, of the first-half 1984 growth figures, suggests that the US economy may still be stronger the OECD expected; but this means that any eventual fall will be pronounced.

In fact, if the OECD's predictions are realised, next year's economic slowdown could be one of the sharpest in recent US history. The effect of this setback in the US would be to cut 1,5% from the industrialised world's total growth rate.

But the OECD forecasts, which are confined to the immediate outlook, do not show the main effect of such a slowdown. Cyclical downturns, once started, do not suddenly reverse themselves a few months later. If the world economy begins to slow next year, it is almost certain to perform even worse in 1986.

For example, one leading forecasting firm, Wharton Econometrics, which broadly agrees with the OECD's 1985 figures, predicts a further slowdown to only 1,1% by 1986 in the industrialised countries as a whole, 1% in Europe, 0,6% in the US and 2,5% even in Japan.

That kind of decline, with its concomitant lengthening of the dole queues, can be described quite unequivocally as a new recession — and a severe one at that. — Financial Times.

New statistics show the international economy may now be near the peak of the current business cycle. If this should prove to be the case, no significant acceleration in growth is likely until the late 1980s.

49 Star 14/9/84

Privatisation: a complex but increasingly attractive option

By Professor Roger Gidlow

The suggestion by the Governor of the Reserve Bank, Dr Gerhard de Kock, that privatisation should be considered as an option in reducing Government spending is one which warrants serious examination.

Enormous pressures on the Government to expand expenditures on housing and education suggest that the curtailment of spending in other fields may well be indispensable if the Government is to avoid raising taxes yet again.

The level of income tax has already reached levels that threaten to encourage emigration and stifle economic growth.

If certain state corporations were de-nationalised the commitment of the Treasury to provide funding for these enterprises would be eliminated, while substantial revenue would accrue from the sale of such assets.

The British Government plans to raise £10 billion on the sale of state enterprises in the next five years, and this is a crucial ingredient in the Tory strategy to reduce taxes in coming years.

Selling state corporations in South Africa to private investors would involve numerous difficulties.

The timing of any disposals would be important, and problems could arise in determining appropriate prices at which to sell shares in the face of volatile conditions in the stock market.

Apart from its fiscal benefits, privatisation should be an attractive policy option for those who believe in economic freedom.

Rather surprisingly, the issue of privatisation in South Africa has not attracted the attention it deserves. Even now it is only fiscal imperatives which are proving to be a catalyst for consideration of this option.

Privatisation has important political implications. The ruling party in South Africa has long regarded state ownership of institutions such as Iscor and Escom as beneficial to its own interests, because large numbers of people traditionally inclined to support it are provided with "sheltered" employment by these institutions.

The political landscape, however, is shifting.

The Afrikaner has now decided, rightly or wrongly, to share power with coloureds and Indians, and possibly at some future date with urban blacks.

One can no longer entirely rule out a future South African Government, controlled by non-whites, which is hell-bent on the destruction of the present economic set-up, and the introduction of a socialist State.

There is little disagreement among informed whites in this country that such a socialist system would be detrimental to their economic interests.

Indeed, the history of black Africa suggests it would be a retrograde step for virtually everybody.

The question, therefore, arises as to what steps can be taken to reduce the danger of such an outcome.

In this context, privatisation assumes importance. The more state assets are sold and the more ownership of these assets is dispersed among South Africans of all persuasions, the more difficult it will be for any future government to embark on wholesale nationalisation.

From a political point of view it is in the interest of white South Africans to not only support privatisation, but to encourage the sale of these assets to foreign as well as local investors.

The greater the ownership of South African shares in foreign hands the greater the leverage Western governments could excerise over any future government which is contemplating extreme socialist measures.

This conclusion has unfortunately not been generally accepted in South Africa. Evidence of this has been partly provided by the long-standing policy of South African firms to abandon their London Stock Exchange listings.

All of which suggests that the policies of groups, even a large mining house such as Anglo Vaal, in relinquishing the London listings of their subsidiaries, have been short-sighted.

It might be argued that the promotion of foreign ownership of South African shares is risky, because it could be viewed by any future black government as a sign of foreign exploitation of the local masses.

Any such accusations, if they were ever made, would be hollow, however, because the ownership of South African-quoted industrial shares is likely to remain low.

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E. Post 15/9/84

Wrong idea of business profits by black staff

Weekend Post Reporter

RESEARCH recently completed by Unisa had revealed an "abysmal incomprehension" among the vast majority of black unskilled workers of business management and what business aimed to achieve.

Businesses were, therefore, believed to be run "almost entirely for the benefit of the managing director and his immediate entourage and profits devoted almost entirely to bonuses for these privileged few, while workers had to be content with the scraps that fell from the rich men's table".

This was said by the Vice-Chancellor of Rhodes University, Dr Derek Henderson, at the second annual meeting of the Career Opportunity Research and Information Centre (Coric) in Port Elizabeth.

He said it was because no link was seen between the individual effort and the ultimate reward in the form of promotion or greater pay packets that the importance of greater productivity was entirely unconvincing to the unskilled worker.

"Greater productivity would seem merely to swell the bank balances of the 'fat cats' even further," he said.

In an interview with the Weekend Post this week, Dr Henderson said ignorance about the inner dynamics of the industrial system often led workers to consider other systems such as communism.

"For the 'have nots', communism may appear to be the way to get the goods delivered," he said

"But Mozambique and Tanzania are good examples of how attractive promises without individual understanding and effort can lead people to reject capitalism without putting it to work for themselves."

It was up to organisations such as Coric as well as individuals who have made the system work for them to help workers achieve a greater understanding of the dynamics of business.

Dr Henderson said this would greatly benefit workers who wished to achieve success in their careers.

I, SEPTEMBER 15, 1984

SA pays for ignoring early '80s gold price

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15/9/84 Star

The Star Bureau

LONDON — South Africa is now paying for its failure to abolish exchange controls in 1980-81 when a runaway world gold price provided a fine opportunity, according to *The Economist*

Referring to the recent Barlow Rand-Bibby deal, it says most of South Africa's big business groups would like to have more of their interests abroad, caught up as they are in worsening recession at home.

Barlow, it adds, is ahead of the pack in this respect. But "there are a host of problems for other South African companies wanting to follow in its traces. A battery of exchange controls still impede corporations and individuals resident in South Africa."

Even if these were reduced, the depreciation of the rand (down by 35 percent against the dollar in the past two years) is now a deterrent to exporting capital.

The Economist predicts the Government may become worried about money flowing out and other governments may be even more worried about money flowing in "from such a source".

"Businessmen think the SA authorities made a bad mistake by not dismantling or at least selectively waiving exchange controls during the 1980-81 gold boom. There would still have been obstacles to overseas investment, but almost any South African company that had invested abroad then would be showing a handsome profit now."

S. Express 16/9/84 (49)

More businesses crash as recession bites deeper

By JO-ANNE RICHARDS and LESLEY LAMBERT

THE business crash of 1984 is reaching the level of a national disaster as bankruptcy topples small and large businesses on a scale not seen for half a century.

Unemployment is spreading, many people are losing their homes and the recession, warned Stellenbosch economist Jan Sadie, will be the worst since 1932.

Among the warnings that emerged this week were these alarming statistics from bankers, lawyers and liquidators:

- In one month this year South African courts dealt with debt cases involving more than R27-million. Of this, R23,7-million was owed by individuals.
- At the end of June this year the public owed South African banks R14-billion — 37% more than last year. Personal savings have dropped and South Africans now save no more than 3c out of every rand they earn.
- An attorney for a large building society used to handle three or four foreclosures a month; he now handles eight to 10 a week.
- A prominent liquidator said one large bank in Johannesburg has been foreclosing on 100 properties a month.
- In the first half of this year 5 000 fewer building plans were passed than in the same period last year.
- The rate of insolvency has doubled. Nearly 2 000 insolvencies were disposed of in the first six months of this year, compared with 2 280 for the whole of last year. Among the companies placed in provisional liquidation this week was Namex (Pty), a leading company in the massive Octha diamond group, with debts of R33-million.

Dropped

- Retail sales have dropped by 6% on last year, according to the Department of Central Statistical Services, and are still dropping.

Prof Sadie warned that the avalanche of liquidations presaged higher unemployment.

A Reserve Bank spokesman conceded that some firms would go to the wall and employment would worsen. Inflation, too, would get worse before it got better, but this was a temporary dip and the difficulties should not be exaggerated.

Other experts were much more sombre. Barclays' chief economist, Dr Johan Cloete, said the country was "in big trouble", but there was worse to come. Banks were alarmed by the growing number of liquidations, he said.

Mr Ivor Jones, managing director of a Johannesburg credit bureau, predicted: "Many businesses will not be able to open their doors in January after a rise in liquidations just after Christmas."

Mr J le Roux, director of Drucker Personnel, said: "We haven't yet experienced large numbers of middle-class people walking the streets, but perhaps we'll start experiencing that from now."

Mr Philip Krawitz, president of the Cape Town Chamber of Commerce, agreed. Salaries had not kept pace with inflation and South Africa as a nation was getting poorer.

Mr Gordon Utian, managing director of Checkers, has asked the government to apportion funds from the defence budget to hold down the prices of basic foodstuffs, which have been escalating with monotonous regularity since January.

Recession

Mr Utian said the economy was in recession, the Reserve Bank's monetary clampdown was biting, and government expenditure was out of control. "We must unite and take action now to ensure the situation does not deteriorate," he said.

Mr Fritz Stockenström, executive director of the Afrikaanse Handelsinstituut, said there had already been a substantial increase in unemployment, and that this was likely to worsen.

So far, unemployment has particularly hit labourers in the motor industry and its subsidiaries. But white collar workers were also beginning to be affected in the private sector.

Mr Lieb van Jaarsveld, managing director of Sanek, among the more optimistic of business leaders, said the situation was no worse than in 1977, but even he said it could still deteriorate.

S. Express 16/9/86 (49)

Recession is blamed for inceased wife battering

By GERDA KENYON

SOCIOLOGISTS are blaming the faltering South African economy for the sharp increase in wife-battering incidents.

Men can't take the economic stress, say experts dealing with battered women and their children. They found that wife abuse increased when husbands were placed under more pressure at work or lost their jobs.

The head of the criminology department at the University of Potchefstroom, Dr Peet Pienaar, said battering incidents were higher in homes where the husband was unemployed, under stress or where the wife had gone to work to supplement the family income.

He said about 6 000 women were battered by their husbands annually.

"When women go to work their husbands feel threatened and neglected and are on the lookout for faults in their housekeeping and any excuse to batter them," he said.

Mrs Babette Kabak, chairwoman of the Women's Legal Status Commission, said there was "an epidemic" of battering in South Africa at present.

Some women are repeatedly battered and need a secure environment to take stock of their situation.

Shelters where women and their children can seek refuge from violent partners are dependent on public donations which are not generous during periods of economic recession.

There are only two shelters in Johannesburg and one of them, Margaret House, has been 'suspended' because of a lack of funds.

they are fully valued. — Reuter.

RDM 21/9/84

(49)

Bitter pill for private sector

By PAUL BELL

THE private sector will have to carry more than its fair share of the adjustments necessary in the current economic climate, a Standard Bank economist has warned.

Business will carry this disproportionate burden because Government is unlikely to play its full rôle in the correction process that will characterise the economy until 1986.

Mr Nico Czypionka delivered a slashing attack on Government overspending when he addressed members of the Institute of Cost and Management Accountants at their national conference in Sandton yesterday.

It was now, he said, "cutting back overspending on the overspending", having budgeted to spend nearly 20% more in 1984/85 than in the previous fiscal year.

Inflation and high interest rates were here to stay. Business was faced with a tough climate, but it too had contributed to this through unduly high expectations and by allowing the economy to get out of hand.

"Now we must pay the price. The Government won't play its full role; it will be up to the private sector."

The period of correction would last through 1985; 1986 could be expected to be a reasonable year and 1987 see a slowdown.

However, if Government did not cut back, it would fuel inflation, and "God knows what will happen to the exchange rate".

Mr Czypionka made a rapid swing through the economy:

- Employment was going flat, but blacks would be most hurt in the next 12 months and the Government would have to accept a degree of friction;
- Significant consumption declines were inevitable in the credit/interest rate squeeze. The motor industry, in particular, faced tremendous adjustment;
- Production rose last year, but had peaked and was now undergoing correction.
- The retail industry had suffered a substantial dent;
- The hotel industry was not doing so well. Holiday hotels were really pushed, although conference hotels were holding up. "High tax and interest rates mean no excess liquidity for individuals," he said;
- The building industry had, predictably, shown a downturn in the industrial sector. The commercial sector — shopping centres and office blocks — was still buoyant, although there were dangers in this because the leasing market was expected to go soft next year;
- Mining volumes were up but prices were not and foreign currency earnings had been knocked by the declining rand.

Mr Czypionka said that, assuming the gold price rose next year, the exchange rate would improve, although it would suffer a built-in downside through inflation.

Policy measures to reduce imports would turn a R700m deficit into a R1,4bn surplus, but this would be eroded into deficit by 1987. Next year would see no growth in consumer spending. Durables would suffer a 5,5% decline in real terms, semi-durables would also be down, and non-durables — food — would not keep pace with the increase in population.

Domestic expenditure would be only about 1% up next year, but — anticipating a normal maize harvest — this would improve with increased exports and reduced imports.

RDM 25/9/84 (49)

Free markets not complete answer

By HAROLD FRIDJHON

SOUTH Africa cannot, under all conditions, rely on the operation of free financial and other markets to effect necessary economic adjustments.

In his chairman's statement with the 1984 Senbank annual report, Dr Fred du Plessis advocates the use of direct controls to supplement market-oriented policies.

He says South Africa has a very open economy, heavily influenced by the international prices of a few commodities, gold in particular.

Political solutions and the use of market forces "on which we have relied so strongly of late" do not offer ready solutions in terms of realistic economic adjustments necessitated by external circumstances.

The more extensive use of the market mechanism has not resulted in less pronounced business cycle fluctuations, nor in more stable exchange and interest rates. The market mechanism can play a crucial role in the adjustment process, but it cannot ensure that inevitable adjustments take place timeously.

Rectifying imbalances in the current account of the balance of payments cannot be left entirely to a free floating exchange rate. Price elasticities of the demand for imports and exports are not large enough to attain the desired adjustments without serious side-effects.

"This means that market-initiated exchange rate movements should be supplemented extensively by other policy measures to assure orderly economic adjustments."

In view of the economy's high propensity to import, Dr Du Plessis recommends that when economic growth is too low or too negative for too long, import control should be used to deal more efficiently with the situation.

He seriously doubts whether the exchange rate can contain the effects on the balance of payments of the increased volatility of capital flows into South Africa.

"Contrary to earlier, fairly widely held expectations, this means that the limitations imposed by the balance of payments on our economy and on economic policy formulation were not reduced by the acceptance of freer markets.

"We are most definitely not in a position where the exchange rate of the rand will look after the balance of payments efficiently and satisfactorily."

Dr Du Plessis says experience has shown that high interest rates alone have not been very effective in curbing the demands for credit and for consumer credit in particular. The reasons are the inflationary fear that prices will continue to rise rapidly, the fact that wages have been rising at a surprisingly high rate and the effects of taxation.

He advocates changing the hire purchase regulations and restricting consumer credit in general.

"If it is accepted that consumer expenditure financed on credit implies a flight from money into goods — and not a mini-boom — then it is clear that efficient measures aimed directly at credit purchases are preferable to general measures aimed at curtailing total spending."

By implication, Dr Du Plessis is critical of the policy directed at controlling money supply. At its best, he says, monetary policy is an essential component of a balanced economic policy.

"When monetary policy is over-emphasised, it becomes not only inefficient, but also leads to distortions that have adverse long-term implications for the economy."

South Africa has to guard against a fiscal policy that relies on higher taxes or on the postponement of capital projects to provide this discipline. Fiscal discipline starts with Government expenditure, particularly consumption expenditure. If this is not done, the result is likely to be a continued high rate of inflation, as well as higher taxes.

High interest rates and the related efforts to curb the growth in the money stock and recessionary conditions in the economy are not sufficient to reduce the rate of inflation effectively.

Business Day/COMPANIES

49 RDM 27/9/84

UBS forecast on economy is 'mixed to gloomy'

By PAUL BELL

TIGHT monetary and fiscal policies, the continuing high dollar and only a moderate improvement in the gold price characterise a mixed-to-gloomy forecast by the United Building Society on economic prospects for 1985.

Its latest economic review, released today, indicated that while the economy would begin its process of correction, consumers would find it heavy going.

The major plus factors were a 3% drop in prime by March, and a further 2% drop by the end of 1985.

A 1984 deficit of R684m on the current account of the balance of payments should be turned into a surplus of R980m next year. Inflation was predicted to be 11% next year — 1% lower than this year.

Minus factors were a continuing decline in personal finances, with private consumption expenditure sinking until late next year, and bad debts climbing sharply.

The volume of merchandised imports would drop throughout 1985. For this year, their value was still expected to rise 24%, but a 2% decline was foreseen in 1985.

The review said recent international developments had presented a mixed bag for exports.

The dollar was likely to retain much of its strength and the US prime could rise to 14% before the end of the year.

This and indications that the world recovery had already peaked, spelled poor prospects for gold in 1985 and a tapering off of demand for South African merchandised exports.

Hence, merchandised exports were expected to rise 17% in the second half of this year, and this increase would slow down to 9% in 1985.

Next year's gold income, on an anticipated 1985 price of $370 — compared to $345 for the second half of this year, was expected to rise by only 1%.

This year would see a 4% decline in fixed investment and a R650m reduction in inventories.

Contracted industrial production through to the third quarter of next year would mean a continuing downward trend as most companies and public enterprises did their best to to improve cash flows.

No material rise was foreseen in gross domestic expenditure in 1984. Next year it would increase only 3%.

The positive trend of the balance of payments would render GDP growth of 1,5% this year, and 3,5% next year.

Unemployment was bound to remain a serious problem, with 7% of blacks permanently unemployed throughout the eighties. Further riots could result.

Money market rates were expected to maintain current levels, and an increase could not be ruled out.

The capital market could see a moderate inflow of foreign money, but it would face increasing demands to finance the substantial increase in Government spending.

Rates would move sideways during the remainder of this year, but could decline in 1985.

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THE ECONOMY

Where's the beef, Barend?

The new constitution has ushered in both a new minister and a new style of finance. But how much is rhetoric? Unless Barend du Plessis can seriously rein in government expenditures, inflation could take off alarmingly — and that will have personal, social, and destabilising political consequences.

A new style is upon us. With the changing political dispensation has come a fresh Finance Minister, youthful and eloquent, urging austerity on Cabinet colleagues and citizens alike. See how he consults with the private sector, wields his hatchet against government expenditure, argues for privatisation. See how easily phrases like "restructuring taxation" and "zero-based budgeting" drop from his lips. And yet, as Walter Mondale so effectively challenged Gary Hart's vision, South Africans too should be asking — "Where's the beef?"

Barend du Plessis' impressive semantic justification of runaway spending last week must be seen against a backdrop that is as alarming as it is familiar. Once again the economy is in fierce decline, beset by inflation, prohibitive interest rates, the rampant dollar and an uncertain gold price. The economy will grow by perhaps half a percent, perhaps even shrink, in the last six months of 1984. The flight into assets continues; inflationary expectations ensure that South Africans, despite high interest rates, will not save.

And even if the roller coaster that is the modern SA economy is saved by the dollar collapse that some see coming in 1985, the export-led boom that ensues could perhaps rival the mini-boom for brevity. Then the cart will plummet downward and prices soar upwards.

Our open economy, and the uncertainties of the gold price, will always ensure some volatility in SA's economic fortunes. But there are controllable factors that, if properly handled, can bring greater stability. And of these the most vital is government spending.

Government expenditure is now running at an absurd 29% of the country's gdp. Only three years ago this figure stood at 22% and was then considered excessive. To finance the R27,3 billion it will spend in 1984, government has had to wring dry the individual taxpayer as well as print money. The result has been the double-figure inflation that is with us today.

Who can blame the ordinary man for wondering if government, despite its histrionics, does not really mind inflation. After all, its income is consistently kept rising as fiscal drag pulls incomes up the steep gradation of rising tax brackets. "The government has always liked inflation," maintains Davis Borkum Hare economist Mike Brown. "It has never been an issue that counted at the ballot box — until now."

Only recently has it become clear that inflation has a constituency and, therefore, is a factor at the polls. Thus the Finance Minister ought to be seen to be doing something about it. To this end former Finance Minister Owen Horwood turned to cloud cuckoo land. Government expenditure for 1984-1985, Horwood said in his March Budget, would be R24,9 billion, up 11% on the previous year. PFP Finance spokesman Harry Schwarz declared that the March Budget "had no relationship with reality," and economists hammered it as an open-ended bookkeeping exercise. But even the most sceptical saw an eventual increase of no more than 16%-18% up on 1983-1984.

In the event, Du Plessis told us last week that the true increase was of the order of 24%, and that additional expenditure could reach as much as R2,45 billion "if not arrested timeously." However, Du Plessis' cutback, presaged by the new President's oration on the need to tighten our belts, was insubstantial. "A lot of noise about very little action," complained one analyst.

Others were more sanguine, citing the philosophy behind Du Plessis' cuts rather than their magnitude. "At least it is an indication that the political will exists to tackle government expenditure," says Discount House economist Sue Kell. And, notes Barclay's chief economist Johan Cloete: "Of course Du Plessis hasn't brought government expenditure under control, but to have done it in one fell swoop would have been too harmful to the economy."

What Du Plessis in fact did was prune some R650m from the additional demands made by the various departments for R2,45 billion (the SADF's incremental demands comprised 20% of this figure) making the total addition R1,8 billion or a total spend for the year of R27,1 billion. This is still an increase of 21,5% over the 1983-1984 expenditure, an increase beyond the nightmares of even Horwood's sternest critics.

These rates of increase are incompatible with the necessity to get on top of the growth in money supply. And once again

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we appear to be heading for a rerun of the unfortunate experience of 1981-1983. Then, as now, the rand plunged against the dollar — from January 1981 the rand/dollar exchange rate fell from $1,30 to 90c in July 1982, a decline of over 30%. Then — and the trend appears to be apparent now — there was a remarkable turnaround in the balance of payments current account — more competitive exports and dearer imports led to a turnaround from an annualised deficit of R7 000m in the first quarter of 1982 to a surplus of R810m in the last quarter.

But alongside this balance of payments correction inflation remained high. And there's the rub: with the recovery in the price of gold, a mood of euphoric spending swept the country. Inflationary expectations discouraged savings and triggered a flight into hard assets. This could be seen from the volumes of shares traded and skyrocketing property prices. But the mini-boom was more mini than boom. By the end of 1983 the current account surplus was reversed, and, with the drought, the scene was set for recession.

BoP readjustment

As of September 1984, the rand has dropped against the dollar by over 30% (from 90c to 60c). A balance of payments readjustment is taking place. "There is already evidence that the balance of payments is correcting fast," says JCI economist Ronnie Bethlehem. "We should have a surplus in the current account by the fourth quarter of this year."

But with inflation at 12%-13%, and inflationary expectations higher, a fall in the dollar and a recovery in the price of gold could trigger off another flight into assets, a sudden deterioration in the balance of payments, and another recession. Thus the recovery that most analysts see coming towards the end of 1985 could be extremely short-lived. Not so the recession that must inevitably follow it.

The key to ironing out these wild gyrations is inflation. While the price of gold has fluctuated, SA's cost structure has not — it has moved steadily upwards. There is a limit to the extent to which we can dip into savings to finance the difference. Our savings ratio is deplorably low — under 3% of net disposable income. The price to be paid for this is recession, ever more frequently experienced and longer-lived.

Du Plessis has said that until SA can break through the skills and culture barrier we will have high inflation. He is probably correct. But inflation and stagflation (recession plus inflation) are problems of enormously differing magnitudes. And the possibilities of a South American or Israeli-type stagflation in this country are by no means remote. It should be borne in mind that experience has shown that the jump in inflation rates from 25% to 100% is often an extremely swift one.

What is vital in the short term is that the government should be seen to reduce its total expenditure as a percentage of gdp in a meaningful way. Then there will be a subsidence of the wave of excess demand that is negating the efficacy of tighter monetary policy (which has pushed interest rates to historic highs). And as it is seen to happen, inflationary expectations will be reduced.

Du Plessis has made it clear that he will attempt to do this. But vital to his success will be the support of P W Botha, backed by all his Cabinet colleagues. He will doubtless be hampered by the two new Houses, both hammering for the redress of the inequality of social and other services. Most of all, Du Plessis will be hampered by the economic incubus that is apartheid — demands from farcical economic entities of Pretoria's fashioning called homelands, a civil service swollen through duplication and inefficiencies, and the economic lunacy of influx control that impedes the flow of labour to where it is most needed.

President Botha and Du Plessis have both stated recently that the government must withdraw from the provision of services that the public now takes for granted regardless of the cost to the common purse. Botha also stated in his address to Parliament last week that the belief that government should compensate individual sectors and groups for fluctuations in the economy was "unjustified," a warning that our agricultural sector among others will doubtless fail to heed.

On the fiscal side, the burdensome share of this country's finances borne by individuals (income tax on individuals now comprises some 30% of the government's revenues, up from 22% a decade ago) must be set right before incentive fades much further and we are all in consequence less well off.

The solution to the country's overspending is not to find a taxation system enabling the last drop of revenue to be squeezed out of an already parched private sector. It is to cut down on expenditure.

Money supply limits

On the monetary side, the Reserve Bank must either set limits to the rate of growth of the money supply and stick to them, or demonstrate with more conviction that the rate of growth in the money supply is reducing at a satisfactory rate. Until now, despite the talk, all that emerges are quarterly admissions from the Reserve Bank that it has been too accommodating. The current austerity measures, introduced in August, must be maintained until excessive demand is more in kilter with the economy's ability to supply. That will be demonstrated, among other things, by a recovery in the country's net gold and foreign exchange reserves.

Also important, the civil service must be reined in. Home Affairs and National Education Minister F W de Klerk is straying into choppy waters when he claims, as he did last week in Parliament, that the major increases in the civil service have been in

DEFENCE CUTS

As a cost-cutting exercise, the SA Defence Force has reduced the time Citizen Force and commando units must spend doing military camps after initial training. This should see young men absorbed back into the economy with less disruption than before. The *FM* predicted this might happen (*Current affairs* September 14). In all, the Defence budget is being trimmed by R180m. This represents 4,3% of the total 1984-1985 Defence allocation of R4 154m — or 4,8% of the cash requirement of R3 754m.

According to Defence Minister Magnus Malan, some tasks previously handled by Citizen Force and commando units have been reallocated to Permanent Force and National Service units. Savings will only be in transport costs, administration and pay — since National Servicemen will now have to spend six months (instead of three) on the Namibian border. Servicemen are paid less than Citizen Force members.

The balance of the cuts, according to Malan, will be effected by reducing the stock levels of reserve items and spares, and the cancellation or postponement of non-essential projects.

Overall, it must be hoped that the current low intensity of the Namibian war (since the Lusaka agreement in February), including the absence of large-scale incursions into Angola, will bring about substantial savings.

JCI's Bethlehem ... trade account heading for surplus

44 FM 28/9/84

the arena of black education. In numbers, perhaps — but the real increase has been through job reclassification of whites, and the salary increases that go with that invidious phenomenon. Salaries have to be cut, services (with the exception of black education) have to be cut. Even holy cows like defence have to be tackled.

SA, like Britain and the United States, has in the short run to trade inflation off against unemployment. There is no other choice. But in the circumstances it cannot afford to be either as ruthless as Reagan or Thatcher — or be very long about it.

But perhaps the clearest message of what periodical and increasingly sharper recessions ~~mean for~~ this country came in a pamphlet issued in Soweto calling for the stayaway from work on September 17. There was not a word about passes, or sjamboks, or discrimination. The pamphlet concentrated on the high cost of living, growing unemployment, low wages, rising rent and electricity bills.

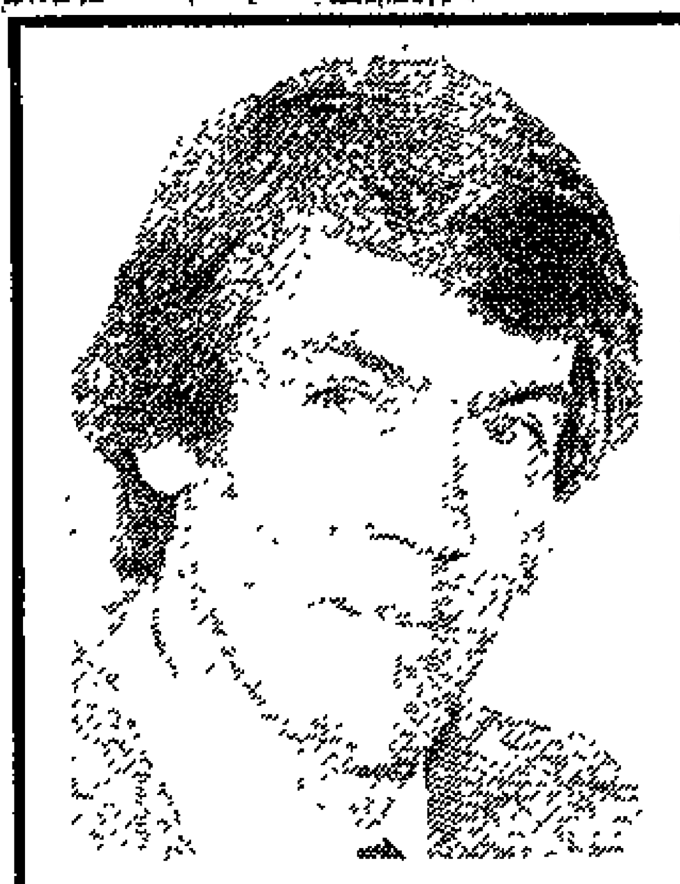
We might endure this recession without more than occasional flare-ups in the townships. But the effects of the next recession, and the next and the next, each promising swifter declines in living standards for those at the lower end of the economic scale, could compromise what little progress has been made thus far towards peaceful transition.

If Du Plessis cuts hard now, the prospects of stagflation, and short-lived booms followed by severe busts, will diminish. By doing so, he will compromise his political base. But if he turns out to be just style and no substance, SA's long-term political and economic prospects will also be at stake. And they are more important than recalcitrant constituents. Du Plessis must, in the words of JCI's Bethlehem, "be prepared to lean against the wind," and do it quickly. Our economic roller-coaster cannot be allowed destabilising inclines and declines that play havoc with the fixed capital investments on which our future depends.

Du Plessis goes conservative, prays for rain

IMF optimism grim for gold

S. Times 30/9/84 (49)



Business Times editor David Carte reports from the IMF's annual meetings in Washington this week

THE South African economic authorities are worried about the gold price and will be happy if it only holds present levels, says Finance Minister Barend du Plessis.

But they are confident that if the gold price holds its current level the country will be well placed for a strong recovery in the future.

Mr du Plessis, who heard overwhelming optimism about the world economy all week at the IMF-World Bank meetings in Washington, said the authorities would make conservative assumptions about the gold price in their planning.

This is a complete reverse from the optimistic line taken by his predecessors, particularly in this year's Budget where a clear gamble on the gold price was apparent.

"If the gold price just stays at the present level, we shall be favourably placed," Mr du Plessis said. He hoped reasonable rains and rising non-gold exports would take some of the pressure off the SA economy.

Tens of thousands of words were spoken by the heads of the IMF and the World Bank as well as the Finance Ministers of most nations during the meetings, but gold was not mentioned once.

For the first time in years, a South African Finance Minister addressing the conference omitted to mention the metal.

Consensus

The consensus at these meetings was the industrial economies will grow vigorously this year without a resurgence of inflation. The IMF forecasts growth in the 21 industrial nations at 5% and inflation at only 4 to 6%. The hope is that this strong growth will boost exports from developing nations and this in turn will alleviate the world debt problem.

Inflationary fears and the debt problem have been gold's main supports, so, if delegates here are right, the outlook for gold is grim.

Mr du Plessis pointed out that good rains could be worth as much as R4 000-million to the SA balance of payments. The drought had forced agricultural imports of R2 000-million when exports were normally this much.

If other non-gold exports perform in line with IMF bullishness, the country will be able to breathe more easily provided gold holds. If not, the brakes will stay on.

President Reagan made political capital out of the strong US recovery. Pointing out that the US had enjoyed 21 straight months of growth with declining inflation and that it had created six million new jobs, he said governments should set their people economically free with less taxation and less government spending.

The US pays 26% of the IMF's bills and has held it and the World Bank back financially before. It was therefore not surprising that the IMF hierarchy went along with President Reagan. All countries were subjected to strong "moral suasion" to adopt the Reagan-Thatcher route.

Mr du Plessis expressed admiration for the achievements of the US and the UK and indicated he would like to see South Africa moving in that broad direction. But he stressed there were marked political and economic differences between South Africa and other nations, so there would be no radical change.

Clamp

The big clamp on the economy and on State spending will be taken further with a detailed examination of all State services. Those that are not essential will be stopped. Public servants will not be laid off but attrition will be allowed to gradually reduce numbers.

There is still much anxiety about the poor nations, which are utterly dependent for survival on the rich ones. And even though repayments have been stretched out into the distant future, the debt problem has not gone away. The big debtor nations might just be able to cover their interest bills but there is still serious concern over their ability ever to repay principal.

Most delegates to the IMF meetings were optimistic. But most, from the rich to the poor and from the creditor to the debtor nations, had a strong vested interest in believing the best. A world economy growing without inflation or a big default is what everyone wants.

The case for gold, on the other hand, is everyone's nightmare.

Wall Street and American investors are far less sanguine than the IMF about the world economy. Millions of dollars are flowing into gold funds, as investors hedge their bets. Just in case inflation does revive and in case Mexico or Argentina does default, $400-million has flowed into new gold funds this year. American precious metals is confident it will attract $300-million largely for the same reason.

In an American economy worth more than $1 000 000-million, a year, these are just drops in the ocean. But in a thin international gold market, just a few more drops could make a world of difference.

S. Express 30/9/84 49

Promotion is desperately needed

Export boom sets trend for recovery

A SUBSTANTIAL leap since May shows that exports are starting to respond to the effective 20% devaluation of the rand this year, setting the economy up for an export-led recovery.

Exports in the first eight months of the year are up only 14,2% on the same period of 1983 to R15,9 billion, but since May there has been a much improved performance.

The improvement on the same month of last year has been:

MAY	**25,7%**
JUNE	**12,0%**
JULY	**27,8%**
AUGUST	**35,7%**

(Average for the four months 25,3%)

The turnaround has two causes. It is in this period that the exchange rate has moved sharply against the rand.

In the first three months of the year the rand strengthened slightly against the dollar, but a sharp decline began in May (see table). By August 1, the rand had plunged to US $0,59c.

Initially the rand held up against the other major currencies, but it has now plunged equally against the Deutschemark, sterling and the yen. From an average of DM219,5 in the first quarter, the rand will probably average DM180 in the third quarter. In terms of sterling, it's down from 0,5665 to 0,4878.

In addition, in the past two months, there has been tough government action to dampen internal demand by raising GST and interest rates,

By TONY KOENDERMAN
Financial Editor

counting for only about 10% of the output of the manufacturing industry, it is clear that export promotion is desperately needed.

"We now accept that it is necessary to have two main policy objectives," says Arthur Hammond-Tooke, chief economist of the Federated Chamber of Industries.

"First, we must boost manufactured exports. The po-

whole, 9% and 19%; for the UK 15% and 14%; and for West Germany 13% and 9%.

All of these measures are contrary to the spirit of Gatt, but are within the letter of Gatt's rules because they are defended in terms of 'safeguard action' intended to provide protection against a temporary surge of imports.

South Africa's need for an export promotion package to replace the R180-million a year export incentive programme which was can-

complicated by current negotiations with members of Gatt concerning the signing of the Code on Subsidies and Countervailing Duties.

Signing

South Africa is committed to signing the code, one of the major aims of which is to reduce or eliminate non-tariff trade barriers.

Becoming a signatory could affect export promotion activities, but would

signatories would have to open their economies equally to our exports.

Safto chief executive Wim Holtes reckons there are about 2 000 South African exporters of which between 400 and 500 account for the bulk of the exports.

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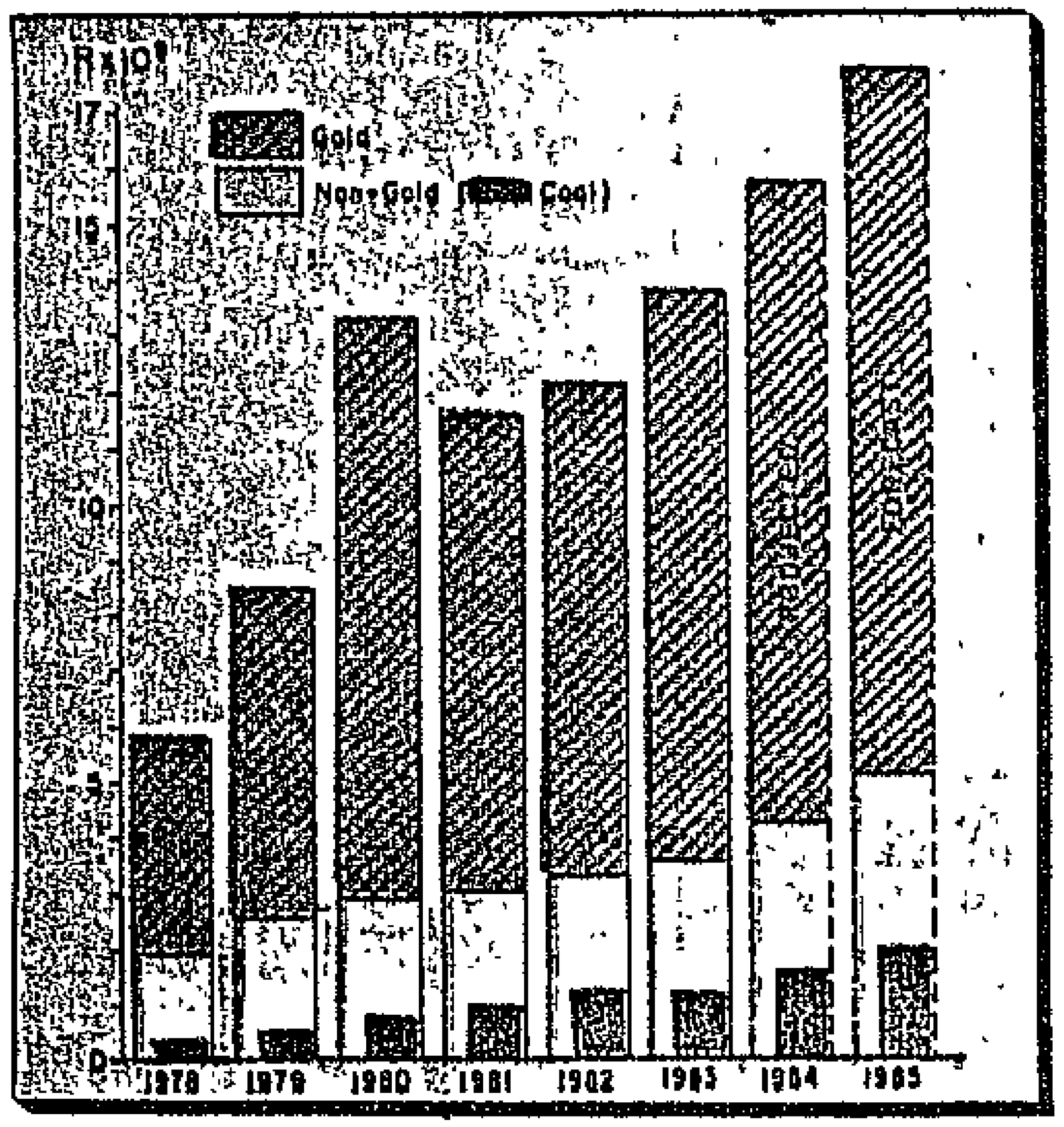

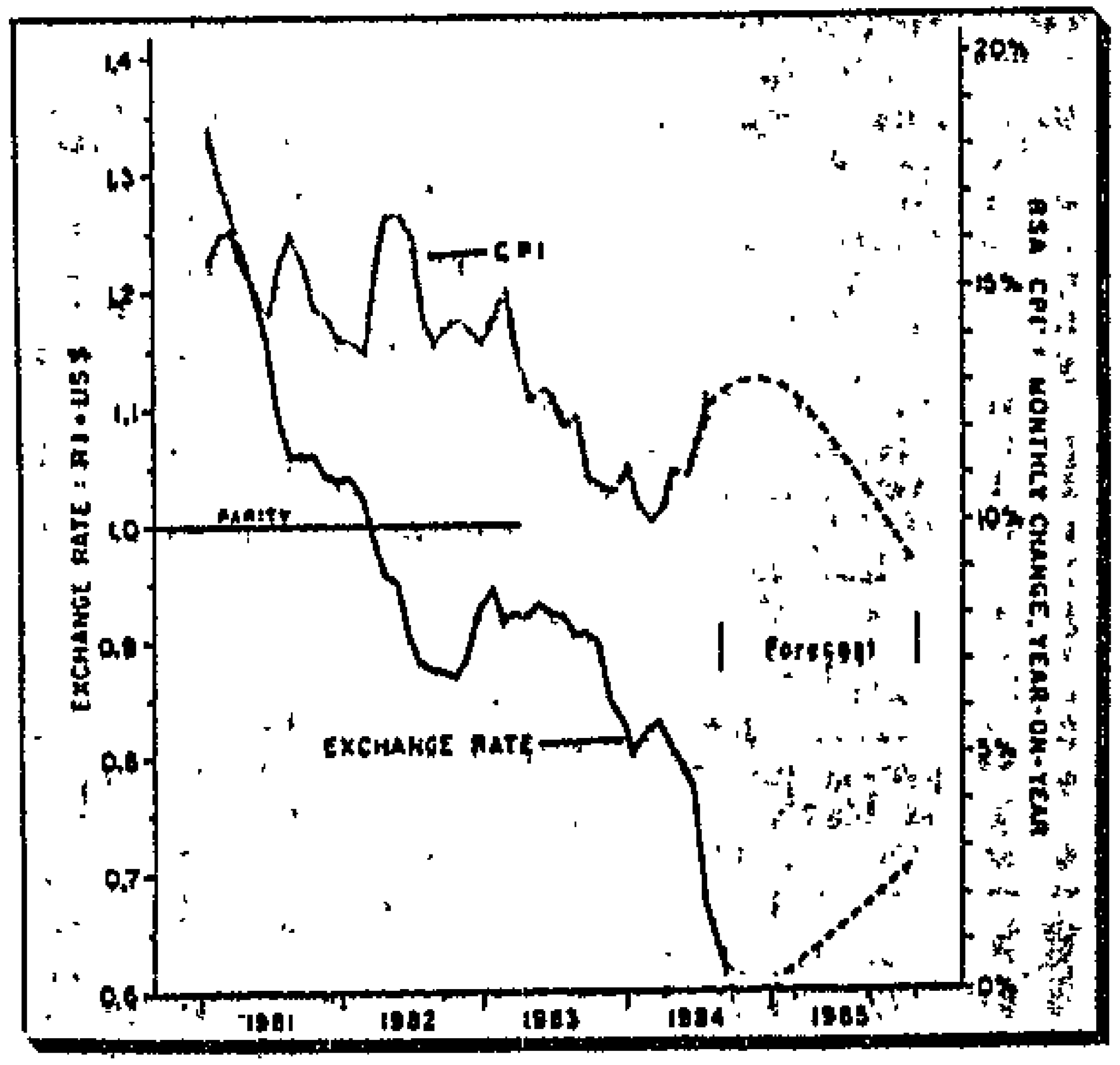

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But with exports still accounting [illegible] industry, it is clear that export promotion is desperately needed.

"We now accept that it is necessary to have two main policy objectives," says Arthur Hammond-Tooke, chief economist of the Federated Chamber of Industries.

"First, we must boost manufactured exports. The potential for increasing our exports of primary products is limited by factors which are beyond our control — for example, world demand and prices. So there is very little we can do to increase these exports.

Slower

"In many commodities, the actual world demand is increasing at a slower rate than global GDP because of the shift towards high-tech products which require less raw materials.

"Like the rest of the world, we have to look increasingly to manufactured exports, which are linked strongly with employment creation and job advancement."

Over the past decade there has been a major policy shift, crystallised in the Kleu Report on industrial development, emphasising the need

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for a better balance between import substitution (the main generator of industrial growth in the Seventies) and exports.

As the World Bank's 1984 World Development Report noted, it is now generally accepted that the only development route for Third World countries is through outward-looking policies.

But the World Bank has identified protectionism as one of the most serious obstacles to this. As the developed countries have felt the squeeze of the longest recession in 50 years, they have increasingly sought to keep low-cost competitors out of their markets.

Traditional

They have done this less and less through traditional tariff protection — which is frowned on by the General Agreement on Trade and Tariffs, Gatt — and more by non-tariff barriers.

Typical is the way the United States has used its muscle to bully Third World steel producers into accepting 'voluntary' restraints on supply. Today, 13% of US imports from developed countries and 6% from developing countries are subject to non-tariff barriers.

The US, however, is certainly not the worst offender. For example, the figures for Switzerland are 23% (developed countries) and 49% (developing); for the EEC as a [illegible] Gatt's rules because they are defended in terms of 'safeguard action' intended to provide protection against a temporary surge of imports.

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"Once you have withdrawn from the export market, it takes six to 12 months to get back in. So when the rand weakens you don't suddenly get large numbers of people flowing back into the market."

Mr Holtes says there are two structural problems inhibiting the volume of exports. "We have a fairly limited number of exporters, and the 80:20 rule applies: 20% of the people account for 80% of the exports."

But the numbers are rising. "There is a tremendous increase in the number of people who are involved in international business, and in the number of products we export," he says. "In the past 10 years coal has become our biggest export commodity, ahead of diamonds. Chemicals are now the fourth biggest, machinery and equipment fifth. We are a major paper exporter.

"We have also gone into a lot more markets, in spite of boycotts. This has happened against the background of a very long recession, which frightened off many exporters."

S. Express 30/9/84 (49)

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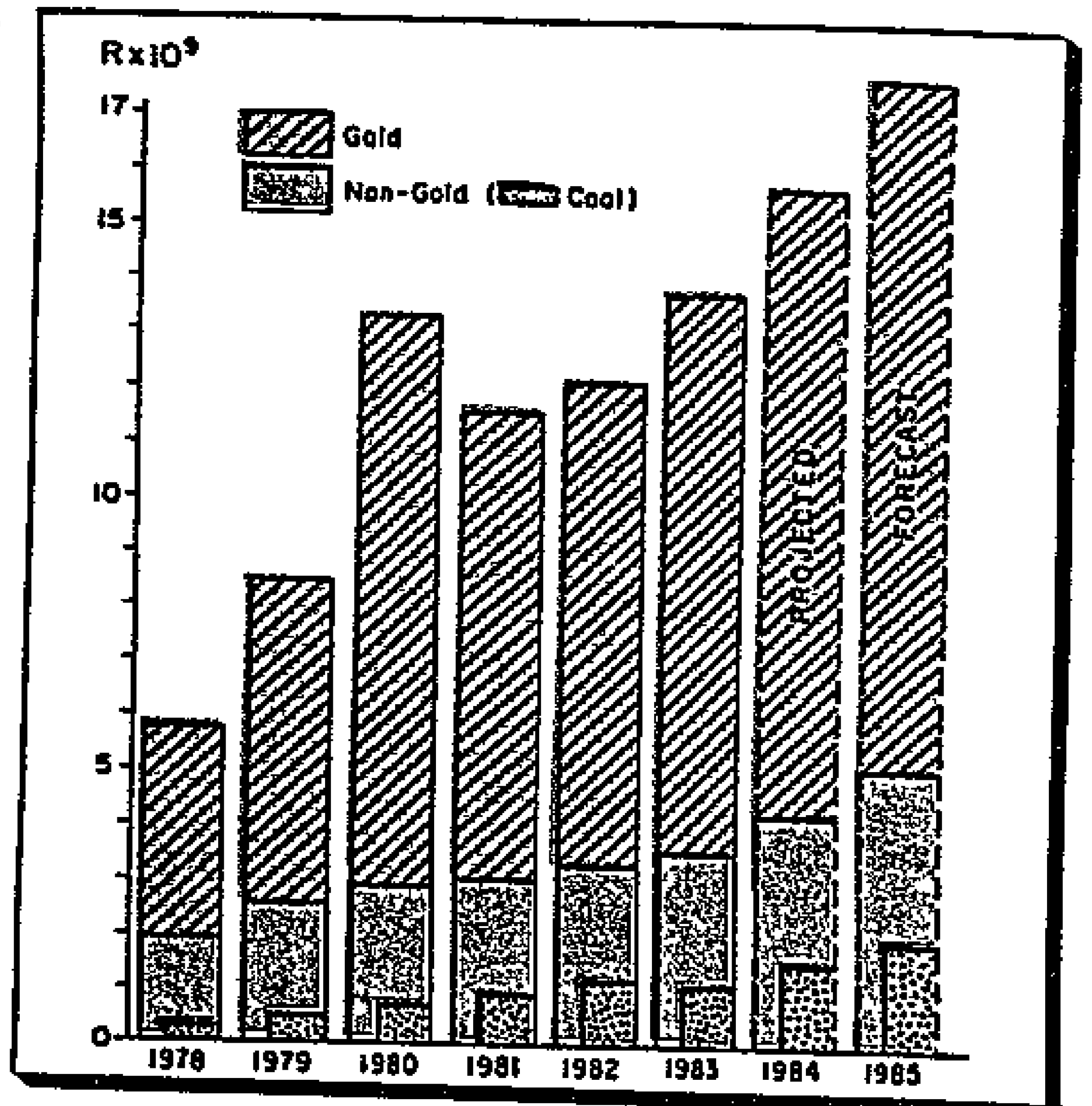

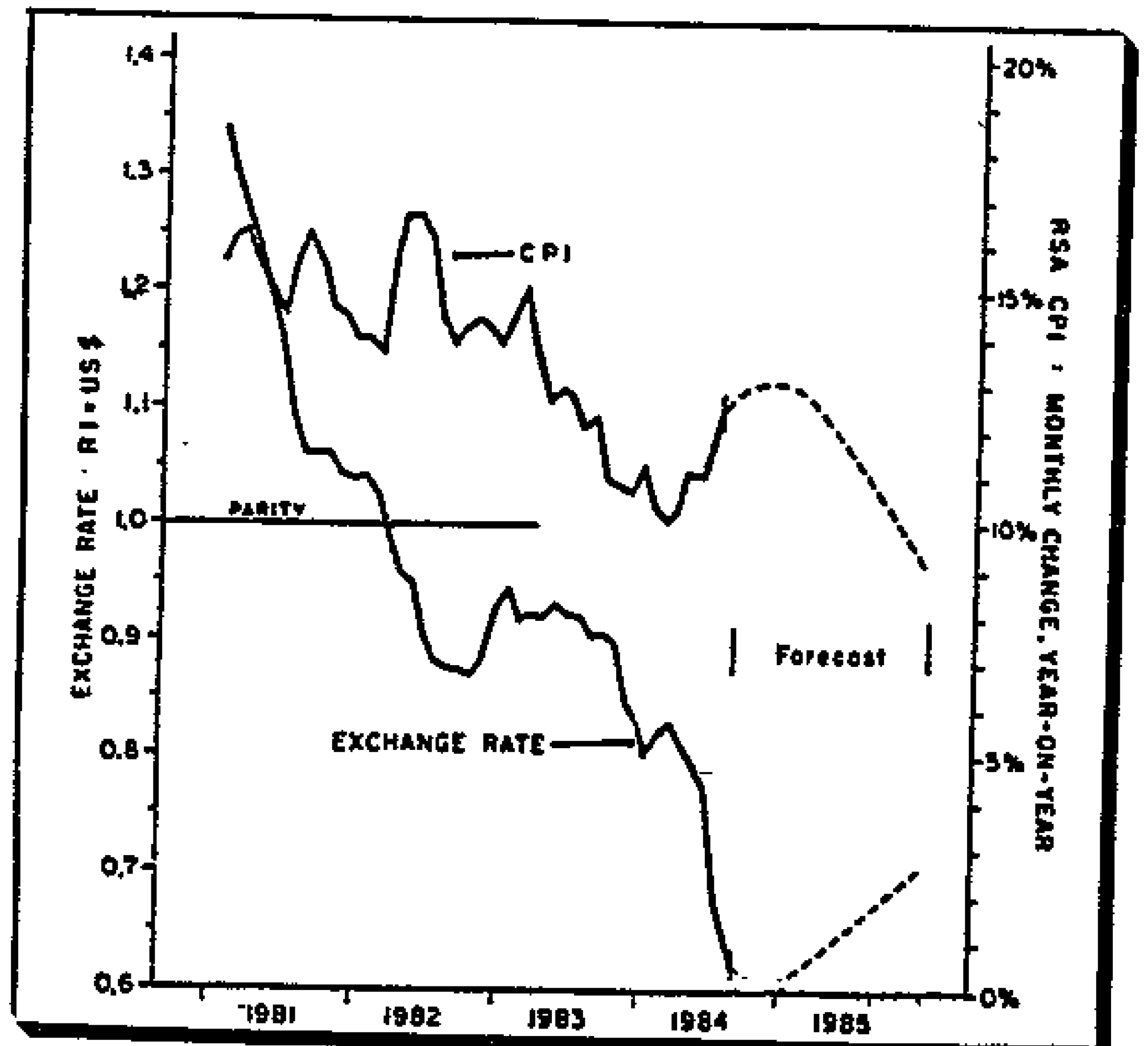

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Argus 4/10/84 (49)

FINANCE

Many SA companies potential failures, varsity probe claims

Argus Correspondent

DURBAN. — An alarming proportion of South African companies are potential failures, while more than half are deteriorating financially.

According to a model developed by the Bureau for Financial Analysis at the University of Pretoria, and applied by an independent researcher to 283 quoted companies, 168 (59 percent) are deteriorating and 28 percent (77) "would normally fail financially".

Published in the latest edition of Takeover Talk, the statistics reveal that the worst position is to be found in the steel sector where 75 percent of companies could fail.

This is followed by furniture (44 percent), industrial holdings (41 percent) and motor manufacturing (40 percent).

The following companies performed positively against the trend: Otis (building), Searles (clothing), Woolworths-Truworths (stores), Powertech (electronics), Vereeniging Refractories (steel) and industrial holdings group Rentmeester.

The university's model takes into account several factors, including a company's risk of financial failure, its ability to honour financial obligations on time and to pay dividends to shareholders.

The figure, however, is distorted by the fact that account is not taken of the influence of holding companies and strong financial groups that might support firms.

ROUGH GUIDE

As a result the survey should be used only as a rough guide for investors.

Zero is the point of separation between sound businesses and those which the survey believes have a tendency towards financial failure.

Takeover Talk says "a borderline classification could be those businesses that fall between -0,2 and 0,2".

Some interesting extracts from the 283 company list include (figures in brackets after ratio indicate year):

Altech	-2,06 (83), -1,89 (84)
Altron	-1,99 (83), -1,87 (84)
Beares	-0,54 (82), -0,07 (83)
Berzack	-2,01 (82), -1,04 (83)
C.G. Smith	-0,67 (82), -0,70 (83)
Checkers	-2,22 (82), -1,03 (84)
Clicks	-1,64 (82), -1,23 (83)
Crookes	-1,26 (83), -1,27 (84)
Dorbyl	-0,77 (82), -0,68 (83)
Farm-Ag	-3,70 (82), -0,76 (83)
HLH	-1,62 (82), -0,48 (83)
L Matrh	-1,56 (82), -1,12 (83)
Lonsgr	-1,24 (82), -0,03 (83)
M and R	-0,70 (82), -0,41 (83)
McCarthy	-0,73 (82), -0,45 (83)
Mooi River	-3,15 (82), -2,91 (83)
Ninian	-0,60 (82), -0,05 (83)
Otis	-3,64 (82), -4,98 (83)
Pick 'n Pay	-0,68 (83), -0,74 (84)
Protea	-0,58 (82), -0,20 (83)
Rembrandt	-1,69 (82), -1,36 (83)
Rennies	-0,74 (81), -0,80 (82)
Romatex	-1,36 (82), -0,82 (83)
Sappi	-0,45 (82), -0,03 (83)
Sasol	-2,68 (82), -2,67 (83)
Southern Sun	-0,94 (83), -1,27 (84)
Tongaat Hulett	-1,07 (83), -0,38 (84)
Toyota	-0,78 (82), -1,68 (83)
Wooltru	-1,56 (82), -2,00 (83)

Du Plessis opens the war against inflation

(49) Star 5/10/84.

Drastic action on tax dodgers waits Cabinet approval

Reports by DAVID BRAUN, Political Correspondent

Drastic measures to punish tax dodgers are soon to be referred by the Minister of Finance, Mr Barend du Plessis, to the Cabinet for approval.

The number of Government inspectors to check that small businesses were paying general sales tax was also to be increased, he told the National Party's Transvaal congress in Alberton yesterday.

This would include the use of national servicemen seconded from the South African Defence Force.

Mr du Plessis said there were taxpayers who used accountants to find loopholes to avoid tax — and what they did came very close to evasion.

He appealed to those who did this to refrain in the interests of all.

People who evaded tax were guilty of stealing from salaried people who did not have the opportunity to employ accountants to advise them.

Mr du Plessis said he was considering approaching the accountancy profession about the problem.

Earlier in the economic debate at the congress, Mr du Plessis said that the State President, Mr P W Botha, had not yet reacted to a recommendation made by the Economic Advisory Council that the country's entire taxation system should be reviewed.

He said he agreed that it was time for an overhaul as, over a period, a taxation system tended to become twisted.

The question of separate taxation for married women was raised at the congress by veteran tax campaigner Mrs Adele van der Spuy.

In response, Mr du Plessis repeated statements earlier this year that a final decision would be made next year.

He warned that the introduction of separate taxation for married women would probably leave the average taxpayer worse off.

'South Africa will have to lower its standard of living'

Finance Minister Mr Barend du Plessis has outlined guidelines he believes are necessary to get the economy back on its feet.

Speaking at the National Party's Transvaal congress in Alberton yesterday, he said the nation had to face the fact that it was poorer than it was three years ago. This meant it had to lower its standard of living.

The guidelines to make the economy strong again were:

- Stability. If South Africa was not stable and not a safe place to invest in it would lose its negotiating base with the rest of the world. Therefore constitutional and social development and the control of conflict was important. Conflict could be eliminated by providing jobs and political accommodation for the maximum numbers of people.
- A strong rand. As a currency unit, the rand would have to improve. There were signs of improvement, and the balance of payments was swinging back to positive, probably by as much as R1 000 million by the end of the year.
- A decent interest rate. It was wrong that people could not earn even the inflation rate on their investments.

Mr du Plessis said that the Government would stick to its budget next year "come something or high water".

If circumstances prevented the Government from doing this, he would "come clean" and elicit public support for extra spending.

State departments overspending considerably on their budgets was a feature of government financing in recent years, which led to higher taxes and the need for official borrowing at home and abroad.

Mr du Plessis, who this week returned from the IMF annual conference in Washington, said President Ronald Reagan had said that the only way to decrease taxes was to reduce the need for them by cutting government spending.

Schwarz calls for experts to study causes of inflation

A call for the structural causes of inflation to be eliminated has been made by Mr Harry Schwarz, the Opposition spokesman on Finance.

In a statement he suggests that a commission of experts drawn from both the public and private sectors be formed "to examine the whole problem of inflation".

The Minister of Finance, Mr Barend du Plessis, had returned to South Africa claiming general approval in International Monetary Fund circles for the steps now being taken to safeguard the economy, Mr Schwarz said.

"The Government has produced a fiscal and monetary package which is designed to safeguard the balance of payments and to deal with the present inflationary situation.

"However, it is clear that these measures will deal with cyclical problems relating to these two issues and that there are more fundamental causes, particularly relating to inflation.

"It is pointless that, as the business cycle moves, we find ourselves time after time having to take harsh measures which leave indelible scars on the economy, but do not solve the long-term problems."

Fm 5/10/84

local farmers' associations below the knee and provincial unions above) has been progressively weakened.

Until very recently no one secured a position of real power within the SAAU, either as an employee or an officebearer, without the support and prior approval of the leaders of the co-operative movement — which effectively held the purse strings.

The co-operative council dictated policy; its deputy chairman (Fanie van Rensburg, of Vleissentraal) assumed power from the rear; organised agriculture spoke for the co-ops — and that was that. The log-jam started to break when Hendrik Schoeman, as Minister of Agriculture, approved the imposition of compulsory levies on farm produce to finance the union and its various commodity committees.

The sudden inflow of a regular supply of money began loosening the financial grip which the co-operatives, Van Rensburg and the meat lobby had previously held over the SAAU. It also attracted the attention of other factions within the industry. The SA Maize Producers' Institute (Sampi) was the first to show the way. Realising that the compulsory maize levies were effectively up for grabs, it quickly came to terms with its erstwhile rival, the SAAU-sponsored SA Maize Speciality Organisation (Samso); negotiated a merger (to form Nampo) and swept the pool. As an autonomous speciality organisation representing the maize farmers (but not the co-ops) Nampo is now affiliated to the SAAU, but financially independent of it.

One of its first decisions was to tell the Minister of Agriculture that it wanted a

BAREND DU PLESSIS

Matching butter to bread

(4a)

The editor of the *FM*, Stephen Mulholland, met with SA's new Finance Minister, Barend du Plessis, in Washington last week during the annual meetings of the International Monetary Fund and the World Bank. Here are extracts from the interview:

***FM*: It seems to us there is a measure of concern in the private sector on the competence of government and the monetary authorities in controlling our finances. Massive overruns in spending are announced out of the blue. The former Minister of Finance said the most recent gst increase was designed not to raise funds for fiscal purposes but more as a monetary measure to dampen government spending. Then we are informed that the deficit is R600m greater than was anticipated. The impression is not encouraging.**

Meeting in Washington: *FM* Editor Stephen Mulholland (back to camera) and former US Secretary of State Henry Kissinger. New SA Finance Minister Barend du Plessis (left), who attended the annual meeting of the International Monetary Fund, was interviewed by Mulholland on economic policy; and a report on a major speech by Kissinger was carried in last week's *FM*. The IMF and World Bank meetings are a forum for top-level exchanges on global economic and political directions.

Du Plessis. It's true to say with hindsight that the recent gst increase served more than just monetary ends — although it did serve those as well, as it did help curb consumer demand. I cannot say what was in my predecessor's mind at that time he said what he did. Perhaps he had in mind that circumstances would permit certain items of government expenditure to be curtailed as the fiscal year progressed so that the extra gst revenue would not have been so necessary for fiscal purposes. But even under the most favourable conditions, it is extremely difficult always to be able to quantify what might happen, particularly if one deals with imponderables such as drought assistance. At that time, he may have thought that the monetary implications weighed more heavily. In the meantime, other events overtook matters.

It seems there is a perception that the reputation of the fiscal and monetary authorities is at a low ebb. The judgment seems to be that our economic strategy has been mismanaged. We seem to have fallen again into the disruptive boom-and-bust cycle.

If we read and believe the media, this would seem to be the case. However, it's always true to say we could have done better. Professor Horwood did his best and, over many years, proved his exceptional abilities. I can't explain why the Budget went as it did. Figures are figures and the statistics speak for themselves. What contributed to our present state of affairs is something that I can't undo at this stage. I take office at a difficult time and not with the objective of conducting speculative autopsies. My job is to take the steering wheel and to try to steer a constructive course.

Events seem for the moment to have cost the authorities their credibility. Year after year there are budget overruns, money-supply growth is ex-

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fresh band of producer representatives on the Maize Board The Minister had no choice but to sack the old gang (including Jaap Wilkens' politician brother, Ben, who then held the chair) which had been recommended by the SAAU.

Needless to say, that group was heavily laden with co-op stooges as well as politicians. Other speciality organisations were bound to follow. The money and power were simply waiting for them. ~~At first~~, the old guard of co-op loyalists within the SAAU were determined to fight against them: but more recently they appear to have been accepting the inevitable.

When the Organisation of Livestock Producers (OLP) got off the ground ~~a few~~ months ago, the SAAU responded almost immediately by offering to set up a similar organisation of its own. Merger talks are already being held — but there could be more to these than at first meets the eye.

Fanie van Rensburg heads the SAAU meat committee as well as the co-operative movement and he is known to be a staunch supporter of the Conservative Party. According to one (~~very plausible~~) theory we are ~~now witnessing~~ the emergence of ~~a new~~ rightwing power ploy to undermine the main body of the SAAU by weaning from it as many speciality organisations as can possibly be controlled by the Conservatives.

Before the next five years are up, a third leg will have been added to the SAAU's precarious structure, and the new one promises to be by far the strongest. So Kobus Jooste may well be the last president to climb to the top via a provincial platform.

4a

cessive, inflation goes on, there's no growth.

I accept that our credibility has gone. If I read the newspapers, I see our credibility is low. In looking forward to the future, we need to firmly grasp how important it is to protect the integrity of our Budget figures and, to that end, we shall do our best in difficult circumstances to budget accurately and then to stick to our figures. I can confidently state in this regard that I have the full support of the State President and my colleagues in the Cabinet. But again I must stress it is not always possible to meet all of one's objectives in a financial environment riddled with uncertainties.

Is government truly in control of its affairs from a financial point of view?

There is no question that we have matters firmly under control. The Minister of Finance has certain powers to stop any expenditure. But clearly the consequences must always be taken into account if such a drastic step does become necessary. Most of the kind of overspending we have had in the current year has been in areas of sensitivity.

One of the basic themes at these meetings has been the need for governments to reduce their spending. In view of SA's problems in this area, what are your comments?

Well, it's a question of what is really "excessive." One must consider government spending as a ratio of gnp. Whether the level we now have in SA is the desired one. is a subject for debate. Our approach has been, and will continue to be, to try to reduce the share of the national product which is spent by government. Of late, we have not managed to fulfil that commitment. But it remains our stated policy and objective and we will check the current rising tendency.

Do you have a target in mind for this ratio of government spending to gnp?

We have no exactly quantifiable target in mind at this time. The other side of the coin is that when government commits itself to certain budgetary targets which decrease its share in gnp, it is bound to do its utmost to stick to them, otherwise capital markets are disrupted. Uncertainty is created when government overspends in terms of its stated objectives. Of course, it is not always possible to stay within the limits aimed at. Sometimes there are unavoidable overruns when circumstances develop adversely. It can be argued that in SA we have had exceptional circumstances which could not have been taken into account in advance. Drought relief is just one that comes to mind.

What's the answer to this sort of problem?

We will try to change our style of budgeting. One of the things we will be insisting on strongly is proper quantification for spending requests and then making sure that limits are adhered to. What we seek is open justification and quantification, so that everyone concerned knows what has been agreed to. They will know that there is just so much butter to spread over so much bread.

An important factor in excessive government spending has been the sharp increase in the cost of the civil service, where wages, salaries and perks seem to have risen sharply.

To provide the quality of services essential to the country, the civil service must have its share of properly qualified people, and you don't get them for nothing. As the Minister of the Interior recently demonstrated statistically in a study of civil service pay packets, the criticisms recently levelled are exaggerated. There remain, for example, large numbers of unfilled posts despite what critics say are such attractive salary packages. Naturally, any large bureaucracy suffers from a certain amount of duplication (and sectoral bureaucracies), and there may be services which could be better rendered by private institutions. What we must do is investigate these areas and constantly strive to improve our efficiencies by creating even better procedures than we now have for monitoring performance.

There is concern in the private sector over the equitable application of the perks tax. Are these fears founded, that the civil service will get a better deal?

There will be equity in the taxing of fringe benefits.

There has been a flurry of interest in the fringe benefits area as a result of government's perks tax initiative. Many companies which did not previously have such schemes are now looking at them seriously, and there is great activity among firms offering advice in this area. Hasn't government opened up a hornet's nest? Isn't it possible government could actually end up losing revenue as a result of the perks tax?

I feel it's short-sighted to take that sort of action in response to what is proposed in the perks tax area.

But surely businessmen must act to protect their interests?

I accept that it's natural for them to act in that way. But it should be remembered that we are only beginning now. Our objective is to seek equity and more reasonable balance between cash and other benefits. We shall, in the shortest possible period of time, close any loopholes and eliminate abuses, which will most probably render all the present manoeuvring between cash and other benefits useless and a waste of time.

There seems to be confusion in the housing area. Who is eligible and for what?

We've reopened the commission to look into entry to housing schemes. What we are seeking is equity and fair treatment for all taxpayers.

Argus 6/10/84 (49)

Some important economic lessons for South Africa

INVESTMENT

DEREK TOMMEY

MANY South Africans will hope that the Minister of Finance, Mr Barend du Plessis, who returned this week from the United States spent some time finding out how that country — against most expectations — has achieved such an outstanding growth rate in the past year or so.

They may wish that he also spent some time in Britain learning what not to do if he wants to build a prosperous economy.

Britain's economic record, with unemployment remaining stubbornly high and now likely to go higher, is dismal.

In the United States, by contrast, more than 10-million new jobs have been created in the past five years. More people are at work in that country today than ever before.

TAKEN BY SURPRISE

American economists, who have been taken by surprise by the strength of the American economy this year are not completely agreed on all the reasons for the upsurge in the economy.

However, an important factor is that American workers have been willing to accept not just a pay freeze but a drop in salary when their company was in financial trouble.

Workers in the motor industry have taken a cut in wages, as have many in the air-transport industry. Pay and conditions of work in many union agreements have been drastically revised.

Wage negotiations a few days ago ended with American motor workers agreeing to a pay rise this year of 2 percent.

PUBLIC SERVANTS

Contrast this with the at least 20 percent increase which South Africa's 840 000 public servants are reported to be seeking in 1985 — or the 10 percent increase which most South Africans seem to be expecting this year — even though many sectors of the economy are in difficulty.

Other reasons for America's high growth rate appear to be the willingness of its industry to modernise and use the latest "state of the art" technology and also the low level of social welfare, compared with that in Britain and other European countries.

A great clamour is being made about America's high interest rates, its budget deficit and its trade deficit. But as long as the United States can keep its inflation rate down and its social welfare payments under control there seems no reason why these should be a problem.

TRADE DEFICIT

Although America's interest rates may be high, American industry can obviously afford them, which is all that matters. As for the budget deficit, the strong rise in business activity should at least bring some increase in tax revenues and lessen the seriousness of the deficit.

Much concern has been made about the foreign trade deficit. But as the rest of the world pulls out of the recession this will be reduced.

When Britain was an imperial power, and also the West's major provider of textiles and machinery, it ran foreign trade deficits continuously for many years. Imperial powers can do things that lesser states cannot.

In contrast to the situation in the US, Britain's position is depressing. Here in South Africa we have witnessed the steady decline in Britain's foreign trading position as British goods have disappeared from our shops, to be replaced by goods made by the French, German and Japanese.

NORTH SEA OIL

Those vanished goods were certainly not "high tech" or beyond Britain's ability to make them. They disappeared simply because Britain priced itself out of the market.

For the present Britain is being supported by North Sea oil, which has made life a little easier for the average Briton. But the country's huge and growing unemployment problems remove any feeling of complacency about Britain's future.

The reasons why Britain has priced itself out of the market are obvious. On the one hand the big powerful unions such as the coal miners and the power station workers have with their voracious demands lifted the country's basic cost structure.

On top of this, Britain's economy is having to carry a massive social welfare burden. Built into every item Britain exports is part of the cost of the social services, and also part of the cost of keeping the miners at work in unprofitable pits.

EXPORT TO LIVE

As foreigners do not benefit from the social services they see no reason why they should pay for them and so turn to other suppliers. The British worker has been belaboured for his lack of productivity. However, considering what he has achieved in spite of these two major handicaps, perhaps his productivity has not been so bad after all.

For us in South Africa there are some vital lessons in what has happened in these two countries.

It is clear that as South Africa must export to live, it cannot allow a bloated and expensive bureaucracy, or an extended social system to boost its cost structure and price its goods out of the market.

Neither can it allow restrictive practices, either by labour or by employers, to increase the cost of its goods. The fact is that protection in any form is counter-productive if it increases costs for it will harm the work prospects of everybody in this country.

RDM 6/10/84 (49)

Parsons sees no hope of an early recovery

Financial Reporter

THERE is little prospect of an early recovery for South Africa, which has no option but to continue a broad policy of monetary and fiscal discipline.

This was the main message from the recent IMF and World Bank meetings, said Assocom's chief executive, Mr Raymond Parsons, yesterday at a Durban Chamber of Commerce meeting where he recounted impressions of his stay in Washington.

He said the country must now see the current policies through without expecting an early upturn.

"Although South Africa will partially benefit from the current world economic recovery, we are not well placed to exploit its full potential. We are out of kilter with the international economy and our rate of inflation is still too high.

"In essence, therefore, the present world economic revival may pass us by," said Mr Parsons. There were also structural difficulties inhibiting South Africa from maximising the advantages of the present harbingers of world economic expansion.

He felt SA's economic growth next year would be between 2% and 3%. Imports would decrease in real terms by 8% to 10%. Exports (in real terms) would increase by 7,5% to 9% and the balance on current account would be between R1bn and R1,5bn. The consumer price index would remain at about 10%, "but with some downside potential".

Despite its economic difficulties, SA enjoyed an excellent international credit rating, said Mr Parsons. "An institutional investor evaluation released at the IMF and World Bank meetings placed South Africa 29th in the world and first in Africa.

"Although there has been some slight slippage in SA's rating since previous assessments, the position remains good and the Republic still looks under-borrowed at present."

While Mr Parsons' impression was that South Africa could still borrow from the IMF despite more onerous conditions imposed by US legislature last year, it was unlikely to do so if it could avoid it. Future access to foreign lending was more likely than ever to come from private banking sources.

He said the despair over the world debt crisis which had characterised the 1982 IMF meeting in Toronto had given way to a feeling of lasting unease but that the mood was generally more optimistic.

"Most bankers are now able to push these concerns to the back of their minds in the belief that one way or another, the financial system will survive.

"Although no global solution has been possible, time has been gained by rescheduling debt on an ad-hoc, case by case basis, which has given breathing space to debtor nations.

"But after two years of successful fire-brigade action, there remains a general view that consideration can and urgently must be given to the longer-term aspects of the debt problem."

The overall economic outlook had improved, said Mr Parsons. After a prolonged period of economic recession, with each year seeming to offer less hope than the previous one, the situation at last showed some encouraging signs:

- Total world output in 1984 should reflect its best performance for some years, both in developed and developing countries.
- The rate of inflation has slowed in most countries.
- World trade is beginning to pick up to the benefit of all.
- Imbalances in external payments show signs of diminishing in several parts of the world.

Looking ahead, most economists foresaw continued growth in 1985, but at a slower rate than in 1984. In the US, growth was expected to drop to 4% from 7% this year.

Because of global implications, the balancing of the US trade and budget deficits was coming in for a great deal of attention.

The US balance of payments was currently in deficit by about $120bn or about 3,5% of GNP. On the budget deficit side, the latest estimates for 1984 were put at about $200bn, or 6% of GNP.

"Both these deficits, if nothing is done, are expected to increase. Are they sustainable?

Action would have to be taken to reduce these deficits because of the decrease in US competitiveness and because its growing dependence on foreign capital made it increasingly vulnerable to swings in international investor confidence.

Estimates of the overvaluation of the dollar ranged between 20% and 30%. It was riding so high because faith in US stability outweighed concern about the trade and budget deficits, but this could change, said Mr Parsons.

"Precisely when the dollar decline begins will depend upon when its advantages as a reserve currency are perceived to be outweighed by the low competitiveness of American industry.

"Most of the observers I spoke to believe that there are still factors at work which will keep the dollar strong at least until after the elections in November.

"The consensus of opinion is that thereafter there will be a gradual 10% to 15% decline, although there was a reluctance to say how long the fall would take. Some fear a landslide fall once the reaction eventually sets in and they see a considerable downside risk."

Against this scenario, he did not see any bullish factors for the gold price. "Current high levels of interest rates and low inflation are simply not good news for our principal export." As a result, the short-term outlook was broadly neutral and the gold price was expected to remain at about $350.

Mr Parsons voiced concern over the possible effect of US sanctions against SA on the economic health of the Southern African region.

"In the light of the economic interdependence of Southern Africa, the threat or actuality of financial sanctions against South Africa makes even less economic sense than ever before.

"If South Africa sneezes, the rest of Southern Africa catches a cold! My concern about the current moves to prohibit or discourage US investment in SA — which should not be minimised — is that they will, if successful, harm the very people their sponsors claim to be helping.

"It remains extraordinary that key segments of opinion in the US should espouse this kind of campaign.

Mercury 9/10/84 (49)

Engineering industry 'depressed'

JOHANNESBURG—Activity in the engineering industry continued at a depressed level, though the steep decline in production levels during 1982 up to mid-year 1983 appears to have been halted.

Mr J W Nelson, president of the Steel and Engineering Industries Federation of SA (Seifsa), said this at the annual meeting here.

'While the steel industry has shown a definite improvement during the first half of 1984 as compared with 1983, the overall outlook for the balance of the year is uncertain.

'The Seifsa group of industries constitutes a major sector of the South African economy with a value of sales gross output, which, despite the current downswing phase, continues to exceed R20 000m, representing a third of the total sales of the manufacturing sector in South Africa.'

Employment

Employment levels in the industry did not repeat the dramatic decline of 1982 and early 1983 and stabilised at 380 000 scheduled employees at the end of 1983.

'Latest figures available indicate an employment strength of 378 000 in May this year. It is very difficult to predict the trend in the coming year though there are already indications of a further period of decline in the employment strength of the industry,' he said.

Mr Nelson said that uncertainty arising out of the current legal definition of an unfair labour practice was inhibiting employers in the conduct of their industrial relations.

Disputes

He said the intention of the revised Industrial Council dispute procedure introduced last year was to encourage parties to resolve their differences through agreed procedures rather than through strike action.

'This appears to have happened. The Industrial Council has handled over 150 disputes in the past 12 months and it is encouraging to report that approximately a third of these have been resolved at Industrial Council level,' he said.

'The increased use of official procedures by trade unions to take up matters on behalf of their members has also meant that the Industrial Court had to play a far more prominent role in the industrial relations arena. Over 300 cases have been referred to it since the start of 1983.

'This has led to a widespread debate on the role of the court and, during the course of the year, the Department of Manpower invited comment on the National Manpower Commission report in this regard.

Uncertainty

'The uncertainty arising out of the current definition of an unfair labour practice is inhibiting employers in the conduct of their industrial relations and it is important that a formula be found whereby the court can assist in ensuring fair employment practices without becoming directly involved in both the structure and practice of collective bargaining.'

The past year had also seen increasing fragmentation of the trade union movement in the industry.

'Some of the traditional alliances in the trade union movement appear to be changing and inter-union rivalry has continued at a high level. This makes it difficult for employers to maintain stable collective bargaining and joint consultation arrangements.'

The federation had continued to encourage maximum participation in the National Industrial Council on a voluntary basis by both employers and trade unions.

Bargaining

'The National Manpower Commission has continued its investigation into collective bargaining by inviting comment on a working document dealing with levels of collective bargaining and the extension of agreements to cover non-parties.

Seifsa has responded to this invitation with a detailed submission and it is hoped that the National Manpower Commission will complete its investigation as speedily as possible so as to bring to an end the damaging speculation that continues to take place regarding some of the key provisions of the Labour Relations Act.

'The continuing imbalance in the supply and demand for artisans constituted a serious limitation both in the development of the industry and in the wage structure.

'In view of this a plan to increase the intake and improve the training of apprentices had been formulated.

'The plan seeks to encourage "off-the-job" training in the industry by allocating a fixed proportion of income from the training levy to the establishment of industry apprentice training centres and by adapting the grant system so as to provide higher payments to companies in respect of apprentices who qualify by trade test.' — (Sapa)

Argus 12/10/84

10 000 jobs axed as motor trade slumps

Argus Correspondent

JOHANNESBURG. — At least 10 000 jobs have been axed in the motor trade in the past three months in the worst slump in new car sales in more than six years

Also, the majority of the 45 000 workers still engaged by the big motor assembly plants have been forced on to short-time in a wide-scale slowdown of production as the cash squeeze hits demand by consumers.

The National Association of Automobile Manufacturers disclosed today that new car sales last month plunged to 14 767 — down 43 percent compared with a year ago and the lowest since July 1978.

Small lorry and bakkie sales, at 8 173, were down 28 percent against September last year and sales of heavy commercial vehicles were 30 percent down, at 908.

Toyota, which increased its position as market leader, was one of the few big manufacturers apparently unscathed by the overall slowdown.

Mr Nico Vermeulen, executive director of Naamsa, said the cutbacks had resulted in at least 3 000 jobs being axed at the motor assembly plants since the increase in GST to 10 percent slammed the brakes on sales three months ago.

The total redundancy toll inside the motor trade has swelled to at least 10 000 as the chain reactions caused cutbacks in the labour forces of component suppliers and retail companies.

The nose-dive in sales accelerated as a result of high interest rates and the squeeze on hire purchase sales caused by the higher deposits and shorter repayment periods ordered by the Government.

He sounded a warning that the whole stability of the motor industry was now under pressure because of the severity of the impact of fiscal and monetary measures.

Employment problems were also mounting as the industry was forced to scale down its initial estimates of 1984 production levels

The authorities also needed to weigh other economic costs of the slowdown. He calculated that millions of rands were being sacrificed as lower sales hit GST collections.

than R1[illegible]

ADJOINING WING

The fire apparently began in an adjoining let to Mr and Mrs A Cassiem, who were not home.

Mr Khan, a car salesman, said the fire had stroyed the interior of the house and the fa had lost all their possessions.

"I found a tracksuit in the boot of my car am wearing that now," he said.

Mercury 13/10/84 (49)

Car sales crash to 1978 low point

Motoring Reporter

NEW-CAR sales had plummeted to the lowest figure since July 1978, it was disclosed yesterday.

Last month, 14 767 new cars were sold compared with more than 32 300 in June, which was the last month of 7 percent sales tax, and nearly 26 000 in September last year.

Mr Nico Vermeulen, director of the National Association of Automobile Manufacturers of South Africa, said business conditions in the South African motor vehicle manufacturing industry had deteriorated dramatically during the past three months.

This reflected the severe impact of current stringent monetary policies on the performance of new vehicle manufacturers, he added.

But one company that continued to break records was Toyota, which with a 29,4 percent share of the total vehicle market in September, created an industry record.

There were 24 198 vehicle sales in September, compared with 30 179 in August, a drop of 19,8 percent.

The passenger car market fell 22,8 percent, trucks were down 23,4 percent, medium commercials by 20,3 percent and light commercials fared slightly better at 13,3 percent lower than August.

Toyota marketing director Brand Pretorious said there there had been a number of factors which had conspired to depress September sales. Toyota expected a 20 percent improvement this month.

The two best-selling cars again were the Toyota Corolla and Cressida, the only two models to sell more than 1 000 units in September.

The 1 990 Corolla sales alone outstripped the total car sales of any other manufacturer, with the Cressida selling 1 613 units.

BMW's 3-Series moved up into third spot with 978 sales, while Ford's Sierra and Escort filled fourth and fifth places with sales of 969 and 830. The rest of the 10 top-selling cars were Mercedes-Benz W123 series, 813; Nissan Langley/Pulsar, 756; Mazda 626, 644; VW Golf/Jetta, 643; and Renault 9, 637.

12 businesses folding each day

Finance Editor

A STARTLING increase in the value of court judgments in July this year has almost doubled the July 1983 figures and business liquidations are averaging 12 a day.

Courts were asked to rule on debts amounting to more than R1 600 000 a day during July and the figure is expected to rise.

Mr Alan H Mankoff, managing director of Dun and Bradstreet, experts on debt judgments and credit ratings, has said that if the trend continues — 'and it certainly appears that there is no reason why it should not' — this year will prove to be the worst for South African business.

'These figures do not reflect the effects of the consumer spending slowdown which occurred in early August.'

Dun and Bradstreet says Government figures show that judgments in July 1983 totalled R18 351 000 which increased by 90 percent to R34 842 000 this July.

The figures show an 83 percent increase for consumers, from R16,5 million to a all-time record of R30,1 million, and a 150 percent increase for businesses from R1 900 000 to R4 700 000.

So far this year businesses have had judgments of R21,7 million recorded against them — a 71 percent rise for the same period in 1983.

For consumers the 1983 figure of R45 million rose to R111 336 000 for this year — a 40 percent rise.

May, June and July were bad months this year with a rising trend. For businesses, debts rose from R3 500 000, R3 400 000 and, the bureau says, 'a disturbing' R4 700 000.

For consumers, the figures were R23,7 million in May, R24,7 million in June and a record R30 million in July.

While the value of judgments does not mean the end of a business, or the bankruptcy of an individual, the cumulative effect is a reduction in company profits.

Mr Mankoff said proper credit control was essential for survival in the near term. Many companies failed to check the status of long-time customers.

'One cannot assume that regular payment in the past will continue.'

Big retail group feeling pinch

Mercury Reporter

BEARES, the largest furniture retail group in Natal, felt the economic pinch last month with turnover much lower than a year ago, according to managing director Geoff Austin who believes that many smaller companies will not be around next year.

'Our September turnover was very much lower in real terms than a year ago,' he said.

'The worrying factor is the number of telephone calls we are receiving from suppliers wanting us to bale them out with cash up front for goods.'

Mr Austin said Beares' approach was to be selective in aiding firms.

'Next January I believe a number of smaller firms will not be around.'

The change in higher purchase requirements in August, following close on the heels of GST going to 10 percent in July, was 'an overkill'. The social implications of unemployment was worrying.

He thought South Africa could 'move from recession to uncontrolled depression'.

Mr Austin expects reasonable trading at Christmas, but thinks retail turnover figures will return to subdued levels in January and February.

It was feared that suppliers would go to the wall and massive unemployment would result. Consumers had lost confidence in an atmosphere of gloom and doom.

He regarded consumer durables as 'semi-essentials'. The bottom had fallen out of the market for luxury video cassettes.

Mr Austin said trading had not been so badly affected at the Beares-owned Game stores.

Beares shares had hit a two-year low some weeks ago 'due to some institutions taking the line of getting out of retail shares with a number of big parcels changing hands'.

Mr Arthur Solomon, general manager of furniture and appliances for OK Bazaars, said the tough new hire purchase controls were threatening to send many companies out of business.

He said he would like the Government to change the regulations on HP 'before we go out of business at the retail and manufacturing level'.

There has been a 'dramatic' downturn with at least a 25 percent plummet on sales of a year ago.

Other major furniture retailers are also worried.

100 houses for sale to pay debts

Municipal Reporter

NEARLY 100 properties have been advertised for sale at the end of this month to recover unpaid rates owed to the Durban City Council.

This is almost double the number advertised this time last year.

Mr Wilf Stone, Senior Deputy City Treasurer, said yesterday the council was owed a total of R162 000 in outstanding rates, with individual amounts varying from R190 to R13 500.

'This year there are 97 properties listed, compared to the 52 listed last year. But only four properties were ultimately sold last year as owners have until the day of the sale to pay their outstanding bills.

'The number of debts is increasing as people battle to meet their commitments. The increase in this year's list of properties for sale to meet overdue rates is clearly indicative of their problems,' Mr Stone said.

He said the amounts owed were often fairly small as many of the properties concerned were vacant lots.

Property owners who pay their accounts before the October 26 sale takes place will have to pay the amount outstanding as well as this year's rates.

Mr Stone said they had been penalised by recurring monthly charges of 1,5 percent on the balance owed and a further 20 percent to cover costs. The monthly charge was increased to 2 percent on October 1.

Of the 58 homes up for sale, 34 are Indian-owned, 21 white-owned and two are owned by coloureds. There are also eight commercial properties on the list and 32 lots of vacant land.

R7-m teen pay packet

Hard times force children to become wage-earners

Argus 13/10/84

49

By ROBIN BROWN
Weekend Argus Reporter

THE number of schoolchildren who work part-time in supermarkets, cinemas, restuarants and small suburban firms is on the increase. Their earnings are estimated to be more than R7-million a year on a countrywide basis.

A spokeswoman for a large Cape Town department store in the city said this week: "The number of applicants is increasing rapidly and it appears that the children do not want to stay at school.

"It seems that financial pressures in many homes force the children to earn to keep the household going," she said.

Most stores have noted a sharp increase in the number of work applications from schoolchildren since the middle of the year, and one store is receiving more than 50 applicants a week.

A number of steakhouses and restaurants in the Peninsula are using schoolchildren as waiters and waitresses.

More than 50 000

One of young waitress said: "Most of us are college students but there are two schoolgirls who have the choice of working when they want.

"Often they work past midnight six nights a week," she said.

Schoolchildren are working as cashiers, packers and as clerks in shops.

A number of schoolchildren casuals said they worked to be able to buy things their parents could not afford to give them.

"If you have your eyes set on a BMX bike which can cost more than R600 and your parents cannot afford it then you must earn the money," said a 16-year-old.

Exact figures are hard to calculate as most stores employ youngsters when they need extra labour. However, it is estimated that more than 50 000 schoolchildren work on a casual basis throughout the country and earn between R1 and R2 an hour.

The secretary of the National Union of Distributive and Allied Workers in Cape Town, Mrs Dulcie Hartwell, deplores the use of children if they are employed instead of adults who are desperately in need of work.

"Most of casual workers are schoolchildren whose parents are supporting them and yet they go out into the labour market and keep other more needy out of work adults away from the chance to earn and support their families.

"It is being abused because some companies realise they can hire and fire these youngsters at will and pay minimum wages without question.

● A spokesman for the Receiver of Revenue said: "Children do not have to add their earnings to their parents' and pay tax.

"Also, one has to earn more than R3 000 a year before paying tax.

"We are not worried about a fiqure as low as R7-million when it is spread over so many workers," he said.

Bankruptcies increase — and there's worse to come

49 S.Times 14/10/84

By Ciaran Ryan

THE number of personal and company liquidations in South Africa in the first seven months of this year is 26,5% up on the figure to the end of July last year.

According to Supreme Court figures, 2 159 liquidation actions were instituted in the first seven months compared with 2 280 for the whole of 1983.

The increasing incidence of personal and company insolvency is generally attributable to a worsening recession and a fall in consumer demand.

Bad debt

Nico Czypionka, senior economist for Standard Bank, says the figures should not be seen as a reflection of the general state of the economy,

"To assess the economy we should look not only at the number of liquidations but at judgments for bad debt and at the business activity index. Until early this year conditions were generally good in the building and motor industries and retail sales were rising until April.

"The announcement of an increase in general sales tax led to a pre-emptive buying spree which was followed by a sharp increase in interest rates, and this meant that many people were overborrowed.

"There is a time lag between a recession and an increase in liquidations and this could mean that we have not yet seen the full effect of the recession in terms of liquidations and insolvencies."

Interest rates

Company liquidations have increased sharply since the end of 1983 and so have individual and partnership insolvencies.

The business activity index, which is a cocktail of different indices, shows an inverse correlation to the number of liquidations.

The downturn in business activity has been in progress throughout 1984 and is likely to be exacerbated by the official clamp-down on credit.

Les Cohen, of Westrust liquidators, says costlier borrowing and shorter repayment periods have not begun to take their toll yet.

"Although we have not seen a significant rise in the number of insolvencies as a direct result of the Government's austerity measures, we expect more in coming months as the impact of the rise in interest rates is felt."

The squeeze on credit appears to have hit consumer products most severely as this area of the economy is sensitive to recession.

Retailing remained buoyant early in the year because of lower interest rates and easier repayment periods.

Barry Swart, of Barclays corporate banking division, says large companies are surviving because of their higher capitalisation, but small companies are more likely to go under.

"The smaller company's lack of capital and the effects of the austerity package are likely to force it under. The smaller company's lack of management skills and the general state of the economy are additional, though lesser, considerations."

Cash flows

This view is supported by Arthur Daymond, general manager of Standard Bank's credit division. He believes the effects of the austerity package and the increase in general sales tax will depress consumer spending. But the long-term success of the austerity measures will depend on the Government's ability to kill expectations of inflation.

He says: "Our bad-debt situation has not been unduly affected by the rise in the cost of borrowing, but it is early days yet. The fall in retail sales is bound to affect profit margins and cash flows.

"A company paying 25% for its working capital without an increase in sales is likely to be severely squeezed."

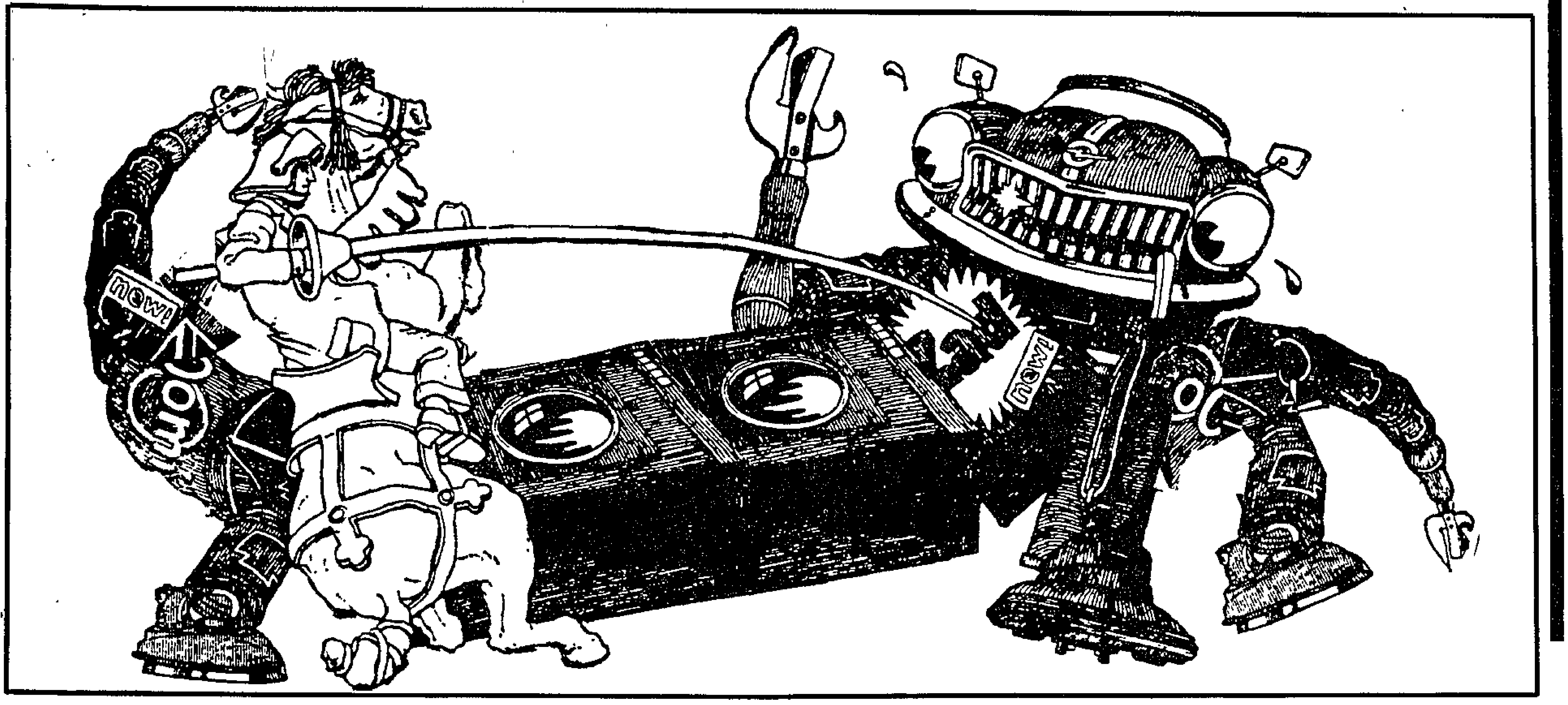
Holding on

Companies with heavy borrowing commitments and tight operating margins are holding on, hoping for a drop in interest rates. Survival is the name of the game — whether it is achieved by additional short-term borrowing or by reducing staff and production.

One thing, however, is clear: unless there is an early drop in interest rates, which is by no means certain, the number of company liquidations can be expected to rise with serious consequences for the economy.

S. Express 14/10/84 (49)

THERE'S NO PROFIT



IN LANCING CAPITAL

The government has announced itself willing to tighten the money supply and raise interest rates. Now it must reduce services, relinquish controls and cut taxes. The less government interferes, the more chance we have of unleashing the creativity upon which capitalist societies depend for prosperity

By KEN OWEN

ALMOST 25 years ago I was startled to read in the British newspaper, The Observer, the remark by Jean-Paul Sartre that no useful ideas could come from the right.

The comment seemed sweeping and extreme, but it was made casually, almost in passing, in an interview with The Observer's eminent theatre critic Kenneth Tynan whose views were as firmly anchored on the left as those of Sartre. It did not occur to either of them to pursue the point.

Certainly, at the time he made the remark Sartre did have a point. It was not long after the failure of the Suez invasion by Britain, France and Israel, that dying convulsion of European colonialism.

European conservatives, though bruised, still thought they could defend their colonies. Despite General de Gaulle, France still clung to Algeria.

Frequently, the defence of waning empires emerged as defence of racism. Often, too, conservativism emerged as hostility towards the minimum humane standards upheld by the socialists. Capitalism, denounced as a brute, behaved like a brute.

It was a time of gathering prosperity — the immoral slogan of the Tories in Britain was 'You've never had it so good' — and that prosperity was perceived to have been built upon the ideas of John Keynes, the British economist who taught the Americans the joys of deficit spending. Inflation was low, and seemed no more alarming than the merest touch of pregnancy.

The thought that nothing useful could come from the right was to preoccupy my thoughts for a number of years afterwards, especially when, in the United States, I encountered competent and articulate champions of free enterprise. In Europe, capitalism was class-encrusted, pompous and defensive; in America it was brash and confident.

American capitalism was even able to laugh at itself. "Gutter to gutter in three generations", was a common saying — meaning that the first generation makes a fortune, the second consolidates and the third squanders.

But even the American conservatives got themselves trapped into racist postures, in colonial or neo-colonial adventures, and into policies that — while they may have been intended otherwise — emerged in practice as protecting privilege and lacking in humane concern for the unfortunate. The right lacked the flexibility to adapt to a changing world. From the Fabians to Vietnam, the left retained the political initiative.

Today, I would say, the position has reversed itself. It is the left that is exhausted and trapped in inappropriate postures. Examples are the campaigns for unilateral disarmament, the violent attempts in Britain to keep useless mines going, the attacks on the police, and the insistence on protecting the selfish interests of the unionised employed while the major social problem throughout the West is unemployment.

A recent article published by The Daily Telegraph observes that the ideas of Keynes, as interpreted by policy-makers, have produced many of the ills predicted by his great opponent, the brilliant Austrian F D Hayek: the lawless expansion of the state, endless political conflicts over the spoils controlled by governments, the tendency of interventionist policies to feed on themselves.

Stupendous

It has become obvious to everybody that the stupendous creativity of free enterprise capitalism tends to be stifled by inflation, bureaucratic intervention, and crushing taxation. Excessive planning, over-ambitious welfare schemes, and the printing of money to finance government ambitions leads not to prosperity over the long term, but to inflation and stagnation.

Other things have become evident: to the cost of production must be added the cost of taxation, and the cost of keeping a civil service; trade unions have become just another interest group which lobbies for its own benefit, principally at the cost of non-union labour and the unemployed; minimum wages put people out of jobs.

The list could be lengthened endlessly, but this is enough to show that South Africa has adopted all the ill-advised policies and practices which have led to failure in the rest of the industrialised world.

(It is probably safe to say that by the time any idea reaches Wellington and Cape Town it is on its last legs, which would account for both the recent militancy of the left in New Zealand and the flowering of neo-Marxist thought at South African universities. The idea of New Zealand outside the Anzus treaty is as hilarious as the notion of a prosperous South Africa without mining houses.)

This country — I do not wish to be depressing but we might as well face the facts — stands on the threshold of its worst year since the outbreak of the Second World War. While Britain, America and Germany were at last adjusting to the new currents of thought that identified inflation as the principal enemy of prosperity, South Africa's government carried on in blithe ignorance, expanding its bureaucracy and wasting its resources in irrelevant endeavours.

The damage has been profound and it is irreparable within this decade. Some economists are predicting a drop in real per capita incomes of up to 20% by 1990. That will make for nasty politics as we claw each other for a constant share of a shrinking cake.

The savings of the white community, excepting perhaps the civil servants, have been exhausted and the notion that wealth can continue to be redistributed from white to black, as it was in the Seventies, is now politically fanciful.

The recession which faces us will be severe but it is at least the consequence of correct policies intended to force the country to live within its means. The trouble is that the government does not seem either convinced or clear-headed about either the problem or the solution, and confidence in the economic management of South Africa is evaporating here and abroad.

Businessmen now talk of Dr Gerhard de Kock, whose reputation in the past has been matchless, as being far more "political" a governor of the Reserve Bank than anybody had imagined. They note with gloom that Barlows is investing abroad, not at home. And they see the money supply still running out of control, apparently impervious to the stated policy of not printing money.

Fixed

At the same time, Mr Barend du Plessis, the new Minister of Finance, talks — as he did in a television interview this week — of government costs being "fixed", so that taxes must be raised to cover them. His concern is not to relieve the country of the excessive burden of government but to squeeze every last penny of tax out of the business community so that government can carry on as before, its rewards, like its tasks, "fixed".

He has already approved an overspending of the budget this year in the order of R1,8-billion, and he takes excessive credit for seeing that the profligacy is not greater. We have what was known not long ago as "the English disease", ironically at a time when the British have cured themselves of it.

There is no salvation for us in the ideas of the left. Higher wages will produce greater unemployment, intensified union activity will produce higher levels of mechanisation, increased welfare and government services will produce higher taxes and less investment, and the whole package together will drive investors and skilled people abroad; inadequate tax revenue will cause inflation, and inflation will undermine the currency which causes further inflation; major cuts in security spending will not be possible in an atmosphere of deprivation and turbulence.

To escape from the trap into which we have fallen it is necessary to look to the ideas expounded on the right. The theories known as 'supply-side economics' have their deficiencies, but they do serve as an antidote to the accumulation of follies of the past half-century.

The government has announced itself willing to apply the first part of the remedy — tight money, high interest rates, and sound financing of government expenditure. Now it must prepare for the second part: shed government functions, reduce services, relinquish controls, abolish subsidies and cut taxes. In other words, get out of the way.

The less government interferes, the more chance we have of unleashing the creativity, inventiveness, drive and ability upon which capitalist societies depend for growth, prosperity, and security.

The political outlook for South Africa is dismal; without prosperity it will be hopeless.

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Barclays' Dr Cloete calls for 10% pay and prices freeze

Financial Reporter

THE Government should impose a maximum 10% increase limit on all wages and prices under its control next year, according to Dr Johan Cloete, chief economist of Barclays National Bank.

He says this would be a key way to help meet the 10% (or less) inflation target for 1985 set by the Minister of Finance, Mr Barend du Plessis.

Dr Cloete says: "We have always maintained that in the socio-political situation prevailing in this country the deliberate imposition of a severe recession to combat inflation should not be lightly undertaken.

"The costs of such action could easily turn out to be much higher than those attached to other more direct measures of controlling price increases.

"For this reason we have suggested that the Government should use its wage and price policy, that is, the control it exercises over all the important input prices such as transport and electricity tariffs, fuel, food prices, etc, and its control over salary and wage increases in the public sector to control the inflation rate.

"Thus, in support of the inflation target of 10% set by the Minister of Finance for 1985, the Government should ensure that no wage nor price under its administration rises by more than 10% in the year ahead.

"To strengthen and support the direct control it has over price and wage increases the Government could also use its moral influence to persuade the large retail chains (including the large motor traders) to keep their price increases — and through this the price increases of their suppliers — as far as possible within the 10% limit."

Dr Cloete says the Government has a mechanism at its disposal which allows it to set an inflation target for the year ahead.

It can "strongly support that target by the discretionary wage and price decisions that it takes in any case to overcome the problem of achieving the correct and desired division between growth and inflation of any reductions or, for that matter, any increases in total domestic demand engineered by monetary and fiscal policy action".

Dr Cloete says British Prime Minister, Mrs Margaret Thatcher, has also strongly supported monetary and fiscal policy targets by strict control over wage and price increases in the public sector.

"This has been one of the factors which has enabled the British government to bring down the inflation rate there so rapidly from a much higher level than that in the US and without increasing rates as much as the American policy-makers."

Dr Cloete argues: "Merely to depress total demand severely by monetary and fiscal restrictions, without knowing to what levels inflation and growth will be pushed down might well result in a very unfavourable trade-off between inflation and growth and unnecessarily large reductions in output and employment well below the levels which our exports next year can still afford."

SALES

Slump in home appliances sector

appliances

S. Express 49 21/10/84

DOMESTIC APPLIANCE SALES (units)	
1980	680 000
1981	770 000
1982	680 000
1983	670 000
1984	670 000 (est)

TELEVISION SET SALES (units)	
1980	289 000
1981	293 000
1982	219 000
1983	330 000
1984	280 000 (est)

By TONY KOENDERMAN
Financial Editor

AN ESTIMATED R30-million a month has been knocked off the sales of leading household consumer durables — TV sets, VCRs, and big ticket household appliances — since the introduction in July of the economic and credit squeeze.

The slump comes just as retailers are moving into what is normally their busiest time of year. The three months leading up to Christmas normally account for about 40% of annual sales.

This year it will be a different story.

In the first half of the year, according to industry sources, monthly sales were estimated at R30-million in VCRs, R22-million in TV sets, and R45-million in white goods (fridges, stoves, washing machines, etc) — a total of R97-million.

Now the figures are R15-million for VCRs, R17,5-million for TV sets and R31,5-million for white goods — totalling R64-million.

Dropped

"The market has dropped anywhere between 25% and 40%, depending on the commodity," said Dion managing director Mr Norman Cohen. "We haven't dropped as much, however, because we are a cash or credit card business."

Added another leading retailer, OK Hyperama general manager Mr Gerald Manne: "It's the toughest I have ever seen it in my 30-year career in retailing."

Said Pick 'n Pay chairman Mr Raymond Ackerman: "It's a small part of our total business, but there is no question there has been a severe fall-off in TVs, VCRs, photographic goods and white goods. Last year we couldn't get enough and now there is hardly any demand for them.

"People who are involved with HP have been affected quite disastrously."

The slump follows the insane spending spree which preceded the increase in GST to 10%. According to market researchers A C Nielsen, expenditure on these durables in May-June was R152-million — 63% higher than in the same two months of 1983.

And when newspapers described this as "Christmas in June", they were dead right. Sales were 14% higher than last Christmas.

The GST boom helped defy economic realities and hold the decline in sales so far this year to moderate levels. In the first eight months of the year, for example, TV set sales were only 6,2% below 1983 sales for the same period. But now the party is over, and the remaining four months spell disaster.

Mr Manne attributes the collapse primarily to the tightening of hire-purchase terms. "The major area that is being nailed is VCRs, because the new HP terms require a 30% deposit and repayment over 12 months," he said. VCR sales, which totalled 200 000 units last year, worth about R240-million, were running at 20 000 a month this year until July.

Continue

Now little more than 10 000 a month are moving off dealers' shelves and this level is expected to continue through 1985. This means that 1984 sales are expected to be about 200 000, but 1985 sales will be only 120 000.

In big-ticket domestic appliances, sales are running about 20% below the levels at the same time last year, said Mr Owen Dinsdale, chairman of the Domestic Appliance Manufacturers' Association, Damsa.

"Retailers report a drop of 30%, however, so we might see a further decline," he said. "We estimate the decline will last through to at least the second quarter of next year."

Total figures for 1984 will be about the same as 1983 (which was, anyway, a mediocre year) because the second-half decline has been counteracted by an exceptionally good first half.

With excess stocks sitting in manufacturers' warehouses, there has never been a better time to buy appliances — if only you've got the money.

"When the manufacturers replace existing stocks — probably after the year-end — prices will go up by 10%-20% because of the rand devaluation," said Mr Dinsdale.

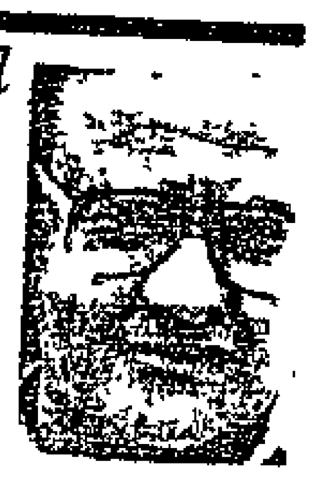
"Products are still being sold into the market which were purchased when the rand was worth 70c US. It's now down to 55c."

S Express 21/10/84 (49)

Weighing the chances of another Great Slump

Robin Friedland

MONEY WORLD



I FREQUENTLY encounter the belief that the world is on the brink of another Great Depression — that 1929 has come again.

This belief is sometimes founded on theories such as Kondratieff Long Waves, which hardly need to be treated seriously. But the argument might have more realistic foundations than that.

It therefore requires very careful analysis, as the repercussions of another economic breakdown along the lines of that from 1929 to 1932 would be nothing less than catastrophic.

What went wrong in 1929 to turn what might have been no more than a normal cyclical downturn in the United States into a collapse of the entire economic mechanism?

In the first place there had been a long-sustained speculation on shares on Wall Street, financed by unlimited access to credit. (Contemporary margin requirements were imposed later in the light of the ultimately destructive effects of unlimited access to credit for share purchases.) The collapse in share prices that took place in October, 1929 had a damaging effect beyond the borders of the US.

Wisdom

Secondly, and critically, the responses of the American central bank, the Fed, to the downturn, were diametrically opposite to what they should have been in the light of contemporary wisdom.

One of the main effects of the downturn was to expose severe illiquidity in the American banking system. When a major bank — the Bank of the United States — was threatened with collapse, the Fed decided that it would be wrong to intervene to save it. So the three years from 1929 to 1932 saw the virtual collapse of the American banking system, while the money supply, according to Milton Friedman, declined by about a third.

Another characteristic of the US at that time was the remarkably small proportion of gross domestic product (GDP) spent by government. The idea that governments should borrow and spend money to deal with a slump came later.

Herbert Hoover's idea (and Roosevelt's too, before he was elected) was that the effect of the declining economy should be met by vigorous efforts to balance the budget at all tiers of government. Nor was there a strong system of unemployment benefits to counter the effect of unemployment on consumer demand.

Still worse, the economy of central Europe had not fully recovered from the effects of the First World War. Germany laboured under the pressures of the latest version of reparations, while the Balkans had been cut up into a multiplicity of small states which were not really able to survive on their own.

When the crash came, all these factors aggravated each other and so caused the downturn to attain catastrophic proportions.

How do current circumstances compare with the 1929 scenario for disaster? I will concede that there is one element in common — the US banking system is vulnerable as it has not been since the 1930s, partly through reckless lending to Latin American and other developing countries.

Hypothesis

The collapse of Continental Illinois is only the most striking consequence of what is actually widespread weakness. It is true, as supporters of the deflationary hypothesis argue, that a widespread liquidity crisis could develop almost overnight through default by countries such as Argentina which owe tens of billions of dollars to the American banks.

What is notably different is the attitude of the Fed to banking problems. Far from standing aloof and allowing depositors in Continental Illinois to stew in their own juice, the Fed extended billions in assistance, and, when that proved insufficient, virtually nationalised the defaulting bank.

Note that this was the seventh or eighth largest US bank before its downfall, so a powerful precedent has been set for bank rescues on any scale that may be necessary.

And the Fed, as the US central bank, is the bank of last resort. So it has the ability to create credit on any scale necessary to deal with the largest imaginable banking crisis.

Then, the widespread intervention of governments in the economic process has changed the rules of the game almost unrecognisably since 1929. Not only do governments control a large proportion (say up to 40%) of GDP in all Western industrial countries, but they can also spend themselves into deficit to counter the effects of a slump in the private sector.

The present American boom is a perfect illustration of how quickly a severe slump (the worst, in fact since the 1930s) can be reversed into boom by a combination of expansionary monetary policies and massive deficit spending at federal government level.

Preserve

And, in addition, there are generous unemployment benefits in most Western countries, so the unemployed are kept above starvation level and preserve some purchasing power despite being out of work.

In fact, it has been precisely the appalling experience of the Great Slump — which has etched itself so deeply into folk memories — which has brought it home to all governments that they must avoid another experience along those lines almost at any cost.

And governments in Latin America know as well that there are large — or potentially large — Marxist parties all too ready to pounce and reap the political harvest of a big slump.

I conclude that the risk of another Great Depression has been much overstated. It is far more likely that governments' terror of that eventuality will again cause them, sooner or later, to tilt their policies in the direction of renewed inflation

Don't look only at deficit, Govt urged

By MIKE JENSEN

GOVERNMENT has concentrated too much on minimising the size of the deficit and finding ways of financing it, without looking at overall income and expenditure.

These were the seeds of the current fiscal crisis, planted many years ago, Dr Louis Geldenhuys, assistant general manager of Senbank, told a University of Cape Town Graduate School of Business Association seminar in Johannesburg at the weekend.

He said the State had not taken enough cognisance of the effects of increasing the tax burden and expenditure.

The deficit was only 4,7% of GNP last year compared to 6,2% in 1976 and the increase in net indebtedness to the banking sector was only R25m last year.

This appeared to indicate that Government policy was on the right track but it concealed the real problem of higher taxation which was crowding out the private sector, said Dr Geldenhuys.

Exchequer receipts as a proportion of GDP had risen from 19,8% in 1976 to 21,3% in 1983, an increase in the tax burden of 1,5 percentage points — an actual rise of 7,6%.

"Our authorities have been too dogmatic by looking at the size of the deficit before borrowings and not worrying about increasing taxes which have a very negative effect on the economy's growth potential."

Government expenditure as a proportion of GDP was about 26% this year — the same as in 1977 — but this concealed the fact that many issues were now going off budget.

"Just taking in primary capital market issues would push the proportion up to 27% this year," said Dr Geldenhuys.

"So despite this so-called era of fiscal discipline, expenditure has not been reduced.

"It is also necessary to distinguish between Government capital expenditure and current expenditure."

Current expenditure had exploded over the last few years, rising from R4,8bn in 1976, to R10,3bn in 1981, R12,5bn in 1982 and R14,2bn in 1983.

"Also for the first time ever, last year there was a deficit in overall revenue compared to Government savings," he added.

The deficit stood at R849m in 1983. In the first six months of this year it is estimated at R1,99bn.

A cut-back in capital expenditure could not be regarded as a true cut-back in Government spending because it just put off the requirement for road building and other infrastructural projects.

Pointing to the 18,7% overall increase in Government salaries last year, compared to a 13,9% increase in the private sector, Dr Geldenhuys said the State should not be seen as leading the way for wage increases.

□□□

ONE of the main aims of the Government's tax policy would be to achieve a redistribution of revenue, the Deputy Director General of the Department of Finance, Dr Gerhard Croeser, told the seminar.

Less than 1% of the population contributed 50% of direct taxation while 70% of the population contributed less than 5%, Dr Croeser said.

"The present tax legislation is far from simple, but the major problem is that the man in the street is not prepared to fund his fair share of the tax burden.

"In particular, some people are able to employ the best brains in the country to minimise their taxes which means that others have to shoulder an additional burden."

Individual contributions made up 22% of the tax base in 81 — 82 with companies contributing another 22%.

Dr Croeser said a wider tax base was needed and this would be the principal focus of the new commission to investigate the tax system.

"Although the commission is unlikely to come up with any new solutions, it may be able to sell them better than has been done in the past," he said.

A better balance would have to be achieved between regressive, indirect taxes and progressive direct taxes.

In 1938, 56% of tax revenues were indirect; this sank to about 30% in the Seventies and it now stood at about 40%.

However, there would be substantial problems if too rapid a shift to direct taxes took place.

The commission was also looking at the possiblity of including a capital gains tax and a value added tax.

The new local authorities' taxes could coincide with a reduction in the individual and company tax rate, but "the overall level of taxation would have to be taken into consideration".

Dr Croeser said he hoped the tax commission would have finished its work in less than a year, but doubted this was possible.

□□□

THE seminar heard an unrepentantly bullish outlook for gold from the assistant general manager of the Chamber of Mines, Mr Tom Main.

He said there was absolutely no doubt that the dollar had to crack some time. When this happened, the cost of holding gold or other currencies would change with a higher gold price as the result.

The loss of US industry's competitiveness, its dependence on external capital and the prospects of a higher inflation rate were all ultimately bearish for the dollar.

Mr Main also pointed out that the low gold price in dollar and yen terms had led to very buoyant physical demand.

"In fact, gold has only been kept at the $340 level because of this high level of demand."

In 1983 total Japanese consumption was 175 tons and this year it was expected to rocket to 280 tons. A similar picture emerged in the US and Hong Kong.

In Europe, however, consumption had fallen significantly.

The massive increase in US awareness about gold and gold-related assets as a mode of investment augured well for South Africa's mines.

"When the US economy really picks up there will be a huge demand for gold and the price will rocket."

RDM 24/10/84 (49)

SA unrest affects UK trade

By NEIL BEHRMANN

THE township unrest in South Africa, which has been given widespread coverage in the UK, is beginning to have an impact on British-South African trade.

A South African exporter who distributes goods to small and large UK retailers said three important customers were considering stopping orders. They were embarrassed about having South African products on their shelves.

Other businessmen were also worried, but it was too soon to determine the impact on exports.

"British and South African businessmen have expressed disquiet, but it is too early to discern trends," said Mr David Willers, London director of the South African Foundation.

Britain is South Africa's third largest export market after Japan and the US.

In the first eight months of 1984, South African exports to the UK totalled £528m, about the same level as 1983. Exports for the whole of 1983 totalled £765m.

South African exporters complained that political and diplomatic moves failed to consider the adverse effects on business. South African bankers in London also expressed concern.

"Bankers are practical people. Credit managers who recommended South African issues a few months ago are now embarrassed.

He suspected that South African borrowers would be forced to raise funds at slightly higher rates.

But the huge raid on Sebokeng left South African shares in London unscathed. In previous years prices would have collapsed.

Stockbrokers said that fund managers in the UK and North America were still buying South African gold shares because the devaluation of the rand raised profits.

"Political events these days do not affect the South African market," said Mr Mark Harris, at brokers Williams De Broe Hill Chaplin.

"But the signs we have seen now would have been taken seriously a few years ago."

The UK government continues to leave trade decisions to the private sector. The policy expressed by the Minister of Trade, Mr Paul Channon, in November last year, remains unchanged.

About 30% of Britain's economy is dependent on exports and South Africa is the UK's 13th-largest market after North America and European nations.

In the first eight months of this year Britain exported £819m worth of goods to South Africa, against £687m in 1983. Exports for the whole of 1983 were £1 109m.

In his speech last November, Mr Channon said: "The development of an active trading relationship with South Africa is a very important element of the government's policy of seeking constructive engagement as the best means of encouraging peaceful change in South Africa.

"I may say that the firmly held view of successive British governments has always been that trade between countries is a matter for the commercial judgment of the companies concerned.

"It should not be at the sway of political judgments, either international or domestic, and the United Kingdom normally opposes trade sanctions.

"The government does accept some controls on our trade with South Africa but remains firmly opposed to wider sanctions."

Argus 25/10/84 (49)

More jobs are axed as slump hits industry

Argus Correspondent

JOHANNESBURG. — The recession has already put more than 13 000 people out of work and will continue to take its toll as commerce and industry battle to survive by laying off staff.

In the last three months unemployment has risen sharply and the Institute of Industrial Relations records more than 13 000 retrenchments so far this year — mainly in the manufacturing, motor and heavy engineering sectors, with unskilled blacks the major victims.

And, for the first time in a decade, white skilled workers and senior executives with good service records are also being retrenched.

Lay-offs in the Cape Province have been in line with the rest of the country with nearly 2 000 workers losing their jobs in the canning, mining, transport and engineering industries in the last four months. Lay-offs have been accompanied by indications that more are to follow.

Latest victims of the recession are 170 workers who are to be retrenched by Corobrik, the Cape's largest brick manufacturer.

The official national figure for registered unemployed stands at 64 226 but unofficial estimates place it nearer to 3-million.

According to the Department of Manpower, the number of registered unemployed people from all population groups went from 58 896 in June to 59 766 in July and jumped to 64 226 in August.

Devastating

In one month registered unemployed rose by 5 000 and unionists and employers believe the worst is yet to be felt in the months ahead.

"Being laid off is devastating enough for whites. For blacks it is often the end of the line," said Dr John Burns, executive director of the Manpower Management Foundation.

While unemployed whites can scour the country for jobs, unemployed blacks usually lose their right to remain in the job market area and are forced to return to a homeland.

Although an inadequate indicator of the true extent of unemployment, Unemployment Insurance Fund claims and pay-outs are also rising. Since June payments have gone from up R7,5-million to R9-million in August.

Ignorance of the benefits and the fact that it is not applicable to seasonal or contract workers mean that thousands of unemployed people have no recourse to the fund and are forced into a hopeless situation.

- In Port Elizabeth General Motors and Ford retrenched 559 workers last month, while car industry workers in the Western Cape are waiting for news of lay-offs at Leyland plants.
- In Ceres 600 workers were left jobless in August with the closure of the cannery at Ceres Fruit and Canning Company.

Halved

- Namaqualand has been similarly hit with about 500 white and coloured workers being retrenched in the mining towns of Nababeep and O'Kiep this year because of a slump in the world copper price.
- In East London the Ciskei Transport Corporation halved its fleet and retrenched 449 workers.
- Atlantis Diesel Engines have paid off 148 workers with indications that more lay-offs are to follow.
- About 170 workers are being retrenched by Corobrik, the Western Cape's largest brick manufacturer, following cutbacks at two plants near Stellenbosch.

Sales in the Cape are now 17 percent below production levels — worse than the national average of about 13 percent below capacity — indicating that the Western Cape is one of the hardest hit areas in the country.

Argus 25/10/84 (49)

State spending, GST, unemployment likely to increase — forecast

Financial Staff

GOVERNMENT spending is likely to rise by about 14 percent in the next financial year, making further effective tax increases necessary, according to a forecast of prospects for 1985 by the Stellenbosch Bureau for Economic Research.

There will be higher unemployment and "a fair number of business failures" before the economy starts to recover, slowly and hesitantly, in the first half of 1985.

General sales tax is likely to go up to 11 percent.

Market forces may cause the rand to rise against other currencies but the Reserve Bank is likely to intervene to prevent it strengthening very much.

"South Africa cannot afford to have a strong currency.

"A strong rand would harm both exporters (by reducing their rand receipts and making them less competitive in overseas markets), and manufacturers who produce for local consumption (because it would make imports cheaper again)."

The rise in some public servants' salaries will partly counteract the slowdown in salary and wage adjustments in the private sector which will last until the middle of 1985, but company profits will decline sharply.

This decline will not, however, be spread evenly throughout the economy.

Fiscal drag will mean a marginal decline in real personal incomes after tax until the second half of 1985.

They could then start to rise in reaction to the broadening recovery and the increase in farming incomes.

"Nevertheless, during the forecast period as a whole, real personal income will decline, indicating that personal finances will remain under very great pressure."

The current very low level of spending on consumer durables is projected to last well into the first half of 1985.

Fixed investment will decline. Investment in both residential and non-residential property will be hit particularly hard.

Foreign exchange markets are expected to remain volatile, although there will be some diversification out of the US dollar.

SCENARIO

Commodity prices including that of gold will rise only slightly, a continued oil surplus will help industrial countries to avoid high inflation and non-gold exports will continue to increase in real terms over a broadening front.

Monetary policies will remain basically restrictive, sanctions and boycotts are unlikely to interfere seriously with trade but "a high level of unproductive Government expenditure" will be necessary to maintain social stability.

The forecast is based on the scenario thought most likely, with the dollar expected to lose some ground in 1985 and growth rates in most industrial countries positive but slowing down.

However, a foreword warns that conditions inside and outside this country are changing and the forecast will have to be constantly updated to allow for this.

Mercury 25/10/84 49.

Business Mercury

Control boards, cartels attacked

Mr Robin McGregor, author of Who Owns Whom - a Guide to South African Businesses.

Finance Reporter

A semi-socialistic and a ridiculoulsy over-controlled economy is having disastrous effects on South Africa's inflation rate.

This was said by Mr Robin McGregor of Cape Town, author of *Who Owns Whom - a Guide to South African Businesses*, in an address to the Natal Society of Chartered Accountants and the Institute of Cost and Management Accountants in Durban last night.

Mr McGregor scathingly attacked control boards and cartels and called for price-setting to be left to 'the little free enterprise we've got left.'

He said: 'South Africa could drown in a sea of controls unless Mr Barend du Plessis, the Minister of Finance, doesn't come to the rescue soon.

'Cartels, control boards and an economy based on speculative gold are dangerous and should be got rid of before they ruin the country' he said.

Prices

Mr McGregor sited 12 instances where items under control and price control board practices had risen as much as 70 percent above an inflation rate of 115 percent over the past six years.

'All these came under price and control boards, but items, like frozen vegetables, creamers and coffee which is promoted by suppliers in competition with each other, such as chain stores, were as much as 70 percent under the inflation rate.

'Mealie meal prices, which are fixed by a control board and promoted through a cartel, rose a staggering 187 percent.

'Bakers margin, which is under price control and cartel, rose 160 percent, and bricks, which also fall under price control and are sold through a monopoly, 157 percent.

'Compare this against detergents, promoted through free competition, which have only increased 71 percent and toothpaste at 21 percent and you can see for yourselves what disastrous effects "controls" are having on the economy'

...see State ...' says Assocom

and other facilities which would be needed.

The debaters called on the Government to live within its means and to gear its spending to available income. Failure to do this had led to savings levels falling and a lack of cash for investment.

One speaker called on commerce to 'crack the whip and demand of Government that spending be according to available revenues.'

Problem

He said that all Government departments had been asked to set priorities in their budgets and these had been categorised at five levels.

This was how they would be considered by the State President's National Priorities Committee.

A major point made by Dr Fred du Plessis, chairman of Sanlam, was that the principle reason for capital flowing to the United States was that it had 'discipline of labour'.

Wage levels had not

(49)

ECONOMIC POLICY

De Kock and sound money

There is a clear message for SA in the manner the UK and the US have beaten inflation, according to the Governor of the Reserve Bank, Gerhard de Kock.

In an address to bankers this week, De Kock warned that the SA economy faces a period of painful adjustment in which free-market forces must be allowed to play a critical role.

De Kock cited a number of adverse factors affecting the economy:

- The serious drought since 1982;
- Sharp fluctuations in the price of gold;
- The effects of the business cycle in the industrial countries; and
- Expectations that the dollar price of non-gold exports will not rise as much during the present upswing as they have in the past.

Against this background, De Kock sang the praises of the Reagan-Thatcher policies for their achievements in curbing inflation while promoting a relatively non-inflationary economic upswing.

The successful monetary policies pursued in the US, the UK and in some other industrial countries had created short-term difficulties for the SA economy; difficulties which had been exacerbated by drought and by fiscal policies that during the past two years had turned out to be more expansionary than intended.

All of this has made a process of painful economic adjustment in one form or another unavoidable. The challenge to the authorities, De Kock says, is to make appropriate adjustments.

Major ingredient

Pretoria, he says, has accepted this challenge and implemented a set of monetary and fiscal policies not dissimilar to those applied so successfully in the US and other industrialised countries.

A major ingredient of the approach is to reduce the rate of increase in government spending and, therefore, the budget deficit before borrowing. Since these aims can only be fully realised from 1985 onwards, heavy reliance has to be placed on monetary policy to bring about the desired slowing down of total spending.

The high level of government spending, the large budget deficit and the prevailing strong overall demand for credit imply high interest rates for the time being. But De Kock says that the official approach can only become fully operational "as and when the rate of increase of government spending is reduced in 1985."

Once this is accomplished, the causes of excessive spending will be attacked. Policy measures will encourage free enterprise and avoid bureaucracy and red tape.

Meanwhile, says De Kock, lower inflation and renewed confidence in the currencies of the main industrialised countries have serious implications for the SA economy.

To begin with, the return to sound money in the US and certain other industrial countries, accompanied by high real interest rates, has been the major cause of the weakness of the gold price during the past three years.

De Kock expects the gold price to rise during periods of sharp inflation or severe deflation. But, meanwhile, the economic situation in the major industrial countries is somewhere between the two extremes and "gold does not do well in this middle-of-the-spectrum position," he said.

Discussing the "impossible" success of the UK and US in their fight against inflation, he says the US inflation rate was reduced from 14,7% in 1980 to just 2,4% in July 1983. The UK achieved similar results. De Kock attributes this to effective use of monetary policy, particularly in reducing the rate of increase of the money supply by means of market policies.

He goes on to say that though different instruments of monetary policy were used, the common approach in both the US and the UK was a "willingness to accept and employ substantial increases in interest rates as an essential ingredient of the policy of monetary restraint. Among other things, this enabled the monetary authorities to finance government budget deficits, which in some cases were uncomfortably large, without undue resort to money creation by the banking system."

De Kock says that by the successful application of these policies, the authorities demonstrated both their ability and their determination to maintain the rate of increase of the money supply and monetary demand at levels that would not permit excessive rises in prices and wages.

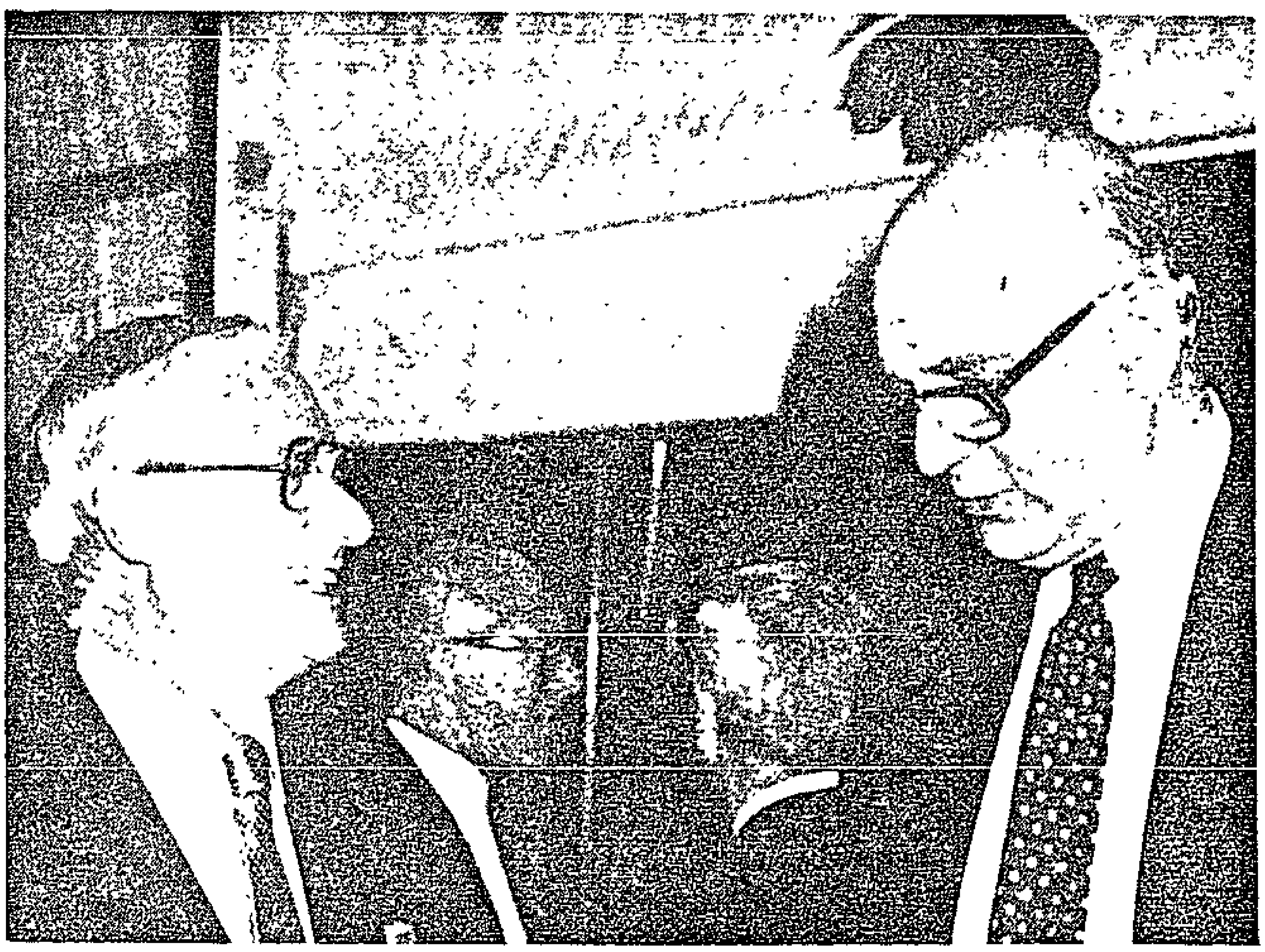
By reducing inflationary expectations and effecting wage and salary restraint, confidence in their currencies was restored.

Few thought the Reagan-Thatcher governments would have the courage to persevere long enough with this kind of monetary discipline because of its painful side-effects in the form of lower growth and higher unemployment.

Critics said that the cost in terms of low growth, unemployment, bankruptcies and other hardships was excessive.

But the authorities resisted the temptation of reflation and persisted with their policies of curbing money-supply expansion, even though this resulted in high interest rates.

The main weakness of these policies has been the inability to curb government



Governor De Kock seen talking with US Federal Reserve Bank chairman Paul Volcker at a recent meeting of the Bank for International Settlements in Basle, Switzerland

Mercury 26/10/84 49

Cartels 'must be broken'

Parliament must give the Competition Board real teeth to break cartels and authority to issue heavy fines on offenders.

'The Competition Board has no real power and is completely demotivated because most of its recommendations made to the Cabinet over the past five years have not been accepted,' said Mr Robin McGregor last night following his attack on control and price control boards during an address in the city on Wednesday.

'If it is going to break cartels, either by fair or foul means, it must be given power, by Parliament, to make ad hoc decisions, quicker investigations and authority to inflict fines of R250 000 on offenders,' he said.

Mr McGregor has been monitoring price increases in South Africa over the past six years and says the graph (right) destroys any doubt that items falling under control and price boards are having a disastrous effect on inflation and are ruining the economy.

He said the 12 items quoted above the six-year inflation rate of 115 percent all fall under control boards and price controls and the items below the inflation rate are those supplied by free enterprise.

'The Government have been so wrapped up in their ideological fantasies since they came to power they've forgotten about the economics of the country and big business has had a field day,' he said.

'Believe me, irrespective of what they claim, the last thing big business wants is to see a change in government.'

'Price and control boards must be scrapped. Inefficent farmers are being protected by these boards — if they can't compete on an open market it's just too bad.

'The only time control boards really serve any purpose is in the export market where competition must be generated with other countries.

'But what we really need here is the system employed in the USA where anti-trust laws prevent anybody from buying into another company if it means them acquiring more than 30 percent of the market.

'It's a fantastic situation; if they find a company has above 30 percent control they force them to sell and deconglomerate, and I'd love to see it happen here.'

Mr McGregor said that in Britain, if a company buys 30 percent or more of a company it is forced to offer the balance of the shareholders the same price for their shares, which means they are faced with enormous capital expenditure and this tends to deter anybody going over 30 percent.

The N

COMMODITY INCREASES FROM 1978 to 1984 COMPARED WITH THE INCREASE IN INFLATION

COMMODITY	INCREASE %	PRICE CONTROLLED BY: STATE	PRIVATE SECTOR	
MEALIE MEAL	187	control board	cartel	
BAKERS MARGIN	160	price control	cartel	
BRICKS	187	price control	monopoly	
EGGS	182	control board		
BROWN BREAD	150	price control	cartel	
ORANGES	147	control board		
WHITE BREAD	140	price control	cartel	
CHEESE	139	control board		
BUTTER	135	control board		
WHEAT MILLERS MARGIN	135	price control	cartel	
MEAT	130	control board	cartel	
RAILAGE-COAL	126			
INFLATION	**115**			
PETROL	114	price control	cartel	
COAL	114	price control	cartel	
FROZEN CHICKENS	97			oligopoly
BREAKFAST CEREALS	95			oligopoly
SUGAR	88	control board	cartel	
DETERGENTS	71			free competition
FROZEN VEGETABLES	69			oligopoly
TEABAGS	61			oligopoly
BEER	61		monopoly	
CREAMERS	44			oligopoly
COFFEE	33			oligopoly
TOOTHPASTE	21			oligopoly

FUELLING INFLATION

MAINTAINING INFLATION

LOWERING INFLATION

27/10/84 (49) (24) (30) (232) C-Times

Govt urged to apply import controls

JOHANNESBURG. — The government should apply import controls rather than monetarism which is likely to lead to unemployment and social unrest, says Mr Natie Kirsh, chairman of Kirsh Trading Group (KTG).

His assessment of economic prospects in the group's annual report contains one of the sharpest attacks on the government since its imposition of strict monetary controls on August 2.

"Government, it seems to me, is overly concerned with one aspect of the economic scene — the balance of payments.

Correct answer

"For an economy such as South Africa's, import controls rather than rigid monetarism are, I firmly believe, the correct answer to balance of payment problems.

"Import contols, for South Africa, are far more suitable than mass unemployment.

"If government continues along its present path, we may well have a sound balance of payments position, but by then the economy could be in ashes — not to mention racial unrest, starvation in the homelands and significant white unemployment for the first time since World War II.

He also says current anti-inflationary measures will not achieve much as they are aimed only at severely curbing demand.

"Businesses will go bankrupt and jobs will disappear but, in my opinion, prices will rise as businesses fight to increase margin to offset lower throughput.

Inflation

"The current high levels of interest are far more likely to fuel inflation than bring it down. At this stage, government should be paying attention to the protection of jobs and lower interest rates will help to do this."

He expresses the fear that the government's financial priorities are wrong, thus leading the economy into greater trouble.

"The unfortunate consequences will fall most heavily on the poor and the unemployed — in the South African context, on the blacks.

"With government as strapped for cash as it is, there is little prospect of it providing much, if anything, in the way of relief for the starving and needy."

Mr Kirsh says that KTG for its part did not wish to add to the growing numbers of the unemployed.

"Thus, should it become necessary to retrench we will, wherever possible as a matter of considered policy, put staff onto an hourly paid basis and work short time in an effort to lay off as few of our employees as possible.

"The only thing that is certain is that unless government policy changes, trading conditions will become worse, particularly in the area of consumer durables, an area of special importance to Russells and Dion.

"Add to the problems already mentioned, the imponderables of the gold price, the exchange rate, the rate of inflation, and the continuing drought, you have a situation in which it is difficult to plan ahead with any certainty, and one in which any attempt to predict profits with an acceptable degree of accuracy is impossible."

However, KTG with its broad base and its wide product mix, should be better placed to weather the economic storms than many other groups.

"Of major importance is the dominance of food in Checkers and Metcash. Thanks more than partly to this, turnover for the first quarter in these two divisions is up on last year and only slightly below budget. We are budgeting for increased profits this year from Checkers and Metcash divisions," he says.

Bleak

But for Russells the immediate outlook was bleak.

"This is largely the result of government's ad hoc measures of recent months.

"First, there was the undue delay in raising Ladofca levels when market interest rates demanded this. Then there was the sharp 43 percent increase in GST, accompanied by six weeks notice which gave rise to a disruptive spending spree, financed at unrealistic Ladofca rates which has, of course, been succeeded by a prolonged spell of reduced consumer demand.

"Finally, there is the confusion and large additional cost created by the new hire-purchase regulations.

"That there are now three different scales of deposits and three different repayment periods for different classes of goods poses severe, and totally unnecessary, strains on management and systems."

Goals

The private sector was happy to do what was required for the common good.

Consequently, no contribution to group profits from the Russells division was expected this year.

Dion was also beginning to feel the effects of the recession and the consumer squeeze, so its contribution to overall profits was not expected to be as high this year as last year.

Dee Bee was expected to again have improved profits but Boymans and Union Wine were likely to follow the downward trend. — Sapa them into line with the standing at ... (Sapa-Reuter)

Mercury 27/10/84 (49)

Kirsh urges import controls — or an 'economy in ashes'

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Goals

The private sector was happy to do what was required for the common good. 'But Government in turn must clearly define its fiscal and economic goals,' Mr Kirsh says.

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(49) 28/10/84

SUNDAY EXPRESS

No let-up in US war against apartheid

By TONY KOENDERMAN
Financial Editor

IF YOU'VE been heartened by the successful averting of this year's round of anti-apartheid resolutions in the United States, think again.

The US sanctions campaign against South Africa is now in its third — and probably most dangerous — phase.

"The protagonists of disinvestment are not going to be diverted from their path until they get full participation for blacks in the political decision-making process in this country," said Mr Peter Sorour, director-general of the South Africa Foundation.

Softening

"The attitude in general is not softening, but getting harder. The average American is much more receptive to the idea that there should be pressure on South Africa in order to do away with apartheid — even if the term is not too clearly defined in his mind.

"I am not at all consoled by the fact that the proposed legislation did not go through. On balance the anti-SA lobby has made great strides. For the first time it has got a joint congressional agreement recommending a form of sanction on South Africa.

"It failed only because they did not agree on the Export Administration Act to which the SA amendment was attached. I expect the disinvestment lobby to be back in strength next year."

● Mr Peter Sorour — attitudes hardening

● Mr Michael Spicer — 'We're really in fo

ANTI-APARTHEID LOBBY MAKES BIG STRIDES AS SANCTIONS CAMPAIGN AGAINST SA ECONOMY ENTERS DANGEROUS PHASE

Mr Michael Spicer, deputy director of the SA Institute of International Affairs, agrees. "Irrespective of what happens in Southern Africa, the anti-apartheid movement continues to gain momentum," he said. "This indicates that certain people are operating on a moral level, and arguments about practicalities make no impression at all.

"We have been very lucky to avoid congressional action this year. But they will be back next year to reintroduce legislation, and we may not be so lucky again.

"Domestic developments could pull out the rug. Even the Nkomati accord can't counter-balance forced removals, black riots, chaos in black education ... So we are really in for it."

The first phase of anti-apartheid activism was the 'AGM' phase in the early and mid-Seventies, when activists attended the annual meetings of US corporations and embarrassed them with questions about their investments in South Africa. This achieved publicity — but little else.

The second phase was the university campus phase, in which students pressured their university boards to disinvest. This had some success, but the universities resisted the pressures because of the dangers this posed to the financial health of their trusts.

In the third phase, attention has been focused on pushing measures through federal, state and city administrations. While there has been only limited success in Congress so far, more has been achieved in state legislatures and city councils.

Mr Stephen Bisenius, executive director of the American Chamber of Commerce in South Africa, wrote recently that 68 pieces of anti-apartheid legislation had been introduced in state legislatures in the US in the past two years.

The real threat, indeed, lies at these lower levels of government, where action can be taken without compromising national policy, and black representation is much

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The real threat, indeed, lies at these lower levels of government, where action can be taken without compromising national policy, and where black representation is much greater.

"Increased pressure at state and local government level has been a feature since 1982," said Mr Spicer. "It is a combination of factors. The anti-apartheid lobby is becoming more sophisticated. It is learning new techniques.

"When pressure failed at stockholder meetings it switched tactics and started to zero in on municipalities and other legislatures.

"The interesting thing is that these legislatures look different from Congress. Minorities are better represented, for example, and there are more women.

"They have also developed this technique of tagging anti-apartheid measures on to sensitive Bills.

"Even a conservative government which would be in favour of constructive engagement would give way when it comes to the push and it needs a finance Bill pushed through.

"Sometimes such a Bill has just gone through unnoticed because nobody speaks against it."

A form of blackmail is now being employed, as in New York State where financial institutions wanting to get into the insurance market have been told that their applications will be considered only if they disinvest in South Africa.

While this phase looks the most threatening so far, for the first time, said Mr Sorour, "American companies themselves are co-operating with one another to counteract these moves".

This is important because South African organisations cannot legally test such decisions in an American court: only an American body can do that. "So far, no American body has been willing to come forward as a plaintiff," said Mr Sorour.

One small development which might have some impact, Mr Spicer believed, was the decision of Harvard University not to disinvest. Harvard, a strong and respected institution, is in some ways the bellwether for US universities: if it jumps on the anti-apartheid bandwagon, others will follow.

Quick fix

The American predeliction for the 'quick fix' makes life difficult for moderation. "I was struck quite forcibly by the fact that there is a scoreboard mentality in the US," said Mr Spicer. "Expectations are high that policy decisions will have a swift effect.

"When (Chester) Crocker had to defend his record in the Senate, somebody as intelligent as (Paul) Tsongas criticised him strongly for having not achieved results.

"The failure to achieve a Namibian settlement, and the exclusion of blacks from the reform process, were seen as evidence that constructive engagement had failed.

"That is the checkpoint mentality: have a policy, implement it. It must produce results in a short time otherwise it is a failure. That is something that is very hard to argue against."

"I can't see how things can get any better. I don't believe that if we get out of Namibia tomorrow it would halt. The key issue is what is happening in South Africa. The events of the past few months have not been good news," said Mr Spicer.

"One does not need to look for a conspiracy theory to explain these developments. If there are activists they are sowing their seeds on fertile ground."

Business Day

RDM 30/10/84 (49)

Private sector seen to be endorsing apartheid

By MIKE JENSEN

PRIVATE sector support is largely responsible for the success of the Government's separate development policies, says a research report.

The Government has created a variety of development-orientated institutions such as homeland governments and the Small Business Development Corporation.

These are run by a large, relatively well-off black bureacracy. A black middle class dependent on state support and capitalism is emerging, says a research report just released by the University of Witwatersrand Centre for Business Studies.

"The Prime Minister's aim is to defuse the Opposition through the creation of a complex set of alliances between the State and sections of the black population, while at the same time keeping intact the essentials of grand apartheid, the homelands and influx control," says the report.

"In sum, a black middle class with vested interests in the continued existence of the homelands is being created. The middle class in turn will provide support for the rulers of these homelands and create a buffer between the poor and the exercise of authority."

However, the duplication of bureaucracies — Venda, Lebowa, Gazankulu, KaNgwane and provincial administrations — and the retention of the black population in the rural areas creates a need for rapidly increasing amounts of aid, currently exceeding R2bn, says the report.

"The Government does not know the financial implications of SA's constitutional changes — a sort of budgetary wild card. Economic growth and controlling inflation are less of an imperative than implementing apartheid.

"As Verwoerd constantly warned the public, if you want apartheid you will have to pay for it."

The private sector is now cooperating with industrial decentralisation (ID) policy, believe the researchers. "Whereas in 1968 it resisted the ID legislation, now SA's largest corporations have promised officials that decentralised locations will always be considered when new investment opportunities are evaluated."

The more formal involvement of the private sector in the ID process was displayed at the Carlton and Cape of Good Hope conferences.

It is evident from the position of private sector representatives on the boards of the Development Bank of Southern Africa, the Small Business Development Corporation, the Planning Advisory Council and their role in the Regional Development Advisory committees.

"Needless to say, this participation has exacted its price. The decentralisation incentives have been described as the best in the world, which translates into the most expensive to the public fiscus. Greater participation in implementing the policy is expanding through, for example, the role of private sector banks.

"In sum, the more rewarding relationship between the Government and capital reflects a shift in constituencies, most obviously away from the Afrikaner right wing. But it also appears to represent private sector involvement in and commitment to the new forms of implementing apartheid.

"More concretely than hitherto, the private sector is no longer supporting a liberal facade, one distant from the policies of apartheid. It is immersed in it."

RDM 29/10/84 (49)

Recession mauls SA indust

By DAVID CAPEL and GAVIN EVANS

THE economic recession has ravaged a wide section of South African industry, with Government statistics indicating that in June more than 500 000 people were registered as unemployed — among them 488 000 blacks.

Professor Jeremy Keenan, of the Department of Anthropology at the University of the Witwatersrand, said the real total could be more than three million.

Mr Alan Mankoss, general-manager of Dun and Bradstreet, a business information firm, says 16 085 companies were liquidated in the first seven months of this year and worse is yet to come.

Car sales, which provide a useful indicator of the health of the economy, have fallen dramatically.

General Motors is to close for four days next month, and Ford is to go on a three-day week from Monday.

Volkswagen says it will probably cut back production and has hinted at possible retrenchments.

The shutdown at General Motors from November 13 to 16 will affect more than 2 500 hourly paid production workers, said the firm's acting managing-director, Mr Dave Sneesby.

Mr Harry Hill, public relations manager for Ford, said the change to a three-day week would affect all the company's 3 500 hourly paid workers.

The disastrous sales figures for September — fewer than 15 000 units — had prompted the move.

During the past few years the motor industry had been selling an average of 25 000 units a month.

When companies the size of Ford and General Motors reached that sort of situation, said Mr Mankoss, "a loss of confidence can be created".

"Normally, suppliers and retailers can come to commercial agreements over payments ... but it depends when the banks pull out the rug ... because in the end it is the banks who have to see that through," he said.

Many used car firms have also been struggling to make ends meet.

"Everybody is battling with banks, and sales and profit margins have been reduced," said Mr Raymond Arntzen, manager of Louis Botha Motors.

"In the beginning we closed one branch and therefore had to lay off staff, but because we carry our own finance, we're not doing that badly."

Mr Russel Limba, manager of the used car section at Stewart Bromfield Motors, said that in the past they were doing about 20 deals a day, but they were now down to half that number.

He said both salaried and wage-earning staff were being laid off.

In the steel industry more than 70 000 have been made redundant since the recession began, and the slump in car sales has plunged the industry into deeper trouble.

Mr Sam van Coller, executive-director of the Steel and Engineering Industries Federation of South Africa (Seifsa), told the Rand Daily Mail retrenchments were increasing.

Metal parts manufacturers across the Reef are among those companies battling to stay afloat, a snap investigation showed yesterday.

The freight industry is also among those hardest hit — largely as a result of the drop in imports. At least one large freight company has retrenched staff and others are believed to be taking other counter measures.

Metal parts companies on the East and West Rand — particularly those involved in production for the automobile industry — are suffering under the economic strain, and several have retrenched staff in recent months.

The Rand Daily Mail has established that:

- A large cross-section of companies have either cancelled or significantly reduced overtime;
- The huge Defy Corporation has had to retrench staff in certain salaried and "indirect" positions in an effort to weather the storm buffeting the industry;
- The number of unemployed people from all races has risen steadily this year compared with figures for the same time last year.

A survey of metal parts manufacturers on the East and West Rand yesterday showed that while none are actually going to the wall most are feeling the burden of the downturn and are taking measures to counter the lean times.

Meanwhile Defy, manufacturer of appliances such as washing machines, fridges and stoves, has said that although it is feeling the pinch it has not undertaken any "major retrenchments".

A director of the company, Mr Ron Collie, said from Durban that Defy had eliminated certain salaried and "indirect" positions — largely in the administrative section. However, the company had not reduced factory labour.

Other industries which are suffering include the freight business. One large freight company said yesterday it had embarked on a "cost containment programe" to weather the downswing.

It has also laid off staff — largely on the Reef — although a spokesman for the company would not give figures. He said the freight business in general had been affected, but although his company was finding things hard, it wasn't going to the wall.

A spokesman for a metal parts manufacturing company employing 90 workers, and which caters for the motor trade, said the downturn in the motor industry had affected his company to the point that it had to embark on "short-time" practices.

He said the company had compromised on the issue of retrenchments by employing on the short-time basis. It was reviewing the situation week by week.

Another metal parts manufacturer told the Rand Daily Mail his firm had retrenched six workers over the past few weeks and was facing significant economic problems.

Another company spokesman said he expected to be carried through until Christmas — "then anything can happen".

All the companies surveyed said they had either reduced overtime significantly or had done away with it entirely.

Mr Collie confirmed that Defy had cut overtime completely as a result of the downswing, and was also assessing the situation "week by week".

He said the market for consumer durables was "very difficult" at present, and he attributed this largely to the new hire purchase regulations and the curtailment of consumer spending. Retail-

> "We're living on instalments from previous years and months, and we're trying to see out the recession in this way. — Mr. Michael Salant, manager of Westgate furnishers."

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He said the market for consumer durables was "very difficult" at present, and he attributed this largely to the new hire purchase regulations and the curtailment of consumer spending. Retailers had reacted by reducing stock holdings.

As far as retrenchments were concerned, Mr Collie said Defy had no intention of laying off staff. If the situation warranted it the company would consider various other steps before retrenchments were even considered.

"It's an extremely serious situation", Mr Collie said, "but we certainly don't intend folding our tent."

The furniture industry had been affected more than most, said a spokesman for Joshua Doore.

This is because they are dependent on hire purchase agreements, which have been made more difficult by higher deposit rates and shorter repayment terms. The spokesman said that between 5% and 8% of workers in the industry had been laid off, and sales and profits had fallen.

The manufacturing section of the industry had suffered the greatest hardships because they could not reduce their stocks as easily, he said.

Mr Michael Salant, manager of Westgate furnishers, said that in May and June, prior to the sales tax increase, there was a surge in buying, with people rushing out to replace their old furniture. Since then, however, the bottom had dropped out of the market.

"We're living on instalments from previous months and years, and we're trying to see out the recession in this way.

"At the moment we're hanging on to our present staff, but in the future we might have to retrench," he said.

The jewellery industry has not fared too well, either.

Sales have fallen and a large numbers of workers have lost their jobs, said Mr Max Kaye, manager of Sterns' Kerk Street branch.

"Layoffs have affected the industry generally. We haven't laid off anyone yet, but we're not replacing anyone either."

Meanwhile, the Central Statistics Centre of the Department of Manpower yesterday issued the following figures for the number of people registered as unemployed in June this year — the latest available figures. Last year's figures appear in brackets:

● Whites 14 128 (13 731);
● Coloureds 11 308 (18 137);
● Asians 3 858 (7 613);

The above figures reflect only the number of people registered as unemployed. Sample figures from Statistical Services reveal the following figures for blacks, Asians and coloureds for June, with last year's June figures in brackets (no sample figures for whites were available):

● Blacks 488 000 (483 000);

● Coloureds 63 000 (75 000);

● Asians 18 828 (20 830);

A spokesman for the Department of Manpower said a "very small" percentage of blacks had registered as unemployed, and the figures for the total number of blacks unemployed were therefore much higher. The department did not have these figures.

This was confirmed by research done by the University of the Witwatersrand's Prof Keenan, who says that more than 25% of people who would take work if they could are unemployed.

Also, Government statistics did not take into account unemployment in the independent homelands, where in many areas 50% of people were out of work.

The sad saga of a business which is doomed to fail

Life's getting tougher as crunch hits SA

By DEBBIE REYNOLDS

A DURBAN businessman committed suicide yesterday — becoming just another statistic of the economic depression which is slowly strangling South Africa.

Mr Cecil Fine, 44, who lived in the luxury suburb of Umhlanga Rocks and owned a furniture company, killed himself allegedly because of business problems ...

In July this year 253 companies went into final liquidation compared to 230 last year and 181 in 1982.

"What is disturbing is the record high reached this year in the value of judgments against companies."

In July the judgment figure reached an all time high of R4 700 000 compared to R1 900 000 in July last year — 150%

But ...

MR SPENCER FINE ... crushed by the coils of

SPENCER FINE

LAST week you published a report by Debbie Reynolds which dealt with the disastrous effects of the furniture manufacturing industry on the recent draconian regulations in respect of GST and the deposits and terms relating to hire purchase transactions.

In her report Ms Reynolds intimated that my brother, who was a well-known and well-liked Durban furniture manufacturer, took his own life largely because of business problems arising out of these regulations. To a certain extent she was correct.

In fact, the sudden attack on furniture HP was only the proverbial last straw. I doubt that anyone not in the trade really knows how the small-to-medium sized furniture manufacturer is forced to struggle in the ever-tightening coils of the retail chain giants.

I weep crocodile tears when I read the Press statements by senior retail executives about how tough things are in the furniture trade.

Do their customers "squeeze" them until they barely cover cost, just to stay alive? No fear. Not only do they not budge on price (except, maybe, for spot cash) but they also enjoy the interest income which they earn on every HP sale.

Do their customers ask for (and get) ever-increasing terms of payment, enterest-free, and then deduct all sorts of "credits" from their cheques, "because we haven't received the signed invoices back from the branch. Please let us have a copy?", thus gaining a further 30 days. No sir. Don't pay on time and very soon your furniture will be repossessed.

Do their customers keep their trucks waiting, sometimes all day, and then, as often as not, send them back, after telling the driver to "come back tomorrow"?

Do their customers order goods, and then, a week or so before delivery, simply cancel the order? Or ask (sic) the factory to "hold on to the order, we're taking stock on the 25th"?

So that the manufacturer has to sit with completed and half-completed suites in the factory, wondering where the hell to put them?

Does the public know that most manufacturers deliver furniture to chains' branches anywhere in the Republic at the same price, but that many retailers then charge their customers for delivery?

Of course, there are "good" retail chains other than the sort I have described above. In the same way that there are "bad" manufacturers.

But I cannot begin to tell you of the agonies and frustrations of dealing with some of the big groups: the waiting in the factory at night for trucks to come back, the cramps in the gut when half — or all — of a carefully packed consignment is returned as "damaged in transit", or with the delivery notes endorsed "deliver after 25th", or "order cancelled" (when? by whom?) or any of the dozens of stock excuses which some groups use to gain another 30 days?

Or not to take delivery when it suits them. But oh, the sweetness and light when they want something "urgently, it's a sale".

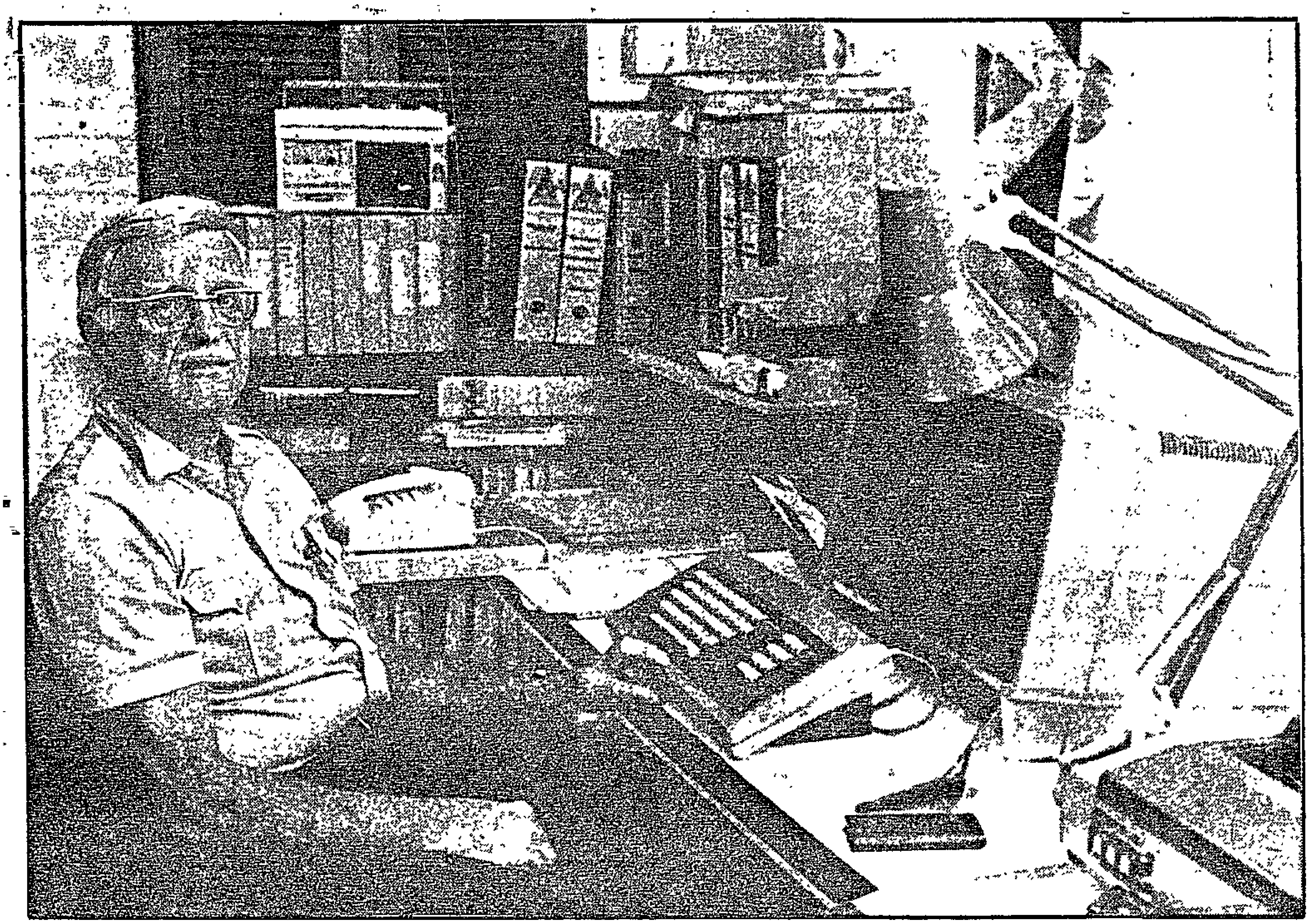
The honeyed tones, the "ag, be a pal — take one away from another ou" hypocrisy. Well, anything for a "pal". Maybe when things get tough your "pal" will try to help you out ... So, stop the machines, shift into another gear, work all day Saturday and Sunday (double rate), and deliver the suite on Monday.

Having made it at a ... of course. Maybe you'll g... a "thank you, pal". But ... be surprised or upset if ... goods come back ... "the customer didn't ... the deposit"!

And all this for a ... able 5% profit, or less. T... is, if the group doesn't ... its muscle to make the ... little manufacturers pay ... his full-colour catalogue ... means of "donations".

My business is in the ...

(49)



MR SPENCER FINE ... crushed by the coils of big business

Picture: PAUL BOSMAN

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Having made it at a loss, of course. Maybe you'll get a "thank you, pal". But don't be surprised or upset if the goods come back because "the customer didn't have the deposit"!

And all this for a miserable 5% profit, or less. That is, if the group doesn't use its muscle to make the poor little manufacturers pay for his full-colour catalogue by means of "donations".

My business is in the process of being liquidated as a result of all the above.

Plus, of course:

- The never-ending battle to keep breathing while trying to keep this inspector or that inspector happy.
- Running after the latest little *obersturmbahnfeuhrer* in the Town Planning Department.
- Working at night in order to get the many Governmental and quasi-governmental "returns" out "by the 14th" or else.
- Trying to abide by the rules and regulations of the Department of Manpower, of Community Development, of the Unemployment Benefit Fund, of the WCA, of the Industrial Council, and so on and so on.

No wonder my poor baby brother committed suicide and that I suffered two heart attacks.

To top it all, the smug statements by well-fed (and very well paid) Cabinet Ministers exhorting the public to "tighen your belt and spend less" while they fritter away our blood-stained taxes on their ridiculously expensive nothings, merely add to the frustration and despair.

And what help was there from the Small Business Corporation when it was obvious that 30 family breadwinners were going to lose their jobs?

Gee whiz, fellows, the small businessman is the lifeblood of any country. And why does my bank manager no longer want to be my bank?

So, who wants to be in the business of manufacturing furniture?

BUSINESSES GOING BUST!

Public sinks R156-m into debt as squeeze bites

Argus 3/11/84

49

By ROBIN BROWN
Weekend Argus Reporter

TWELVE South African businesses are going bust every day and judgments against firms rose by a frightening 71 percent for the first seven months of this year.

Debt judgments for failure to keep up rent payments have tripled and there has been a huge increase of 40 percent generally in civil judgments in the courts as the economic squeeze starts to bite into the consumer.

The sharp rise — an increase of nearly R45-million — was recorded over the first seven months of this year compared with last year.

The value of judgments against the public rose from R111,3-million in the first seven months of 1983 to R156,1-million for the same period this year.

Repossessions

Mr Alan Mankoff, managing director of the credit and debt controlling firm of Dun & Bradstreet, said in an interview this week the trend indicates a sharp drop in consumer spending by both blue and white collar workers.

"Due to economic circumstances and many retrenchments, business is being hard hit and many banks and lending institutions must be repossessing articles at a great rate," he said.

"Rents are one of the first debts people usually pay, but there is also a large increase in debt judgments for failure to pay rent rising from R514 000 in July 1983 to R1,4-million in July this year."

HP transactions

Judgments against HP transactions have also climbed by 21 percent from R2,7-million in July 1983 to R3,4-million in July this year.

Mr Gideon Kotze, general manager for loans at Trust Bank in Johannesburg said: "We are expecting a rise in repossessions but so far it has not filtered down to us. We are looking at the problem with the recession getting worse and will strive to control it as best we can."

Repossession manager for Wesbank in Johannesburg, Mr J Dorsling said: "We are repossessing very little. I think people are trying to hold on to their possessions as they are scared of increasing interest rates.

"Before taking anything back from a consumer we always try to help him in the best possible way."

Hard hit

Judgments against small and medium-size businesses accelerated in May, June and July this year to reach a record of R30-million in July.

Judgments against all businesses rose by a frightening 71 percent from R12,7-million to R21,7-million for the first seven months of this year. A good indication of how hard business is being hit.

Twelve businesses are going bust every day.

"Added to the serious situation is the downswing of new companies being registered," said Mr Mankoff.

Company registrations

According to statistics there was a 28 percent drop off of companies registered this August compared with the same month last year.

In August 1983 1 351 new companies registered compared with August 1984 when only 979 were registered.

New jump likely in cost of home loans. Page 3.

Porter calls for lower interest rates to prevent unemployment

C-Times 6/11/84 (49)

By Financial Staff

THE chairman of Brian Porter Holdings, the Cape's largest motor dealer, Mr Brian Porter, has called on the authorities to allow interest rates to soften soon and avert widespread unemployment in the motor industry.

He said yesterday that the record interest rates had already achieved their objective of cutting consumer demand and imports and if they remained at these levels there was a danger of overkill to the economy.

South African car sales had fallen by 27 percent from July to September as against the previous year with Porter's own turnover down some 20 percent.

Sales

Porters with a staff of 2 000 had sales last year of R164,5m and a profit margin in line with most of the industry of two percent before tax.

Unless there is a sudden change in the economy, Mr Porter forecasts a substantial drop in earnings for the next six months and a loss cannot be ruled out. Earnings per share last year rose 63 percent from 23,4c to 38,1c.

Mr Porter says the banks which finance car sales are becoming far stricter in screening applications for loans. Few consumers can afford new cars with interest rates at current levels.

Mr Brian Porter ... business confidence needs a boost.

A fall in interest rates would not only allow more loans to be granted but would improve business confidence.

Confidence

"I would regard the latter as particularly important. Confidence is waning particularly in areas such as Port Elizabeth which are relient on the motor industry."

A fall in rates would also cut firms' costs and enable them to retain staff.

Mr Porter told shareholders at the general meeting in Cape Town yesterday that the group had forecast reduced demand for new cars in August. But the extent of the fall came as a major surprise.

The nationwide market share held by its franchises (Sigma, Volkswagen, Leyland, Mazda, Mitsubishi and Peugeot) had plummeted by over 40 percent in the three months ended September with demand for used cars falling in sympathy.

Revenue

The sharp drop in revenue had come at a time when the interest burden has risen to an unbearable level.

New and used vehicle stocks total some R16m and to alleviate the situation talks are underway for the sale and leaseback of two Cape Town properties — the Paarden Eiland workshop and premises in Bree Street.

The R4m cash injection will lower the debt burden and reduce the group's gearing ratio.

Last year the Porters paid nearly R2m in interest.

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.

ROM 8/11/84 (49)

Company registrations dip sharply

Financial Reporter

COMPANY registrations have dropped by 30% in recent months, says a survey by the credit information bureau, Dun & Bradstreet. An analysis of figures supplied by the Registrar of Companies shows that the number of new companies registered between July and October dropped to 3 672, compared with 5 227 in the same period last year.

Since May the number of registrations has been consistently lower than in 1983, indicating a lack of confidence in business start-ups, says Dun & Bradstreet's managing director, Mr Alan Mankoff.

"This trend is likely to continue for the remainder of 1984, with a total drop-off for the year of about 14%, or 2 000 fewer registrations than last year," he adds.

In another analysis it was found that 987 companies had been liquidated between May and August compared with 835 in the same period last year — an increase of 18%.

The figures do not reflect the heavy impact of the reduction of consumer spending which began making itself felt among retailers only in August, says Mr Mankoff.

Economic policy draws yet more flak

AHI joins the Govt's critics

RDM 12/11/84 (49)

By HOWARD PREECE

THE private sector is becoming increasingly critical of the Government, the Treasury and the Reserve Bank for their handling of economic policy.

The latest attack has been made by the politically important Afrikaanse Handelsinstituut (AHI), which says the authorities should withdraw, or at least alleviate, the restrictive economic measures introduced in August.

Spokesmen for sectors of industry suffering badly now — such as motors and furniture — have also, not surprisingly, warned of disaster ahead.

Other public criticisms of the financial policy makers have recently come from Dr Fred du Plessis, the chairman of Sanlam, Mr Chris Ball, the managing director of Barclays Bank, Dr Frans Cronje, the chairman of both Nedbank and SA Breweries, and Mr Natie Kirsh, chairman of the Kirsh group.

Some senior business sources even say that unless the Treasury and the Reserve Bank can point to clear signs of success within the next six months there will be powerful pressures on and within the Government for a distinct change of strategy.

But what direction would such a change take?

The business critics of economic policy differ, certainly in emphasis, on what they want.

Dr Du Plessis, Mr Kirsh and their supporters, for example, favour more controls — over imports and foreign exchange, in particular — and less reliance on free market methods.

Mr Ball wants a 3% cut in prime rate and a more interventionist approach by the Government towards public sector pricing policies to help in the fight against inflation.

Much of the criticism of the Government, however, remains concentrated on the demand for a sustained rolling back in the proportion of State spending to total spending.

This was apparent at the conferences last month of the Association of Chambers of Commerce and the Federated Chambers of Industry.

Dr Cronje puts the main blame on the authorities' "unduly optimistic" view of the gold price.

The AHI says the "shock tactic" measures of early August have largely achieved their aim of checking consumer spending and inflation but are now dampening economic activity.

The AHI president, Mr Leon Bartel, says salary increases in the public and private sectors should be temporarily curtailed to help the economy out of its unfavourable position.

There is, he says, increasing concern over the Government's execessive spending.

The AHI believes it should show no real increase in the 1985 Budget.

"All cuts should be made on current expenditure and not on necessary infrastructural services.

"The increase of salaries in the near future should be limited to contribute to a cooling off in the economy," says Mr Bartel.

He says that although the State President and the Minister of Finance have declared the Government's intention of keeping spending within affordable levels, departments which fail to achieve this should be given specific financial allocations.

Mr Bartel adds that the new constitutional dispensation offers Government departments the perfect opportunity to rationalise staff and services.

Ironically, however, one of the sharpest attacks of all on the way the economy has been run has been made by Dr Gerhard de Kock, the Governor of the Reserve Bank.

This appears in a long interview in the October issue of the international financial journal, "The Banker".

Dr De Kock was asked by George Palmer, former editor of the Financial Mail: **"Where do you think we (South Africa) are in the business cycle now?"**

He replied: "We have been in an upswing for more than a year.

"There is no question about it, despite the drought. My guess is we are now moving down. We need a downward phase. We cannot continue spending at the rate we were doing because of the fundamentals."

Palmer: "Why were the authorities so slow in clamping down?"

Dr De Kock: "We were late in spotting the upswing.

"We knew we were in a recession from a very high upper turning point in August 1981 and although we reached the low turning point in April 1983 we did not spot it until some months later and so we allowed interest rates to fall further.

"Also, we were unduly impressed by arguments of 'beware of overkill'.

"In the meantime, without our knowledge, the economy was already moving up again.

"If one had looked more carefully at the Stock Exchange, the real estate market and motor car sales one would have sensed that this was no real depression.

"If you get an increase in the gold price from $300 to $500, as we did in the second half of 1982, and then the Government steps up its spending, and then you pump the extra money into the hands of the consumers, who then start borrowing up to the hilt . . . we should have done something about it earlier."

Palmer: "What should you have done?"

Dr De Kock: "We should have curbed Government spending.

"Failing that we should have put up taxes earlier to bring about the transfer of resources.

"Thirdly, we should have allowed interest rates to rise further."

RDM 12/11/84 (49)

Small firms the building blocks of free system

Financial Reporter

SURVIVAL of the free-enterprise system in a democratic society depends not only on a handful of dominant corporations but on a multitude of small enterprises, each expressing the personality — and the ambitions — of the owner.

This is the view of the Association of Chambers of Commerce of SA.

Assocom adds that small businesses are the building blocks of the free-enterprise system. They may either grow, through initiative and hard work into larger organisations, or they might remain small, yet playing an important role in the distributive system and, sometimes, even in manufacturing and productive processes.

"They also perform another important function in a society such as ours. They can stimulate employment on a scale which can aggregate into large totals because the small business, and particularly those in productive and service-based enterprises, are more usually than not labour-intensive.

"This is a pertinent consideration in SA where statistics predict a frightening, chronic unemployment threat in the decade that lies ahead."

Assocom continues that while free enterprise is, or should be, colour-blind, in this country there should be an added thrust to promote the business instinct among the black groups.

"Unfortunately there are still some statutory barriers that have to be lowered before businesses are entirely freed to function wherever there is a market place — but we have no doubts that in time to come some of these hindrances will be removed.

"Meanwhile, promoting small businesses in SA, because of its heterogeneous population structure, is not a simple, straight-line function. Our people have different cultural backgrounds and many of them have a very superficial exposure to the regimen of the market place and even less to the discipline of conducting a business.

"And yet, the organisations which have been set up to encourage the development of small businesses must not be seen to be racial or race-orientated: that would be contrary to the basic tenets of the free enterprise philosophy."

Assocom adds that if there were more trained businessmen giving advice and guidance to new entrants into the business world, there would be more successess and fewer failures.

"It is here that retired businessmen could give service to the community by becoming counsellors to would-be businessmen. The very essence of business is to understand the calculated risk and who should know it better than the man who has made a success of his business life?"

Assocom concludes that small businessmen — and would-be small businessmen — of all race groups, need encouragement and guidance, as well as a climate conducive to the growth of free enterprise.

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Post 13/11/84

Survey blames Govt spending

By LOUIS BECKERLING
Business Editor

THE Government is now gobbling up almost one third of South Africa's economy — and about 40% of the money it borrows is used to keep its wheels turning, rather than to create new opportunities for growth.

This view of uncontrolled spending by a swollen bureaucracy emerges in a study recently released by the Mercabank Group on the crushing tax burden under which South Africans are now reeling

And evidence that even formerly loyal suporters of the Government have lost their patience with a prime factor in the poor economic situation — excessive Government expenditure — was underlined today in a statement from the Afrikaanse Handelsinstituut.

Mr Leon Bartel, president of the AHI, warned in Pretoria that the economy was on the verge of permanent damage, and cited excessive Government expenditure as one of the problems.

He appealed for relief from the savage austerity measures introduced by the State on August 2

In addition, loyal National Party supporters have recently expressed misgivings that the current round of by-elections — and the potentially three-cornered fight in Port Elizabeth's Newton Park early next year — could prove sobering to the Government.

"The issue is one of bread and butter politics, and the Government's record is not good," confessed one senior NP spokesman in Port Elizabeth yesterday.

The Mercabank study points to "serious structural deficiencies" which have emerged recently in the South African economy — "not least so in the nature and size of the burden placed upon personal incomes by rising Government expenditure".

Total Government expenditure, it observes, has risen from 20% of the Gross National Product (GNP) in the early 1970s to an estimated 30% this year.

Underlying this total spending pattern is a chilling change in both the method of financing the booming Government bill, and the manner in which its borrowings are employed.

Debt incurred by the country's public authorities amounted to a low figure of R285 million in 1980, but this has since rocketed to an estimated R6 100 million this year.

"And the alarming aspect of the recent rises in the borrowing requirements is the fact that large proportions of the borrowing (25% in 1983 and an estimated 39% in 1984) is required to cover deficits on current account," points out Mercabank.

Bearing the brunt of Government's runaway spending (which is yet to take into account financing the new constitution) are families battling to balance their budgets.

Combining the effect of increased direct taxation and domestic inflation, Mercabank calculates that a householder earning R10 000 a year in 1972 paid an effective ultimate tax (ignoring rebates and abatements) of 14,2%.

By 1984 such a householder (now earning R41 000 — or the real equivalent of his 1972 counterpart) was paying 30,9% of his income in tax to the Government

RDM 16/11/84 (49)

Du Plessis forecasts 1% growth in 1985

Rapid cooling off seen in economy

Financial Reporter

THE economy is cooling off rapidly and is expected to show a real economic growth rate of about 1% next year after an unplanned mini-surge of 4% in 1984.

The Minister of Finance, Mr Barend du Plessis, voiced this belief yesterday at the Financial Mail investment conference in Johannesburg.

He also made a spirited defence of the monetary and interest rate policies of the Reserve Bank.

Some private sector sources saw this as a clear public sign of support for Dr Gerhard de Kock, Governor of the Reserve Bank, who has come under direct and indirect attack from various quarters recently.

Mr Du Plessis said: "Monetary policy has to carry a relatively large share of the overall burden of economic stabilisation strategy and this in turn inevitably implies high interest rates for the time being."

But he said: "By extending additional credit to the banking system, the Reserve Bank has prevented interest rates from rising as much as they would otherwise have done.

"The view that the Reserve Bank is artificially holding up interest rates is, therefore, patently false, as would be dramatically illustrated by the rise in interest rates that would ensue if the bank were to withdraw its accommodation to the banking system."

Mr Du Plessis said: "Although it is too early to make a final judgment, there are clear indications that the present financial strategy has already begun to show the desired results.

"The upswing that lasted until about the middle of 1984 appears to have given way to a downturn in the third quarter of 1984.

"The economy is now cooling off rapidly.

"Real private consumption expenditure is declining and most economic indicators confirm that the economy is in a temporary downward phase of the business cycle.

"This process is inevitably causing serious hardships in certain sectors of the economy.

"But the first beneficial results are already evident in the form of a marked reduction in total spending in real terms and an accompanying improvement in the balance of payments on current account.

"The fact that the money supply still increased at a relatively high, although declining, rate during September can largely be attributed to an expansion of bank credit to finance an unexpected and undesired accumulation of inventories — the result of a decline in wholesale and retail sales."

Mr Du Plessis said the economy, "has now moved into a recessionary phase".

The fact, however, that it would show real growth of about 4% this year indicated how wrong those economists had been who had called for a policy of stimulating the economy over the past two years.

(It could perhaps be replied that if economists had known the Government was going overshoot its 1984-85 spending target by more than R2bn there would have been no one calling for any additional expansionary measures).

Looking at prospects for 1985, he said private consumption expenditure should show little change from 1984, which would have an expected increase of about 2%.

"In addition, after rising by about 7% in 1984, real Government consumption expenditure is likely to show only a modest, if any, further increase in 1985."

Real fixed investment was expected to show a moderate further decline and commercial and industrial inventories were also likely to decline further.

The rand value of exports was expected to rise by about 25% in 1984 and to show a further, but slightly lower, increase in 1985.

In volume terms, the increases were expected to amount to about 11% in 1984 and 4% in 1985.

The rand value of net gold output was expected to increase from R9,9bn in 1983 to about R11bn in 1984.

"In 1985 the value of the net gold output is likely to rise further, but at a considerably lower rate, mainly because of an anticipated small volume decline and the expectation of a better performance by the rand in the foreign exchange market," Mr Du Plessis said.

In volume terms, imports were expected to decline by as much as 13% in 1985.

The current account of the balance of payments would probably show a surplus of between R1bn and R2bn, compared with an estimated deficit of about R1bn this year.

Mr Du Plessis said: "The rand does appear to be a candidate for appreciation in terms of both the dollar and the basket of currencies during 1985."

16/11/84 (49)

The Natal Mercury, Pric

Banker forecasts collapse of many JSE-listed firms

'A NUMBER of business casualties — including some companies listed on the Johannesburg Stock Exchange — can be expected this year. For much of the year we shall see a continuation of the heavy pressures on individuals and companies to accommodate themselves to the country's straitened circumstances.

Dr Conrad Strauss, Standard Bank's managing director, told this to the Financial Mail Investment Conference in Johannesburg yesterday.

'The economy will have to undergo major adjustments, so that a number of corporate and personal financial casualties are inevitable. We delude ourselves if we expect bank profits to remain unaffected by such events.'

Bank dividends would also suffer.

'There can no longer be any room for doubt as to which way the economy is going. I expect a decline in domestic demand over at least the first three quarters of 1985.

Speakers

'Moreover, I expect this to be large enough to cause severe difficulties, not merely for individuals and small firms but also for some listed companies.'

Other speakers were the Minister of Finance and Professor Geert de Wet of the Rand Afrikaans University.

Mr Barend du Plessis, Minister of Finance, said the present economic downturn will extend well into 1985.

Professor De Wet said the short-term interest rates are estimated to decline to about 17 percent towards the last quarter of 1985, while long-term rates are expected to fall between about 14 percent.

Mr Du Plessis said the length of the downturn was likely to result in moderately negative rates of real economic growth during the second half of this year and the first half of 1985.

He was assuming that the economic upswing in the main industrialised nations would continue in 1985, although probably at a slower pace than now.

He expected fixed investment to rise in the industrialised countries as the upswing matures and did not see significantly higher international inflation rates.

Gold

He was assuming that in 1984 and 1985 the gold price will average about $360 an ounce. Present indications are that the downturn in the S A economy will be reversed in the second half of next year.

A possible real growth rate of one percent was possible over the whole of 1985 following an expected growth of about four percent in 1984.

He said real private consumption expenditure should show little change in 1985, following an expected increase of about two percent this year. Real Government consumption expenditure is likely to show only a modest increase, if any, in 1985 after rising by about seven percent in 1984.

He said the rand value of S A exports is expected to rise by about 25 percent this year and to show a further but less substantial increase in 1985. In volume terms, the rises are estimated at 11 percent this year and four percent next.

The rand value of gold output is expected to increase from R9,9 billion in 1983 to about R11 billion this year.

As imports are declining rapidly, their rand value should show little if any increase in 1985 despite the recent fall of the rand against the dollar.

In volume terms, imports could fall as much as 13 percent next year.

In view of these expected developments, the current account of the balance of payments will probably show a surplus of between R1 000m and R2 000m next year, compared with an estimated deficit of about R1 000m this year.

The rand will probably appreciate against the U S dollar and other currencies next year.

Inflation

A decline in S A interest rates appears to be a distinct possibility next year, while inflation might accelerate moderately in the short term after the rand's depreciation and then begin to decline in response to lower demand in the economy and a probable higher rand.

After his speech he told Reuters that the authorities would cut the re-discount rate only when they could do it from a position of success.

He said although the economy is now in a marked downswing the real gross domestic product for 1984 will probably still show a positive growth of about four percent compared with negative growth of three percent last year.

There are clear indications that the present financial strategy of austerity has already begun to show the desired results.

The economy is cooling off rapidly. The beneficial results are already evident in a marked reduction in total spending in real terms and an accompanying improvement in the current account.

Government spending is expected to total R27,1 billion in the current fiscal year, and the deficit before borrowing is estimated at R3,6 billion or 3,6 percent of gross domestic product, compared with the budgeted three percent. He said fiscal policy would be appropriately restrictive in 1985.

Rates

Professor De Wet said South African short-term interest rates are estimated to decline to about 17 percent towards the last quarter of 1985, while long term rates are expected to fall to between 14 and 15 percent.

He expected the Reserve Bank's rate of accommodation to decline marginally in 1985, easing a downward move in interest rates, but keeping them from falling rapidly.

He did not expect the rate of inflation to be higher in 1985 than in 1984 and sees it coming down in the second half of next year. The rate of inflation, measured by the consumer price index, is 12,20 percent.

18/11/84 49

How it feels to be fired. By a jobless former boss

The recession has hit the briefcase brigade. Scores of ex-executives are suddenly finding themselves out of work. And the problem for many is that no-one will hire them. What boss feels secure with an ex-boss working for him? MARION WHITEHEAD reports on the tribulations of the *nouveau poor*

MR JACK Jones sits playing chess against his son's microcomputer in his plush home in Johannesburg's northern suburbs or does a bit of gardening when the day begins to drag.

As often as possible he puts on his formal grey business suit and goes for job interviews.

He is an out of work managing director — a victim of the recession.

Nearly 50 years old, he has a wealth of experience in company management and a mechanical engineering degree.

But it didn't save him from being retrenched when the large company he worked for "rationalised" its operations.

He and the new chairman simply did not get on, and Mr Jones (who does not want his real name revealed) lost his R58 000 a year job, his R5 000 annual bonus, his Mercedes 280 and other company benefits.

After five months of unemployment, the father of three is remarkably optimistic — but then his financial settlement with the company was "generous" and he has not yet felt the economic pinch, apart from having to stop taking his family out to eat in fancy restaurants.

"But if I don't get anything in the next couple of months, it will be a problem," said Mr Jones, whose wife has a three-mornings-a-week job.

Then he will have to start selling his assets and if things get really desperate, he has an advantage many others don't have — he can go back to the European country from which he emigrated and claim social benefits; he could be a managing director on the dole.

The sales director of a Johannesburg company was less fortunate. When his company merged with another recently, he was told his job would be done by the other company's sales director.

The blow to his self-image was so acute that on his way to a meeting with his managing director, he stopped at home and slipped his gun into his pocket.

He never arrived at the meeting He was later found in his luxury company car at the golf course, dead, his gun beside him.

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THESE men are not unique. They are part of an emerging class wryly being tagged 'the new poor' — a snide reference to the change in the economy since the boom that produced the *nouveau riche*.

These men are — or were — in the top 2% income bracket but this has not made them immune to the current recession which is unofficially estimated to have pushed the unemployed figure to 3-million in South Africa.

Most of these are unskilled black workers whose plight is far more immediate and heart-rending than the unemployed executives.

The black worker who loses his job is a victim in a tragedy that can mean watching his children starve to death.

The more skilled people, professionals and executives, find their problems are more on a psychological level, say experts in psychology, sociology and personnel placement.

They are the ones who are too proud to ask for help and don't have the support of an extended family.'

They are the ones for whom money, status and its social trappings are most important.

They are also the ones who will f[ind] it very hard to get another job.

□□□

MR CHARLES Rowlinson, a direc[tor] at Renwick, one of the largest [man]agement placement consultancies [in] the country, says it is becoming [in]creasingly difficult for retrenched [ex]ecutives to get similar positions.

"Many companies are reluctant [to] take someone even at a lower level [as] they are overqualified and a threat [to] the present structure of the org[anisa]tion," he said this week.

Each day his company sees "[nu]merous high calibre people" who h[ave] been retrenched, such as gene[ral] managers, financial executives [and] engineers of all disciplines.

Boom

In the past 12 months Renwick [has] interviewed 4 000 executives [and] placed 1 000. In the boom of 1978-[81] it placed 1 300 executives each ye[ar].

Mr Rowlinson said that in a rec[es]sion in South Africa people were [made] redundant more readily than in a t[ra]ditional, long-term investment [coun]try as companies here empha[sised] short-term planning and quick pr[ofits] because of the uncertain political [cli]mate.

A relatively small business c[om]munity with monopolies within [the] marketplace also meant the chanc[es] of finding another job near the [top] were small.

He does not believe South Afr[ica] will go back to the "dizzy days" of [the] 1978-1981 boom when six proje[cts] each worth R1-billion, were going [at] the same time, generating thous[ands] of jobs.

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AFTER the initial shock of lo[sing] their jobs, many people became [opti]mistic about their new-found f[ree]dom

That, however, gave way to depre[s]sion and anxiety if they did not f[ind] work, wrote psychology honours s[tu]dent Mr Bruce Irvine in a paper s[ub]mitted to the Carnegie inquiry

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Boom

In the past 12 months Renwick has interviewed 4 000 executives and placed 1 000. In the boom of 1978-1981, it placed 1 300 executives each year.

Mr Rowlinson said that in a recession in South Africa people were made redundant more readily than in a traditional, long-term investment country as companies here emphasised short-term planning and quick profits because of the uncertain political climate.

A relatively small business community with monopolies within the marketplace also meant the chances of finding another job near the top were small.

He does not believe South Africa will go back to the "dizzy days" of the 1978-1981 boom when six projects, each worth R1-billion, were going at the same time, generating thousands of jobs.

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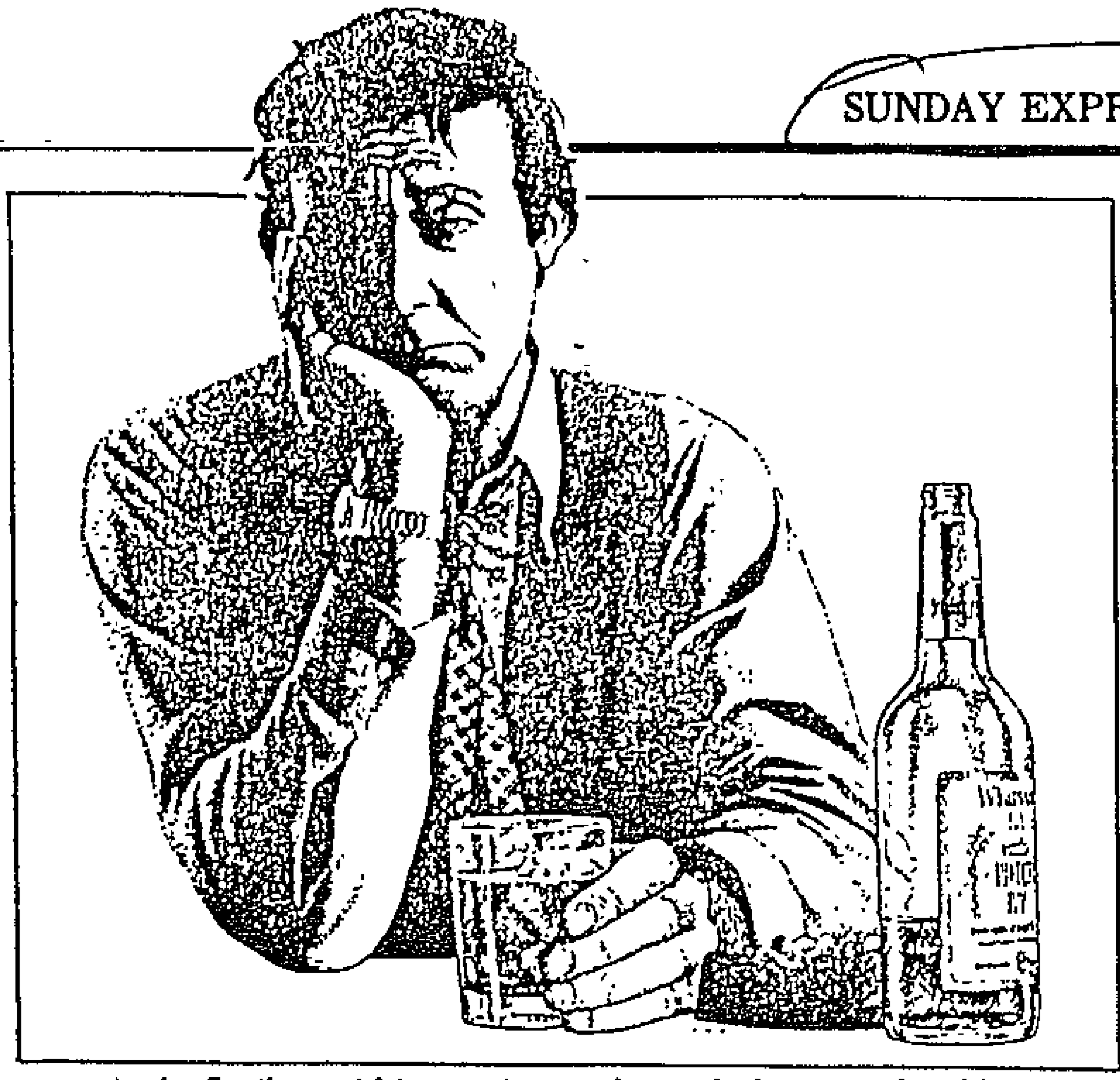
AFTER the initial shock of losing their jobs, many people became optimistic about their new-found freedom.

That, however, gave way to depression and anxiety if they did not find work, wrote psychology honours student Mr Bruce Irvine in a paper submitted to the Carnegie inquiry into



poverty in Southern Africa earlier this year.

A kind of inertia that was psychologically debilitating followed as they felt insufficiently stimulated and undervalued.

Mr Jack Jones, however, is still optimistic about his future.

"I keep myself busy. It's essential."

He gets plenty of emotional support from his family and his friends. He has been open with them about losing his job — "otherwise people think it's because you embezzled money or something" — and they are understanding.

Help

Some have themselves been unemployed for periods of up to six months. His friends also try to help him find work through their business contacts.

Mr Jones has faced the disappointment of coming close to getting a job a couple of times, then seeing it fall through.

Loss of identity was another problem Mr Irvine said retrenched employees had to grapple with.

Said Mr Jones: "If I had worked just for the status of being an MD, I'd have those difficulties now. But for me the satisfaction was in creating a smoothly running, profitable company."

In his study, Mr Irvine used British models and interviewed factory workers in the Western Cape who had been retrenched during 1983.

The British research, however, showed that on a psychological level, the effects on ordinary workers and executives were similar.

Mr Irvine stressed it was important for an employee to understand why he had been retrenched. If he did not know it was for broad economic reasons, and believed it was because he was lazy or inefficient, this added to his feeling of worthlessness.

"Any real man can support his family. I used to be a real man, now I am worth less than a loaf of bread. Bread is more use to them than me," were the pained words of a worker interviewed by Mr Irvine for his study.

Discussion groups for retrenched employees helped them realise they were not alone in their problems, Mr Irvine said.

Dr Ina Snyman, in a report for the Institute for Sociological and Demographic Research of the Human Sciences Research Council, said large-scale retrenchments of breadwinners had caused an increase in marriage conflict and child abuse.

"Strain on marriage relations also started to come about as a result of the role reversal in the breadwinning function. Like when women who had not worked before, or who had had good positions, were now the breadwinners and doing menial, low-paid jobs, while their husbands might not be considered for such work and would therefore be sitting at home without earnings," said Dr Snyman.

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IRONICALLY, Mr Jones has had to retrench staff himself in the past. But he said he had always done it gradually, through encouraging early retirement, reducing salaries and not replacing staff who left.

"I'm against the hiring and firing of staff, even if it means being understaffed in good times," Mr Jones said.

He said he would prefer another job as an MD, but he was open to offers and in the mean time would take on temporary executive assignments which is a growing trend in the United States.

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PROFESSOR Heinz Prekel, associate director of the Unisa School of Business Leadership, said South Africa still suffered from a shortage of technical and managerial resources to create jobs — there were 42 workers to a manager compared to 16 workers a manager in developed countries.

That meant there had to be more managers, or the new technology had to be used intelligently to enable managers to handle more people.

He said a recession was a good time for companies to train staff to be more productive, or to train them for new positions using the new technology.

"Training is a long-term investment," Prof Prekel said.

PAUL JOHNSON

(49) 23/11/84

The future of capitalism

The ominous year 1984 has come and almost gone, and George Orwell's dire prophecy of a world in chains and in perpetual war has not come to pass — one reason being that our civilisation produces men with the foresight and courage of Orwell who warn us of danger and teach us to guard against it.

Indeed, as we approach the mid-1980s, there are some sound reasons for optimism. The Western world has been through an exceptionally difficult period. The 1960s were a decade of illusion in which absurd hopes were entertained and many grievous errors made — errors which will take a long time to put right. We came near to wrecking our system of higher education.

We expanded the activities of the state beyond all reason, and its cost beyond the power of our economies to sustain it. We allowed inflation to get an almost unbreakable grip on our lives.

The 1970s were a decade of disillusion in which we tasted the bitter fruits of our previous follies — the worst recession in half a century; retreat everywhere in the face of the Soviet threat; the shadow of hyper-inflation and mass unemployment; and a rising tide of violence, as hopes were dashed, expectations disappointed and Giant Despair ruled.

The 1980s have been so far a decade of returning realism. This new, sterner mood is a worldwide phenomenon wherever men and women have the right to choose their rulers. Canada is the latest country to join the Realists' Club. In the last year or so, West Germany and Japan have pointedly reaffirmed their belief in the free market, benevolent conservatism, and sound money.

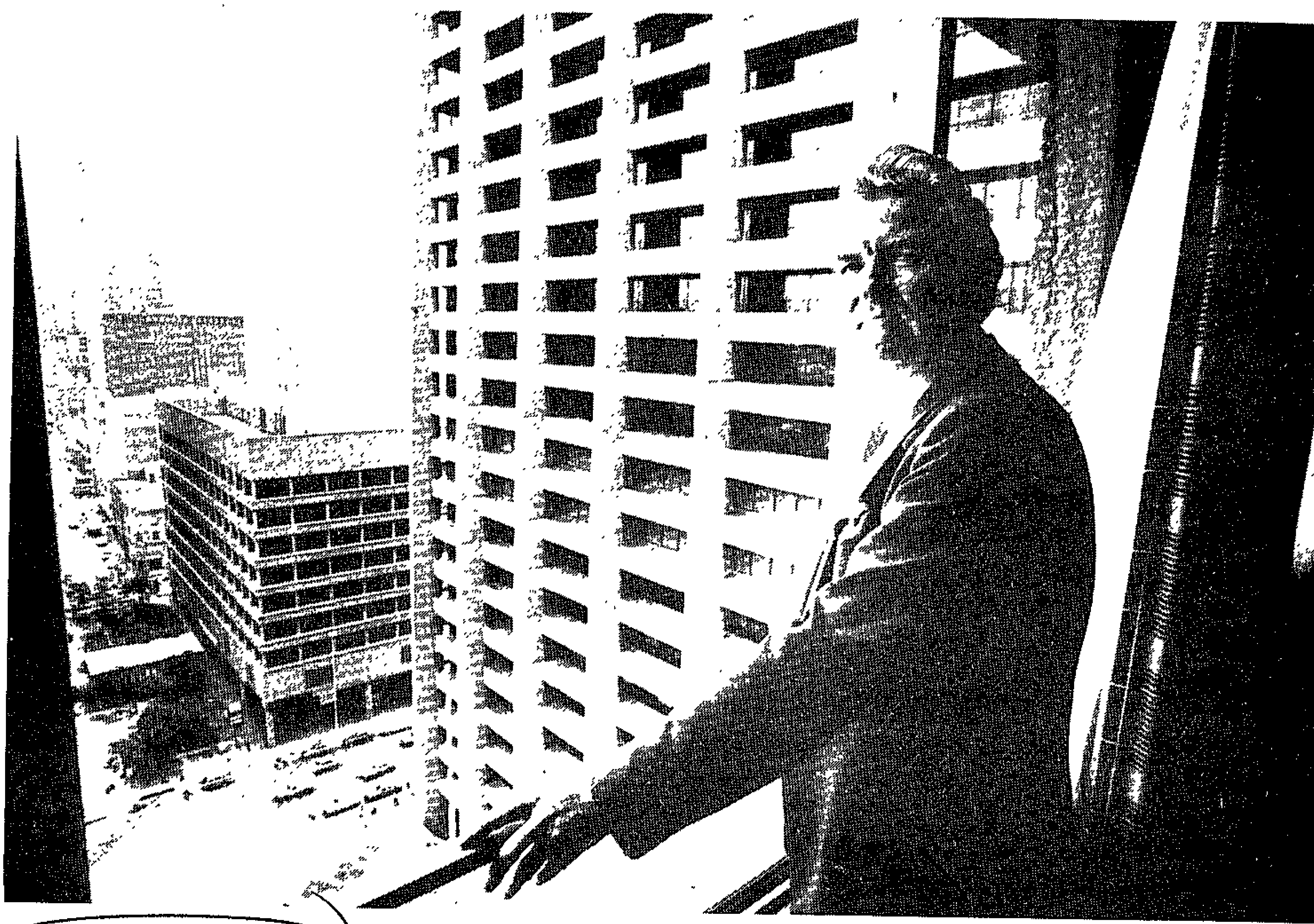
France, after a brief and spectacularly unsuccessful experiment with socialism, has shamefacedly returned to a conservative economic policy without even changing its government. Britain now has the largest Conservative majority in 50 years and is firmly set on a course of economic realism. The US has just re-elected by an enormous majority another outstanding conservative statesman.

These are reassuring signs, but most encouraging of all — and underlying it all — is the recovery of belief in capitalism as the most effective means the world has yet discovered for creating and distributing wealth.

As in the 1920s, and again in the 1940s, the US is leading the way. It has created 6m new jobs and is adding to them at the rate of half a million a month. It has reduced unemployment to almost 7%, which is virtually full employment, while keeping inflation within bearable limits. All is not well, by any means, for the continuing budget deficit poses a long-term threat to the productivity of the economy by denying it investment capital.

All the same, the US economy has reasserted its dynamism in the most emphatic manner, and in so doing has restored faith in the free enterprise process.

In looking to the future, therefore, it is worth our while to seek to understand why it is that capitalism is so resilient; why, after the battering it has received in recent years — an intellectual, moral and governmental battering — it has been able to



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emerge again so triumphantly, creating the jobs, delivering the goods, and paying the world's bills.

I believe the answer lies in the fact that capitalism is not really an "ism" at all. It is a spontaneous phenomenon, springing from man's nature, and it occurred inevitably at a certain stage in man's development. It is essentially about realities — not Utopias; it concerns itself with actual men and women living in a real world. It is not an ideology, but the product of our own irrepressible aspirations to create and manage wealth.

Granted a certain level of technical development, it will always occur unless society does something positively repressive to stop it. Not only capitalism as such, but capitalist efficiency, is essentially linked to freedom of activity. Capitalist wealth-creation is the social benefit of freedom.

The most natural and spontaneous expression of human freedom is the market in which goods are freely bought and sold. Among intellectuals, there is a striking reluctance to admit that the free market is the best way of producing wealth. The belief that the market is socially harmful is held strongly in the West, especially on university campuses.

Such people, of course, would go to the stake on behalf of other freedoms — especially the freedom to seek and acquire knowledge. They call the market "the law of the jungle." But it is not like the jungle at all. In essence — and this is the key to its usefulness and the real foundation of capitalist fecundity — the market is a very sophisticated system for the acquisition and spread of knowledge. Let me explain.

One of the commonest of fallacies is the assumption that goods have a fixed or absolute value and that those who make or grow them have a unique right to that value. This error has been termed "the physical fallacy." It treats any kind of middleman who does not physically create the goods as a parasite.

The truth, of course, is that there is no such thing as absolute value in goods. It all depends on where and when those goods are found. Goods in the wrong place, or at the wrong time, have diminished value. If they are perishable, they soon have no value at all.

The market's function

The essential function of the market is to change the location of goods in space and time — and it is location and timing which determine value — and so price. Getting the location and timing right is a tricky and risky business, in which the penalties for misjudgment are just as severe as in manufacturing or farming. So the middleman is not a parasite but a useful member of society, as we quickly discover when he is eliminated.

Capitalism is essentially based on the free market in goods. And, free markets are much more effective at getting the location and timing right — and so delivering the goods — than state-controlled or socialist ones.

Why, 65 years after the October Revolution, does Soviet Russia, with more land under cultivation than any other country, experience chronic food shortages? This year is no exception. Why does it have to buy food surpluses produced by the market economies of America, Australia, Canada and Western Europe?

Why is it and other socialist countries forced to ration consumer goods — ration them either by time that is the ubiquitous line — or by status, so that shops selling scarce goods are open only to senior party functionaries or those with access to foreign currency?

The essential answer is as follows. Economic efficiency depends on taking the right decisions. Taking decisions correctly depends on full and accurate knowledge. And that is exactly what the free market provides.

The market is a natural device for the

speedy conveyance of cheap, accurate and objective information. Since there is no absolute value in goods, the free market will tell you the exact going price — and the level of demand — of anything, in any place, and at any time, everywhere it is allowed to function. It is natural, because markets will spring up everywhere when they are not actually prevented by state intervention. It is speedy, because the market is working round the clock all over the world; cheap, because it is the free by-product of the buying and selling function. Accurate, because it's based on an endless multiplicity of real transactions. And it is objective, because the market is not a formal institution with a purpose or an ideology, but simply a mirror of human desires in all their variety and nakedness.

Where the market produces access to this quality of knowledge, the quality of decision-making will improve accordingly. So, in turn, will economic performance. The market is a knowledge-system. That is one reason why it has been the biggest single user of the new electronic knowledge and communications technology, which has enormously increased its celerity and global efficiency.

The knowledge is free, unbiased and uncensored — free access to knowledge is as important to the market, and so to industrial capitalism, as it is to any university or newspaper or writer.

The moment governments start to interfere in the market, its efficiency as a knowledge-system invariably declines. Of course, I am not saying that such intervention is always wrong. On the contrary, it is often not only desirable but inevitable. But it is vital to grasp that there is a social cost of all such interventions.

Moreover, while the social advantage of intervention is usually obvious, the social cost is nearly always hidden, at least to begin with. For the fact is, that all intervention in the market produces a corresponding decline in the volume and quality of the information it provides. It ceases to be wholly objective because it tends to reflect the subjective views of the interventionists. So, the market begins to give out misleading signals. Beyond a certain point of intervention, it ceases to give out any signals at all, and a great darkness and silence descends — as in Eastern Europe.

Key to success

The ability of markets to supply knowledge, and of capitalism to make use of it, explains why it has been so successful in producing wealth, and gives me confidence in its ability to survive, change, adapt and achieve yet higher levels of production. But so far I have given you only half the picture.

While the knowledge system we call the market explains the general efficiency of the performance of capitalism, its essential dynamism, its ability to surge forward with irresistible power, is a reflection of human ingenuity. And that ingenuity expresses itself in new universal products and processes. It is these innovations which give to capitalism its periodic phases of super-dynamism.

The leading sector in the first phase of the Industrial Revolution from the 1780s was steam-powered cotton manufacture, produced in the first factories. The second phase, in the 1830s to 1840s, was promoted by railway and steamship production. In both cases, Britain pioneered development of the leading sector, and so set the long wave in motion. Then, at the end of 19th century, leadership passed to the US.

It was in America that the third wave was launched by the assembly-line factory (the process) combined with the automobile (the product). And it was America again, in the 1930s and 1940s, which promoted the fourth phase based upon the electrical and electronic appliance.

All these four great waves swept aside traditional methods and products and, in the first instance, produced lost jobs and broken businesses. All, in the long run, generated infinitely more jobs than they destroyed, and led to immeasurable increases in the world stock of wealth and in real incomes.

Now what is notable about all the background factors which created capitalism, sustain it, and give it periodic injections of new energy, is that they are all the products of spontaneous and unregulated and, in most respects, anonymous human activ-

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ity. In no case has the causative factor been planned by society and the governments which represent it. Quite the contrary; ask any British schoolchild which was the worst government in British history, and he or she will probably answer "Lord North's." It is a byword for government hopelessness and failure.

But it was during Lord North's ministry in the 1770s and early 1708s that the British economy first achieved "lift-off" into self-sustaining economic growth. It was under Lord North that industrial capitalism was born, arguably one of the most important events in human history.

How did this happen? Because government had absolutely nothing to do with it. Lord North knew nothing about the Industrial Revolution. He went to his grave quite unaware that he had presided over an economic miracle!

The truth is, industrial capitalism simply evolved, from the free and unco-ordinated transactions and unimpeded movements of countless unknown individuals. Again, all four of the historic innovatory movements, which produced the long waves and subsequently raised the world to higher planes of material prosperity, were generated by mysterious and anonymous interactions within the areas of technology, production and marketing.

The fifth wave

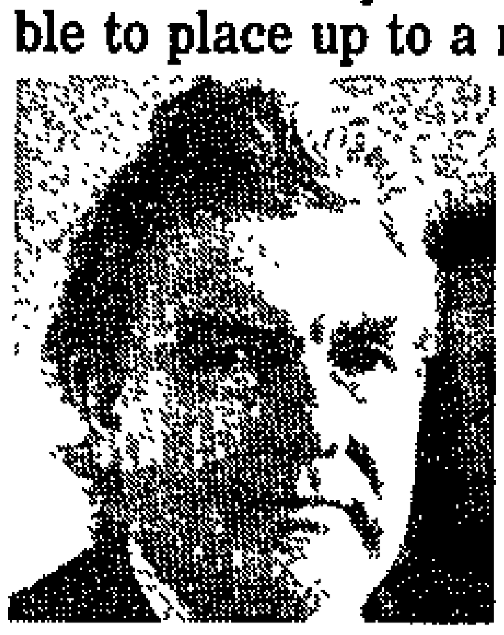
They took place, as it were, within the hidden bowels of the industrial capitalist process, as a result of hundreds of technical innovations, and thousands of commercial initiatives, and millions of individual decisions to buy and sell.

The 10-year recession through which we have been passing came in the terminal stages of the fourth wave, and we now look for the beginning of the fifth, bearing in mind, of course, that economic cycles do not repeat themselves — each is unique, for history is a voyage from an irrecoverable past into an unknown future.

It seems fairly clear, however, that the next long phase of industrial capitalism, likely to bring with it changes as dramatic and fundamental as any of its predecessors, will evolve around two developing processes — information technology and biotechnology.

New basic technologies tend to emerge from a lengthy gestation period and then to accelerate with overwhelming speed. Information technology is a case in point.

By last year, miniaturisation had advanced to the point when it became possible to place up to a million components on



a single chip, and by next year we shall have available elements with dimensions of 1 micron (a millonth of a metre or 0,000039 inches).

The speed at which information technology has accelerated is likely to be exceeded by the rush of biotechnology which, of course, in the long run will be of much greater significance.

Not until 1953 did James Watson and Francis Crick decipher the double-helix configuration of the molecule of deoxyribonucleic acid (DNA). This structure, like a marvellous living computer, forms the particular code of each cell, telling it what protein to make, the essence of creation. The speed with which this discovery has been given a multitude of practical applications has been even more striking than the rush to the microcomputer.

Silicon limits

In June 1980, the US Supreme Court ruled that such man-made micro-organisms could be granted copyright protection, and this cleared the road for thousands of commercial laboratories and firms specialising in biotechnology.

There is a physical limit to the process of miniaturisation using non-organic materials. Leslie Allen of Plessey Telecommunications suggests that the impasse can, and will, be broken by combining information and biotechnology, using artificially created organisms which will carry the process of miniaturisation much further.

Computers which are not just superbly fast and accurate machines for handling numbers, but brain-like instruments capable of recognising very complex and variable patterns of phenomena and taking difficult decisions about them, will require, when small enough to be cheaply produced in large numbers, millions of circuits so small as to be beyond the reach of any conceivable silicon technology.

What will be required to provide this degree of miniaturisation are computer components made not of inorganic chemicals but of specially created organic molecules, the biochip, basis of a new science of molecular electronics.

The birth of the humanoid computer, a creature likely to come into existence in the 1990s, will introduce the era of organic machinery, and this is probably destined to be the new type of product which will carry forward the fifth long wave over the threshold of the 21st century.

These great dynamic surges in industrial development have correspondingly disturbing impacts on our social life. I am not concerned with the primitive fear, alas, too prevalent today especially in Europe, that new technology destroys jobs.

At the beginning of the Industrial Revolution, the entire population of the US was 2,5m. Today, the US economy, thanks to technological advance, provides nearly 110m full-time jobs — enough to accommodate the entire pre-Industrial Revolution population 44 times over.

It is highly improbable that the fifth wave will be any different in this respect. But the signs are that it will have an organisational impact quite unlike its four predecessors. These four tended to concentrate labour in very large units, and so make possible the development of modern politics based on mass parties and trade unions. The revolution driven forward by information technology and biotechnology will disperse labour, as well as make it infinitely more valuable.

The typical "silicon valley" firm, wherever it is found in the West, is quite small, though its capitalisation may be very high indeed. Biotechnology labs and firms are also small or medium-sized. Indeed, this is true of nearly all high-technology workshops today. Moreover, they tend to be sited not in great traditional centres of population, but in outer suburbs, small towns, even villages, or the open countryside.

The fifth phase of the industrial revolution has, in fact, some of the characteristics

of a reversion to cottage industry. Not only are the units small, there is also a growing tendency to perform part of the work at home. Firms in some advanced industries now classify part of their executive workforce as self-employed, working from home for two or three days a week, using a range of specially installed electronic equipment.

Kenneth Baker, until recently the British Minister for Technology, suggests that the standard working day of seven-to-eight hours, or the shift, may quite soon be replaced by "work packages," a new form of piecework: as he puts it, "the worker will be able to decide how and where and for how long he has to work to finish his allotted task, a task which he may well allot himself."

The spectacle of thousands of massed workers, gathered at the factory gates to be harangued by union officials or radical politicians, may soon become an anachronism, and in the long run as outmoded as galley-slavery. The concept of an "industrial worker's vote" and of mass parties based upon it, will then collapse.

It will be replaced by what I like to term the new Social Contract, in which the great mass of working people will contract for work packages, as opposed to weekly or monthly wage. The new Social Contract will mean a certain loss in security, balanced by an immense gain in real wages and in freedom of choice in the performance of work. We will see, to use an ugly phrase, the "embourgeoisement" of the industrial worker, his elevation to professional status.

In the advanced countries, the employed workforce will be highly trained and skilled, each member of it entrusted with the direction of computers and robots performing tasks at present discharged by humans. It will be dispersed in small units, and many of its members will do part or

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the whole of their work from home, which will be, in effect, a work-station whose terminals will be linked by cable networks to head office.

These terminals will not merely link workers to bosses but will link them, as voters, directly to many operations of government. And, perhaps equally important, voters will be linked electronically directly with each other.

What we will then have will be highly sophisticated and educated citizens, each controlling concentrations of humanoid energy. They will have more in common with the privileged citizens of 5th-century BC Athens, whose public spirit rested on the toiling muscles of the slaves, than the traditional proletariat of the last 200 years.

In the Athenian democracy, each citizen could participate directly and personally in the decision-making process. In the 21st century, a similar participation and control will be possible, by direct electronic referral and referenda.

It is hard to see these new electorates, with knowledge of the economic process commensurate with the importance of their roles in shaping it, falling victims to the quack utopianism of the last 200 years, or allowing authority to be hijacked by radical elites claiming to act in their name, or indeed tolerating the clumsy political intrusions into the wealth-creating mechanisms which, in varying degrees, have been such a prominent and destructive feature of the 20th century.

Hence, I see the years after 1984 as tending to liberate rather than restrict human individualism and the creative potential which lies in us. But, of course, progress is conditional on allowing the natural mechanism of capitalism to perform efficiently.

Restraining government

What we must not do is to use the power of the state to weaken its essential natural mechanisms. Therein lies the danger to the development of the fifth great wave. Capitalism is a product of nature; it is protein, infinitely adaptable, even indestructible, in the sense that it cannot destroy itself for it contains the self-correcting mechanism of a natural process. But, of course, we can destroy it.

We can certainly make it function inefficiently; we have the means, in our huge modern governments, to prevent it from working, and so from producing the wealth it creates in such abundance.

I often reflect on those two noble lines Dr Samuel Johnson added to Goldsmith's poem *The Traveller*:

"How small, of all that human hearts endure,
That part which laws or kings can cause or cure."

How true! Government is ultimately impotent — at any rate in the positive sense. It cannot bring happiness; it cannot even create wealth. But its destructive powers, so much greater than they were in Dr Johnson's day, must never be underestimated.

The future beyond 1984 will be determined, I suspect, by the extent to which we restrain government as a negative economic force.

In short, we must learn the lessons of the great world recession through which we have passed in the last decade. It has not been a crisis of capitalism — it has been a crisis of excessive goverment. It has not been a crisis of free enterprise, but a crisis of social democracy; a crisis not of Adam Smith's philosophy, but of vulgar Keynesianism.

The world economy has been reeling not from an excess of capitalism but from a lack of it. The degree to which we realise the future which waits beyond 1984 will depend upon the confidence with which we proclaim the capitalist faith, and the honesty and thoroughness with which we practise it.

Business Day RDM 23/11/84 (49)

No major recovery in SA economy before 1987

THERE can be no major and sustainable recovery in growth in the South African economy until 1987.

This will remain true even if there are plentiful rains and a significant upturn in the real gold price (that is, more than a simple reflection of a dollar decline).

Should such good fortune happen, it will certainly make the growth prospects for 1987 onwards a great deal brighter.

It will also make the very real hardships that are ahead more tolerable, for businessmen anyway, because of the comforting assurance that a real economic upturn will lie ahead.

But even if drought persists and gold stays depressed, there will be a natural cyclical improvement in the economy in the late 1980s.

South Africa has a wealth of other resources that can be drawn upon.

In that sense it is right, therefore, that the economists of Volkskas and Standard banks, for example, should warn against excessive pessimism.

But there must be no illusions about the short and medium term.

The overwhelming financial problem facing South Africa is inflation.

For over 10 years the rate, as measured by the consumer price index, has averaged over 12%.

It is still running at that level and it will be extremely difficult, even in the inevitable recession of 1985, to get it down below 10%/11%.

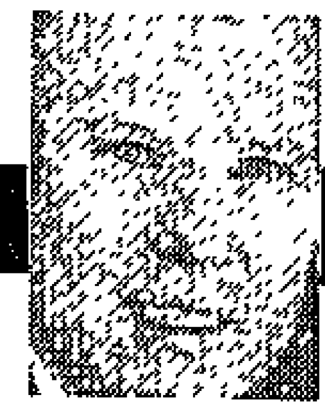
There are, as Dr Gerhard de Kock, the Governor of the Reserve Bank keeps saying, "no soft options".

Unless South Africa is now prepared to make an unremitting assault on inflation — and that means two years of severe monetary and fiscal policies at the least — the longer term prospects for the country could be disastrous.

Inflationary expectations in the country are high and the backlog effects of excessive increase in the money supply (around 17% a year for the past three years on the broadly defined M2 and M3 measures) have yet to filter through.

So has the impact of the foreign exchange slump in the rand.

The hefty rise in electricity tariffs is a warning of what is to come.

HOWARD PREECE  **ON THE ECONOMY**

A painful period of economic adjustment for South Africa cannot be wished away just because there are profound and understandable fears of the socio-political consequences.

It is perfectly legitimate for politicians, economists and interest groups generally to argue about how the burden of adjustment must be shared.

Should taxes be increased? Should more welfare provisions for blacks, in particular, be introduced? Should the Government compensate blacks for economic privation by, for example, phasing out influx controls? Should monetary and fiscal policy be reinforced by direct actions on, for instance, pay and prices, imports, the rand and other variables?

Should South Africa opt for a savagely deep but perhaps comparatively short recession or opt for a gentler but more prolonged approach?

All those questions, and others, beg thousands of words and in this context I do not intend to try and answer any of them.

The only point I want to make is that there is no way of avoiding some extremely difficult business times.

It may be statistically valid to talk of an upturn at the end of 1985.

But the reality, unless the white flag is to be flown in the fight against inflation, is that the economy is bound to limp along on minimal growth for a couple of years.

If we make real progress on inflation and if other things (not least politics) move favourably, we may enjoy another genuine boom again in the closing years of the 1980s.

But heaven help South Africa is the authorities lack financial courage in 1985.

South African economic policy has been characterised by too much bold talk and too few matching deeds in recent years.

It is hardly surprising that the foreign exchange value of the rand has plunged to an all-time low (at £1 to R2,25/30 it has lost nearly 30% against sterling in 1984, never mind the dollar).

At the beginning of August this year it seemed there was the promise of a new deal.

The Minister of Finance, Mr Barend du Plessis, and Dr De Kock imposed their emergency financial package "to ensure that the nation lives within its means". Prime rate was pushed up by 3% and tougher hire purchase controls were introduced.

Now come the prime rate cuts. The Reserve Bank, which effectively promoted them by announcing last week it was preparing to cut its rediscount rates, says a reduction is justified by the fact that consumer spending has been sharply reduced and imports have plunged to boost the balance of payments.

Technically this might be so.

But the economy has suffered from "underkill" for so long that the danger of premature relaxation now is surely much greater than the risk of "overkill".

What is particularly worrying is that the green light for interest rate cuts was first given by Mr Du Plessis at a Primrose by-election meeting.

This bodes ill for political resolution next year.

It also leaves Dr De Kock, the prime mover of South Africa's moves to more market-oriented policies, in a tightrope position.

He is up against it already.

Dr Fred du Plessis, the chairman of Sanlam and a man with access to Mr P W Botha, is campaigning for the re-introduction of exchange and import controls.

He has a lot of support.

Some of Dr De Kock's supporters fear that the whole trend towards free market policies could be under threat next year as the economy moves deeper into a delayed recession.

But the trouble today is not because free market policies have failed. It is rather that they have been betrayed by Government irresponsibility towards its own spending.

Economy caught in vicious circle

SUNDAY STAR 25/11/84

(49)

Malcolm Fothergill
Industrial editor

SOUTH Africa is caught firmly in the grip of a vicious circle in which domestic inflation is feeding the depreciation of the rand, which in turn is feeding domestic inflation.

Economists agree the country can still escape the circle, but say it will be a tough, and long, process.

"The only way to get out of it is to reduce the domestic rate of inflation," says Senbank's Louis Geldenhuys, "and that's not easy."

Geldenhuys, who warned two years ago that South Africa was in danger of being caught in the circle, believes the country will be in its grip for a "prolonged" period which could be two or three years.

During this time South Africa's inflation will continue to be higher than the inflation of its trading partners, causing the rand to depreciate further and inflation to rise.

Inflation will not be licked in the short term, says Mr Geldenhuys.

"Some of the Government's measures will have an impact over the longer term, but their efforts now are aimed at dealing with the very different situation of overspending."

Barclays Bank's Dr Johan Cloete believes that unless the rand/dollar exchange rate improves to 70c within the next year "we will undoubtedly have a very considerable problem."

South Africa is unlikely to suffer as badly from the depreciation-inflation circle as some South American countries and Israel have done, "but we have got quite a nasty little vicious circle of our own.

"There is scope for the rand to appreciate if the country's current account shows a surplus from now on, as most people expect it to, but there's doubt over what sort of appreciation the authorities will allow.

"It can't be too much or export industries won't be able to provide the stimulus for renewed growth."

Escom's recently announced tariff increases "make one shudder", says Dr Cloete. "They are a direct result of the depreciation of the rand."

Professor Roger Gidlow of Wits University says one essential condition for South Africa to escape the vicious circle is for inflation to be brought down to levels that compare with the rates of inflation in the country's trading partners.

"There are doubts over whether we can do this."

Success would involve steadily reducing the growth in South Africa's money supply.

"This would entail very grave risks on the social and political fronts.

"For a long period of time, perhaps five years, there would be little or no economic growth.

"One couldn't do it overnight — and I for one wouldn't like to prescribe such a solution."

UAL's Rudi Gouws says the rand's exchange rate could improve in the immediate future as the balance of payments improves.

But in the longer run, if inflation stays high, the pressure on the exchange rate will be down.

"We are hoping the apparent conviction with which the Government is attacking spending means the country can slow or perhaps halt inflation, which will then gradually bring benefits to the exchange rate."

If the country fails to attack inflation with sufficient energy, he warns, "big trouble" lies ahead.

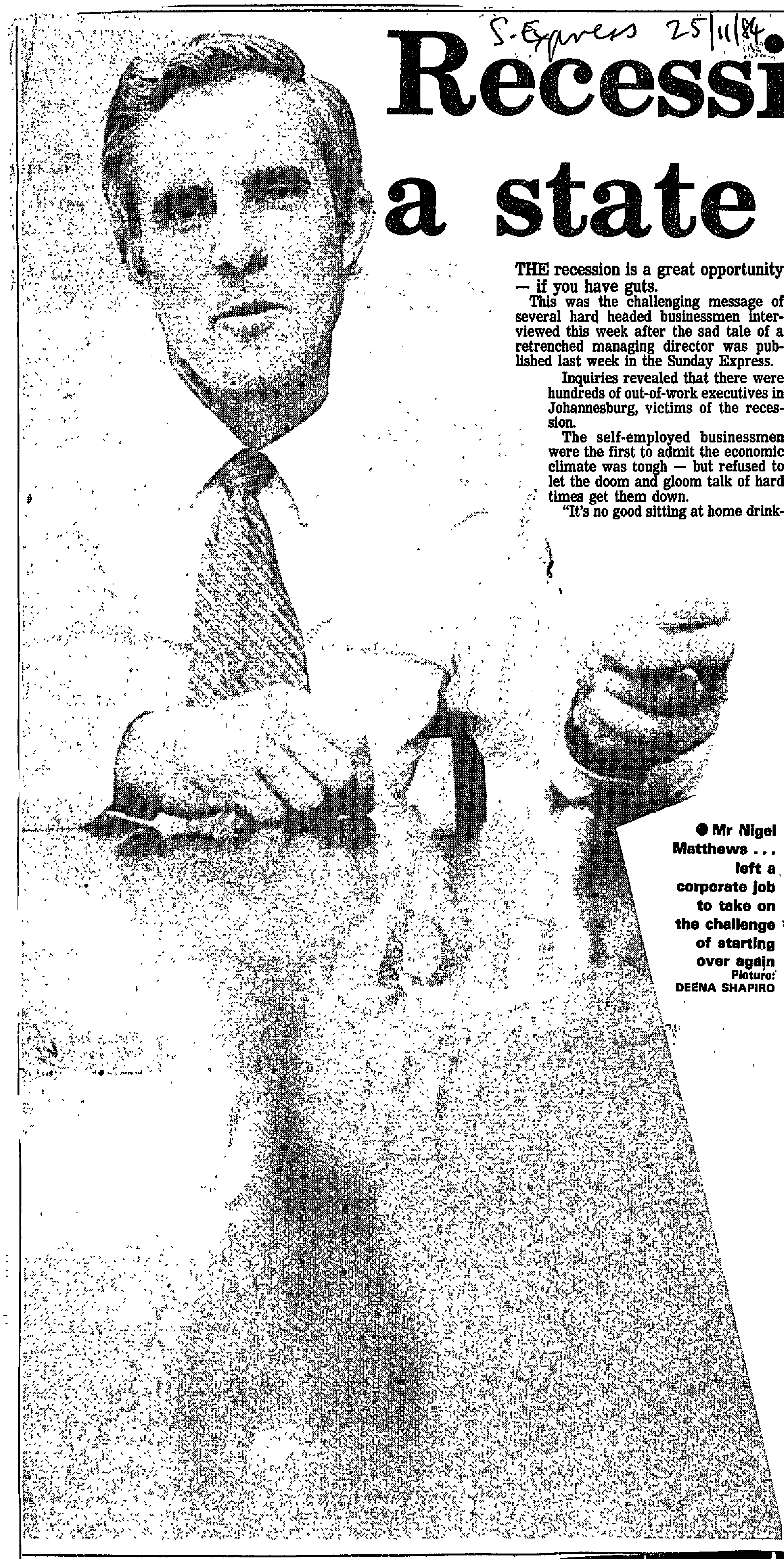
The consensus is that whatever happens, times are bound to be tough for the average South African in the next couple of years.

Edith Miehe of the Board of Executors believes prime will remain above 20 percent for most of 1985, which means mortgage and other rates will also stay high.

And Louis Geldenhuys believes one essential ingredient in trimming inflation will be some way of bringing pay packets into line with what the economy can afford — in other words, most people's standard of living will have to fall even further.

S-Express 25/11/84 (49)

Recession's just a state of mind



● Mr Nigel Matthews . . . left a corporate job to take on the challenge of starting over again Picture: DEENA SHAPIRO

Recession? What recession? You either sit back and let it lick you, or gather yourself together and fight back. MARION WHITEHEAD talks to some entrepreneurs who've taken on the bad times . . . fists first

THE recession is a great opportunity — if you have guts.

This was the challenging message of several hard headed businessmen interviewed this week after the sad tale of a retrenched managing director was published last week in the Sunday Express.

Inquiries revealed that there were hundreds of out-of-work executives in Johannesburg, victims of the recession.

The self-employed businessmen were the first to admit the economic climate was tough — but refused to let the doom and gloom talk of hard times get them down.

"It's no good sitting at home drinking too much gin and kicking the dog," said one entrepreneur whose capital investment is a telex machine in his home-cum-office. "These executives must get up and do something.

"They have the skills and contacts to set up their own businesses and do something about the recession. We need applied, sustained hard work and these executives should lead the way," he said.

Self-employed management skills trainer Mr Sedley Berger was even more positive.

"Now is the perfect time to start a business — when you attempt the impossible, you have no competition," said Mr Berger. "While everyone is sitting around throwing up their hands in despair, you can grab the opportunities.

"Being broke is a temporary situation. Fear and poverty are states of mind."

Mr Berger believed the biggest challenge for retrenched executives was to conquer their fear of failure. Tranforming themselves into 'entrepreneurial animals' after being 'corporate animals' for so many years needed training.

'Corporate animals' like the pack and work well in a secure environment with the support of colleagues and company resources. They collect large monthly salary cheques, drive big company cars and get expenses paid trips abroad.

Non-conformists

'Entrepreneurial animals' like doing their own thing and are self-reliant non-conformists who thrive on taking risks. Their perks include being their own boss and worrying about their grocery bills and non-existent pension plans. They earn as much — or as little — as the amount of effort they put into their work.

The recession has proved a stimulant to the entrepreneurial animal.

Mrs Giselle Krystall, manager of the domestic and foreign trade division of the Johannesburg Chamber of Commerce, said she was inundated by requests from businessmen who wanted their products on the next export trade mission.

"Usually I have to scratch for export products.

"Now I'm getting three times as many visitors as before," Mrs Krystall said.

Mr Mike Smuts of the Small Business Development Corporation said the number of inquiries the SBDC received from people interested in starting businesses had jumped since the recession bit into the economy in mid-year. In April it received 1 801 inquiries but by September the figure was up to 3 601 — or 43 000 a year.

Mr Smuts said that in the new age of information, the key to success was not just capital, but information. The SBDC offered an 'information bank' as part of its services.

"The right business doing the right thing at the right time is still a success. You just have to work a damn sight harder," Mr Smuts said.

While many of the SBDC inquiries were from small entrepreneurs in the informal and semi-formal sector, it is still possible to think big.

Mr Nigel Matthews is one businessman who took up the challenge of going into business for himself in the recession despite having a comfortable position in corporate life as a director of Rennies and chairman of the Holiday Inn hotel chain.

Despite the "terrible" economic times, he said he was enjoying having a stake in his own business.

He went into the venture fairly confidently as for nearly two years he had wanted to break out and "be his own boss", so, unlike retrenched executives, he didn't have to do battle with a dented self-image.

Nevertheless Mr Matthews had some mixed feelings as he started in April when the interest rates were already high and he saw others battling.

"But we took the risk."

'We' refers to his business partners, his elder brother Rob Matthews and a friend. They certainly didn't start from scratch in their own backyards. They bought a well established family firm that distributes technical products and have set up offices in a quiet, modern buiding in Rosebank.

The recesssion gave them the opportunity of buying in at the bottom of the market. "You couldn't pick a better time to buy a company," said Mr Matthews.

Efficient

They found a bank to back them but the high interest rates are at the back of their minds all the time, driving them to be more efficient.

"It takes a bit of guts to take on these financial risks," he said.

Mr Matthews said finding financial backers was not difficult provided one had a good idea, a sound track record, credibility and confidence in one's own ability to make things work.

Becoming an entrepreneurial animal after years of being a corporate animal was not easy.

"I feel very naked in terms of the support facilities and backup you get from specialists like lawyers and accountants in a big company," he said. "It takes time to get used to as you have to do more yourself."

He also lost out on personal financial security while his responsibilities as a 39-year-old father of three had remained the same.

Mr Matthews said he missed the cameraderie of friends and colleagues he had worked with as a team at Rennies and Holiday Inns in his 13 years there and missed being able to bounce ideas off them.

"In your own business you feel wrong decisions more personally and quicker," Mr Matthews said.

"What I don't miss are the trappings of a big company and being out of the public eye."

Within the next nine months, Nigel Matthews will sit back and take stock to see if he is a happy entrepreneurial animal.

"If I find I'm better suited to a corporate environment, I hope I will have the guts to go back," he said.

He believes honest, hard working, skilled managers are still at a premium in South Africa and will continue to be sought after.

[redacted]

Rdm 30/11/84 49

Competition Board launches probe

Crackdown on restrictive trade

By **HOWARD PREECE and PRISCILLA WHYTE**

A MAJOR new attempt to clamp down on price fixing and other restrictive practices has been launched by the Competition Board.

The board is to conduct an urgent investigation into all activities it regards as against the public interest.

It will then make recommendations to the Minister of Commerce and Industries, Dr Dawie de Villiers, on tightening up existing legislation to outlaw restrictive practices — and leave it to companies or organisations to plead for exemption from prosecution if they believe they have a special case.

The idea is to cut through some of the many obstacles to action over restrictive practices.

Dr Stef Naude, the chairman of the Competition Board, wants the investigation completed within the first half of 1985.

The investigation, in terms of the Maintenance and Promotion of Competition Act, will be into "certain types of business agreements, understandings, business practices or methods of trading in general which in the opinion of the board are commonly adopted for the purpose of or in connection with the creation or maintenance of restrictive practices".

The price, fees, interest, premium "or other consideration" at which goods are supplied or services given will be looked into.

Professions such as medicine, will not be affected where any tariff structure or working practice is sanctioned by law. But scale fees simply agreed upon by a professional or trade body without statutory backing will be probed.

This could affect estate agents, for example.

The investigation will also look at any stipulation under which "a loan, credit or risk coverage will be granted by suppliers of the goods, service, loan, credit or risk coverage or in connection with the enforcement of such agreement, arrangement, understanding, practice or method".

Dr Naude says previously the Competition Board has reacted to allegations of collusion on prices, unfair tender practices and market-share agreements on an ad-hoc basis.

The investigation will invite comment from the public and put forward recommedations to the Minister of Commerce and Industries.

The investigation's terms of reference will be gazetted today.

Comments are invited by the Competition Board for submission before March 29, 1985.

Dr Naude says the Competition Board will be looking at agreements between suppliers of goods and services.

Both vertical and horizontal price fixing will be considered.

Vertical price fixing refers to cases where manufacturers contractually require retailers to sell at a specifed price, effectively imposing retail price maintenance.

Horizontal price fixing is where a group of retailers agrees on a minimum price to eliminate competition.

Thus, for instance, cases of insurers working together on the setting of premiums could be examined.

Mr Naude says even the setting of a maximum number of days' credit could be a contravention of the law which may grow out of the investigation.

Collusion on market sharing between suppliers of goods and services, including raw material production and market quotas, will be investigated.

The practices involved in collusive tendering will also be scrutinised, for instance refraining from tendering.

Dr Naude says the Minister of Trade and Industry has the power, at the recommendation of the Competition Board to prohibit outright specified restrictive practices.

Contravention of the provisions of a prohibition will be regarded as a serious offence.

C. Herald 1/12/84 (49)

. . . and those jobs

By Michael Doman

JOB prospects for school-leavers at the end of the year look bleak, as major employers will be taking on fewer new employees — another indication of the financial troubled times the country is experiencing.

Banks normally employ hundreds of matriculants, but personnel officers for Barclays and Standard acknowledged that the recession was causing them to reduce the number of employees taken on annually.

Miss Carol Balderstone of Barclays said: "We will only take on about 100 matriculants in December instead of the usual 200 to 250.

"This is for the simple reason that there have not been many resignations. People are hanging onto their jobs."

Standard Bank has changed their policy of appointing large numbers of new staff every year-end. They now only take on employees to replace others who leave.

Personnel manager of the United Building Society, Mr Tertius Snyman, said his company would not take on any employees until April next year.

"We are working in an economy which has slowed down. That has definitely caused problems," he said.

There are likely to be fewer jobs for apprentices in the civil engineering trade, too, according to Mr Desmond Nugent of Clifford Harris, a company which specialises in building roads and bridges.

"We took the decision some time ago not to take on apprentices in January next year because of reduced workshop capacity," he said.

BOOMING

"The whole civil engineering industry is not exactly booming and we can't have more apprentices than artisans. They have to work on a one-to-one basis."

Spokesmen for companies in the multi-million rand clothing industry, which offers thousands of jobs to unskilled people with all levels of education, said they would not necessarily be cutting their January to June intake figures.

Mrs Shirley Reid, personnel manageress at BMD Knitting Mills in Diep River, felt the recession would not affect them much.

And Rex Trueform does not have a high labour turnover and will not be cutting down on staff intake.

"We only need staff as replacements if vacancies arise," said personnel officer Mr James O'Brien.

Merc 3/12/84 (49)

Forecast: Inflation stays at 12,5pc in 1985

Economists predict 10,5 pc wage increases next year

Finance Editor

WORKERS can expect a 10.5 percent increase in their wages next year Sanlam says in its November *Economic Survey* making its forecasts for 1985, but it cautions that producers and sellers of durable and semi-durable goods cannot expect any recovery until September next year.

Inflation is not likely to abate either and is estimated at 12,5 percent for 1985 — compared with an expected 11,5 percent this year.

Prices will rise next year the the *Survey* says because of:

The fall in the rand exchange rate against the dollar.

Relatively high interest rates.

Hikes in administered prices - 'a considerable fuel price rise seems inevitable early in the new year.'

The drought will push up food prices - buying new animals to replace those sold or lost in the drought will cause sharp rises in meat prices

Further rises in general sales tax

Salary

Salary increases outside agriculture are expected to rise by 10,5 percent next year. With rising inflation and expected tax increases 'consumers real income per head will show no improvement next year.'

Prime overdraft rate is seen as falling to 17 percent by the end of 1985 from the present 23 percent and the rate for long-term government stock should fall to 14,5 percent by the year-end — down by one percent from this year's rate.

South Africa's foreign trading should be back on the right side of the books with a surplus of R1 500m against an estimated deficit this year of R878m and a modest surplus in 1983 of R282m.

Growth

Their estimates for the seven main industrial countries making up the OECD (Organisation for Economic Co-operation and Development) are growth of three percent, inflation of 5,2 percent, a gold price of $370 ($360 in 1984) and a dollar-rand exchange rate of 63 U S cents (70 U S cents this year).

These forecasts shape the South African picture which should be:

- real growth of 1,8 percent (after 3.5 percent this year and a negative 3,2 percent in 1983)
- Private consumption expenditure will not rise (after increases of 2,1 percent this year and 1.1 percent last year)
- Government consumption expenditure may rise by one percent (after a 7 percent rise this year and 2,8 percent in 1983)
- Fixed investment will continue its falling trend — by 2,4 percent next year after a 5,1 percent fall this year and 9,3 percent drop in 1983.
- Gross domestic expenditure will fall by 0,7 percent next year after a 5,1 percent rise this year and a five percent drop last year.

Dealing with the 1985 Budget the *Survey* considers that it will be possible to put together a 'zero increase' next year even though there will be greater spending on housing and education

'Tax concessions seem unlikely at this stage In fact the possibility of increases in certain tax rates is not out of the question.'

Monetary policy, resulting in high interest rates, will be eased gradually

RDM 4/12/84 (49)

Call for national economic plan

By **DAVID ROSS**

A CALL for a national economic strategy has been made by Mr Mike Rosholt, the chairman of Barlows.

He says in the annual report it has been apparent in the last few years that South Africa does not have an overall strategy.

Evidence of this is "a series of ad hoc economic decisions".

Mr Rosholt believes it is "vital that such a strategy be formulated, and that all economic policy in the future be related to it".

The main objectives of the strategy, he says, should be:

- Elimination as far as possible of recurrent periods of financial instability;
- A cut-back in the Government share of the national economy;
- The formulation of a national export policy to achieve a better balance and to make South Africa less reliant on the volatile base-metal and commodity markets;

Most importantly, job creation.

"Our inflation problem is a very serious one," says Mr Rosholt, "and has now reached the stage where there is a very real danger we shall price ourselves out of our export markets, particularly if administered prices such as power and transport continue to rise at the rate experienced in the last few years.

"It is essential that we set and achieve realistic annual targets of inflation reduction."

Among the reasons for the unacceptably high inflation rate are low productivity; the method of government which calls for administration of far too many laws and regulations; and the over-generous accommodation of credit by commercial banks. The last could not have continued without accommodation by the Reserve Bank.

"It is essential that the Reserve Bank be given a measure of independence to implement unpopular measures when it judges them to be necessary. It is also essential that the Treasury be in a position to ensure that the Budget is properly financed and that the annual overspending by the Government is brought under control.

"Once discipline is lost, the inevitable result is a vicious circle of inflation and currency depreciation.

"It is very clear," says Mr Rosholt, "that the main short-term economic objective must be to restore our financial stability and business confidence.

"We have no option other than to continue with our current monetary restrictions until the objectives are achieved. We shall not be able to rely on a weakening dollar or an increase in the gold price to do it for us."

Mr Rosholt believes, if the correct measures are applied, "we shall in due course restore our economic strength and our underlying and international standing as a stable, well run economy".

He says the private sector has specific obligations to blacks. It must assist small businessmen in their efforts to enter the free enterprise system and must persuade the Government to introduce its promised relaxation of excessive controls.

The advancement of blacks into senior managerial positions is another critically important area, the solution to which lies almost entirely in the private sector's court. Lack of success in this area is due to such factors as cultural differences, the difficulties of adjustment to the capitalist environment and to educational and training disadvantages.

Equally, they lie in white attitudinal problems and lack of commitment by the great majority of businessmen.

Barlows, says Mr Rosholt, cannot claim to have had many successes in this field, "but strenuous efforts are being made, particularly with education and training".

"Black advancement remains a priority in our overall objectives as we are very much aware that the full economic potential of South Africa and our group will never be achieved without the full and effective participation of all its race groups."

● See Page 3

'Education of blacks at fault'

By Harvey Thomas

Inadequate education is the biggest reason why blacks cannot participate meaningfully in the free enterprise system and the national economy, says Mr Mike Rosholt, chairman of one of the largest industrial groups in South Africa.

Writing in the Barlow Rand annual report, Mr Rosholt says: "It is important that blacks, as the majority group, should be given the opportunity to fully understand and to participate in the benefits of the free enterprise system because if they do not, their bias will undoubtedly be towards the socialistic systems which have failed in so many African countries.

"Responsibility for education lies basically with the Government which has made encouraging moves in the past year.

"But a great deal has still to be done in what will inevitably be a slow process.

"The private sector cannot contribute greatly, but it must play its part in non-formal adult education and training and in innovative projects in co-operation with educational bodies."

Mr Rosholt believes that the private sector has, however, other and more specific obligations.

"It must assist the small black businessman in his efforts to enter the free enterprise system and must persuade government to introduce its promised relaxation of excessive controls over him in the knowledge that those who succeed will be the best ambassadors for the system.

"The advancement of blacks into senior managerial positions is another critically important area, the solution to which lies almost entirely in the private sector's court."

However, this was one area where singularly little progress was being made, said Mr Rosholt.

Trust in economy hits rock bottom

Cape Times 6/12/84 49

Staff Reporter

CONSUMER confidence in the South African economy has reached an all-time low and the outlook for consumer spending is bleak, according to the latest survey by the Bureau for Economic Research (BER) at the University of Stellenbosch.

The bureau's latest report, released yesterday, suggests that consumer spending may prove lacklustre over the Christmas season.

"It is common knowledge that the durable-goods sector is going through a rough period, and no major change is foreseen in the short term.

"Unfortunately, the austerity measures of August, which admittedly went a long way to rectifying certain wrongs in the South African economy, also caused sharp deteriorations in consumer confidence," the report said.

The bureau says that both whites and blacks have perceived a sharp deterioration in the general economy since the previous quarterly survey.

"The measures were such that they caused unemployment to increase in the black community in particular."

The report found that black confidence in the economy has crashed to an all-time low. This could have serious political consequences as the economic pressure on black people continues to mount, it said.

Blacks expect their already severely stressed position to deteriorate considerably next year.

Commenting on his findings, Dr O D J Stuart, BER chief, said black trust in the economy had deteriorated sharply since the last survey about five months ago.

This, coupled with the crushing pressures of the recession on black personal finances, and growing uncertainty as unemployment rises, could cause blacks to call into question the economic system itself.

Blacks generally expect economic conditions to get worse in the short term, and are becoming increasingly pessimistic about the next five years.

Already they are struggling with severe personal cash-flow problems. Inflation has struck hard, and they expect only minor relief from it.

As a result, most blacks are either unwilling or unable to spend money on expensive goods, or to save.

The survey includes only urban blacks, but if rural attitudes were taken into account, the picture would be even grimmer, with lay-offs and a drying-up of the cash flow from urban areas adding to existing pressures on the rural economy.

General public confidence in the economy is at its lowest ebb ever, although whites have fared relatively better.

White demand for credit has been cut back, spending has been deferred, and there is very little cash left over for savings accounts. Whites expect inflation to come down and are quite optimistic about the middle-term future, although the short term is expected to be tough.

Since 1980, white consumers have been inclined to view conditions in general as unfavourable for saving. According to the report, experience has shown that consumers are insensitive to interest rates and concentrate on cash flows.

'Locked in'

Because many consumers are "locked into" mortgage and hire-purchase repayments, and because many debts have become "more difficult to service", it seems unlikely that consumers will have money left to take advantage of high interest rates on savings.

The BER says the outlook for consumer spending is "decidedly bleak", and that consumers are unlikely to spend vigorously before their confidence is restored, which may prove difficult to achieve.

"The short-term outlook for consumer spending has deteriorated considerably over the last few weeks."

(49)

AREA:

RSA (excl. homelands) 1 135 362 km2
SWA/Namibia 823 172 km2

POPULATION: (m)

	1980	1983	2000 (projected)
Blacks	17,0	17,7	34,7
Whites	4,5	4,7	6,6
Coloureds	2,6	2,8	4,7
Asians	0,8	0,9	1,3
Total	24,9	26,1	46,3

HOMELANDS:

	Area km2	Population (1980) ('000)	GNP per capita (1977) rands
Transkei	45 010	2 323	328
Bophuthatswana	40 430	1 323	417
Kwazulu	32 390	340	418
Ciskei	7 700	669	307
Lebowa	25 180	1 739	311
Gazankulu	7 410	512	351
Venda	6 680	315	312
Kangwane	3 910	1	377
Kwandebele	730	156	360
Qwa Qwa	620	156	257

MAIN TRADING PARTNERS: (Rm)

	1982	1983	1984 (to July)
Europe: imports	7 831,1	6 754,1	5 239,1
exports	5 320,9	5 772,8	3 633,0
Asia: imports	2 637,3	2 735,9	2 198,8
exports	2 620,5	2 638,3	1 768,8
Africa: imports	332,4	325,7	256,6
exports	904,8	797,1	512,9
Americas: imports	3 088,4	3 051,0	2 331,2
exports	1 724,0	2 009,1	1 351,8

Top ten by size of total trade flow

	1982	1983	1984 (to July)
United States:			
imports	2 678,9	2 467,0	1 987,2
exports	1 322,8	1 753,8	1 166,1
Japan: imports	1 852,2	1 908,3	1 550,8
exports	1 670,7	1 546,7	1 017,7
West Germany:			
imports	2 708,7	2 235,9	1 789,9
exports	865,3	753,4	546,7
United Kingdom:			
imports	2 196,4	1 892,9	1 312,5
exports	1 432,5	1 324,1	604,1
Switzerland: imports	317,8	288,8	202,9
exports	1 019,8	1 733,8	1 011,3
France: imports	771,7	622,7	475,3
exports	467,8	378,7	295,4
Italy: imports	613,6	516,3	415,9
exports	376,6	389,9	343,5
Netherlands:			
imports	255,5	244,0	214,1
exports	286,8	351,4	306,6
Hong Kong: imports	167,8	152,9	120,8
exports	122,0	236,0	287,7
Taiwan: imports	237,6	251,4	203,8
exports	188,4	192,0	90,7

PRINCIPAL EXPORTS: (Rm)

	1981	1982	1983 (to October)
Gold	8 339	8 627	8 382
Coal	1 032	1 213	953
Diamonds	812	999	988
Agriculture	1 170	1 161	720
Mining	2 527	2 999	2 495
Manufacturing	5 420	5 567	4 924

PRINCIPAL IMPORTS: (Rm)

	1981	1982	1983 (to October)
Machinery	5 564	5 591	3 809
Motor vehicles	1 816	1 690	1 144
Chemicals	1 514	1 564	1 242
Agriculture	324	303	379
Mining	213	195	160
Manufacturing	13 243	13 432	9 913

POPULATION BY PROVINCE: ('000s)

	Blacks	Whites	Coloureds	Asians	Total
Cape	1569	1264	2226	32	5091
Transvaal	5644	2362	228	115	8350
Natal	1358	561	91	665	2676
OFS	1549	326	56	0	1931
Total (excl homelands)	10121	4513	2601	813	18050

NATIONAL ACCOUNTS: (Rm)

	1982	1983	1984 (to June)
Private consumption expenditure: current prices	44103	49969	27465
1975 prices	19406	19622	9966
Government consumption expenditure: current prices	12512	14203	8802
1975 prices	5138	5280	2926
Gross domestic fixed investment: current prices	22350	23109	11725
1975 prices	9296	8431	4044
Change in inventories: current prices	-1137	-996	-1058
1975 prices	-817	-681	-439
Gross domestic expenditure (GDE): current prices	78592	84278	47184
1975 prices	32045	30429	16042
Exports of goods and services: current prices	21833	23173	12883
1975 prices	8382	7770	4129
Imports of goods and services: current prices	21814	19491	11937
1975 prices	7081	5916	3445
Gross domestic product (GDP): current prices	78611	87960	48130
1975 prices	33346	32283	16726

BALANCE OF PAYMENTS: (Rm) current prices

	1982	1983	1984 (to June)
Exports (merchandise fob)	10142	10214	5946
Net gold output	8627	9929	5307
Services receipts	3606	3607	1946
Imports (merchandise fob)	-18004	-15913	-10034
Services payments	-7820	-7818	-4103
Current account balance	-3210	282	-768
Long-term capital movements	2423	-465	922
Short-term capital movements	364	157	-583
Change in net gold and foreign exchange reserves	-423	-26	-393

GOLD:

	1982	1983
Production (metric tonnes)	663,7	674,9
Average London price:		
Rand	408,91	471,65
US dollar	375,85	424,31
Krugerrand exports, Rm	924,5	1524,8

GDP BY ECONOMIC ACTIVITY: (Rm) constant 1975 prices

	1982	1983
Gdp at factor cost	31223	30261
Made up of, amongst others:		
Agriculture	2385	1861
Mining	3376	3313
Manufacturing	8009	7478
Construction	1298	1296
Trade, wholesale and retail	3863	3891
Financial services	4164	4309
Government	3109	3261

OTHER ECONOMIC INDICATORS: (Index 1975 equals 100)

	1982	1983	1984 (May)
Retail Sales	135,9	131,4	145,4
Consumer prices	231,6	260,1	287,2
Wholesale sales	107,7	104,9	135,9
Wholesale prices	249,3	275,5	299,4
Manufacturing output	132,4	122,2	132,1
Mining production (excl gold)	136,5	133,7	138,8
Cement production	115,1	112,5	138,3
New companies registered	251,1	296,5	308,5
Building plans passed	372,4	492,8	527,0
Buildings completed	272,2	348,0	426,9
New mortgages granted	181,8	422,0	225,1
Electricity consumption	160,0	161,5	135,7
Railways (tonne-kilometres)	142,5	122,5	143,7
Non agricultural employment	111,9	110,5	111,5
Business cycle indicators:			
Leading	142,8	153,7	159,1
Coincident	105,4	90,0	96,1
Lagging	116,6	106,6	112,8

Argus 8/12/84 (49)

SA warned to streamline productivity

Reports By ROBIN BROWN
Weekend Argus Reporter

RAISING wages in South Africa without dramatically increasing man-hour output could send the rand down to 38 cents, warns Mr Philip Krawitz, president of the Chamber of Commerce.

"Our manufacturers are far down the list of world producers when it comes to productivity and will feel the pinch if we are to compete with the rest of the world's manufacturing countries.

"The country cannot afford increasing wages unless a concerted effort is made to lower the price per manufactured item," he said.

The South African clothing industry recently announced a 34-percent wage increase — against a 1,68 percent increase in the United States.

"A good example is a shirt produced in America for $10, which we produce at R20 to be able to compete.

"Add the 1,68 percent wage increase in the States and the price goes to $10,17.

"Our 34-percent wage bill increase pushes the manufactured price to R26,80, and to be able to compete and to sell it for $10,17 the rand has to be devalued to about 38 cents."

A large local clothing manufacturer has increased staff wages, cut down on manpower and has demanded the same output.

"He is doing well because he can compete and is signing orders throughout the world."

Added to the bleak picture is the price of imported goods while the rand depreciates.

Last year, when the rand was valued at 90c, an item costing $1 in America cost South African importers R1,11.

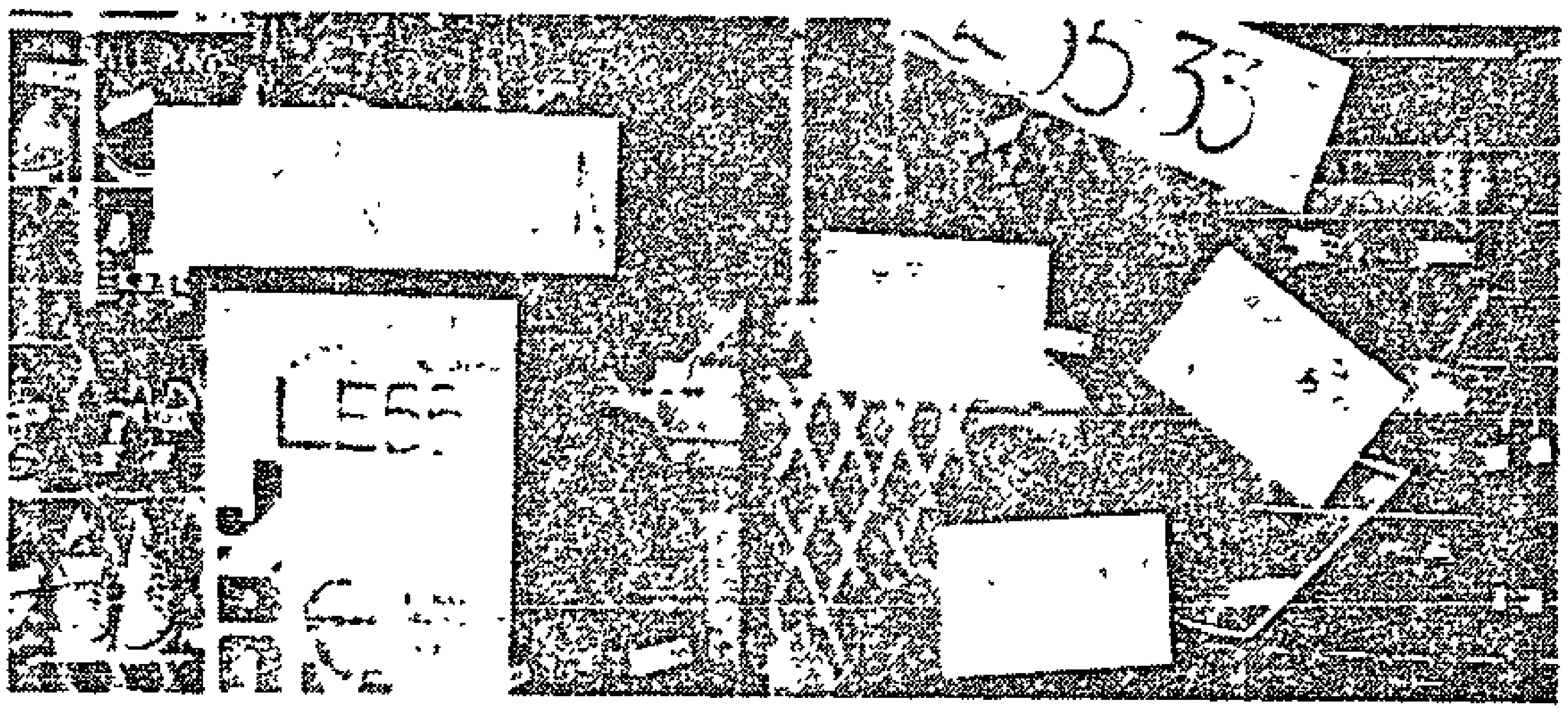
The same item now costs R1,87 — an increase of 68,47 percent.

If the item increases by 10 percent in the United States to $1,10 it would cost R2,06 here — an increase of 86 percent.

Mr Krawitz said: "Importers are also caught in a tight situation. They can stop importing, and with no goods they cannot operate.

"There is customer resistance to the higher prices, and high interest rates push their debt up.

"The only solution is to formulate a better marketing strategy, find markets where the goods are cheaper and prove to the customers that the goods are top quality and worth the increase."



Pictures: CHRIS MATUSZEK, The Argus

... and many city companies expected to fold in the new year

MANY Cape Town companies are facing a gloomy Christmas and many more will fold in the new year, says Mr David Waters, a Cape Town liquidator.

firm's credit. They allow the firm to keep trading for six months or more, make a big killing, then watch it fold," he said.

According to statistics recorded by

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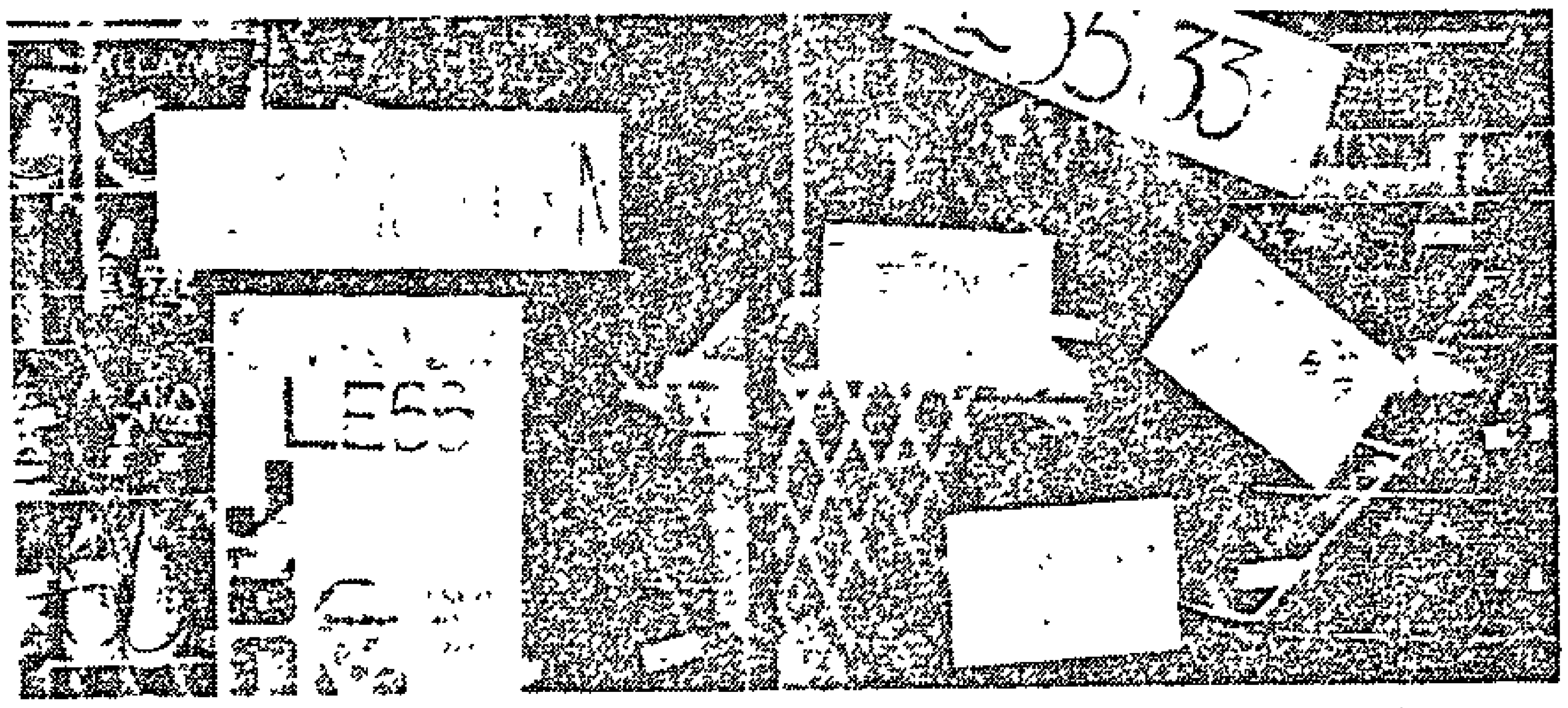


Pictures: CHRIS MATUSZEK, The Argus

. . . and many city companies expected to fold in the new year

MANY Cape Town companies are facing a gloomy Christmas and many more will fold in the new year, says Mr David Waters, a Cape Town liquidator.

More than two liquidations a day are being recorded in the Supreme Court, Cape Town.

"Company and private sequestrations in Cape Town have risen by 121 percent in November this year compared with the same period last year," said Mr Waters.

In November there were 73 private and company liquidations in the city, compared with 33 last year.

"Small businesses and individuals are being hardest hit, but I predict that many bigger fish will crash early next year.

"Anyone who thinks that the worst is over will be disillusioned, because after Christmas there will be no cash flow and many people will crash.

Christmas

"February and March will be the telling months, because many firms will manage only to survive Christmas before closing up.

"Quite a few building contractors will have to pack up because consumers are not buying new houses," he said.

Several liquidators say they cannot understand how finance companies keep granting firms finance without checking the state of their books.

"It seems that many suppliers in South Africa do not bother to check a firm's credit. They allow the firm to keep trading for six months or more, make a big killing, then watch it fold," he said.

According to statistics recorded by the debt controlling firm of Dun and Bradstreet in Johannesburg, the number of company liquidations recorded in South Africa during the last bad recession of 1977/78 was 1 343, compared with a predicted total this year of about 2 808 — an increase of 108 percent.

"Up until August this year, before the Goverment applied stringent brakes to economic spending, 1 909 companies were liquidated," said Mr Alan Mankoff, managing director of the company.

"Big crunch"

"The big crunch is still to come and the first six months of next year will be very hard.

"Interest rates are high, consumers cannot spend freely and the Government has announced no public sector salary increases for 1985.

"The accumulated result is very gloomy for firms."

However, he added that companies which survived the first six months of next year would come out tougher and ready to grow rapidly in the upturn.

"At present the only way to survive is to be prudent, tough on credit control, collect all outstanding debts and treat all old accounts like new ones."

Rand's weakness against dollar creates opportunities

Star 8/12/84

49

US firms see some bargains coming up

By Bill Levitt

While the US dollar has been outmuscling the rand, it has also kicked open the door for American companies to move into South Africa and acquire financially-strapped firms at bargain prices.

SVP, a company that sells business information and also specialises in mergers and acquisitions, reports that a number of US companies have made inquiries while others have commissioned in-depth market surveys and analyses as preliminary steps to a takeover.

The reason is simple, says Mr Peter Goldburg, one of the firm's directors.

The rand has dropped by more than 40 percent in value against the US dollar since September, 1983.

For a dollar, Americans get about R1,85.

"Firms buying in US dollars are effectively coming in at half the price and if they can afford to export and maintain cash flows, they can eventually collect tax rebates at the rate of about R2 for every rand spent if they qualify," Mr Goldburg said.

An example used was a pharmaceutical company said to be one of the largest in the US. It has a subsidiary here solely to market prescription drugs, but the company wants to expand that division and get into the newly allowed generic drug trade.

Mr Goldburg said the company needs to expand its international sales base to pay the hefty research and development costs and the easiest way to achieve that would be to acquire established companies.

While South Africa's market is relatively small, Mr Goldberg says after-tax return on investment stands at 15 percent — well above the US average.

SVP has narrowed the field and negotiations are said to be under way.

OTHER FACTORS

Although the rand's continuing weakness appears to be the main stimulant for the takeover moves, there are other factors that have contributed to it, said Mr Goldburg.

- Businessmen here have never had to worry about foreign exchange. Now they must cover forward and few understand the concept enough to apply it effectively.
- Banks have not yet acquired the expertise and have had difficulty offering timely advice.
- Businessmen have never really had to worry about cash flow management. Now that the prime rate has shot drmatically to 23,5 percent, it has become a crucial factor and many more insolvencies are unrelated to assets.

"The economy has changed to such a degree that many medium-sized companies cannot cope anymore."

Some labour intensive industries have moved to the decentralised zones, but there one faces other problems — including high turnovers from unskilled workers and low productivity.

One hurdle facing potential foreign investors will be tax laws which limit the borrowing capacity of foreign-controlled firms depending on the company's South African interest.

The more a company is controlled from outside SA, the less it can borrow against its share capital.

The object is to force foreign companies to bring in overseas financing and keep more of the profits in South Africa.

But given the favourable rand/dollar exchange and the growing sophistication of the South African economy, Goldburg says the time is ripe for foreign investors — especially in the services sector where monopolies are not a factor.

Net R666M flows in over 9 months

Foreign investor lift for the JSE

(49)

RDM 13/12/84

By HOWARD PREECE

FOREIGN investors pumped a net R666m into the JSE in the first nine months of this year.

This compares with a net outflow of R1 073m for all of 1983.

The figures are disclosed by the Reserve Bank in its December quarterly bulletin.

It says there was a further small inflow of foreign funds to the JSE in October.

A leading stockbroker says virtually all the overseas money coming to the JSE has been to buy gold shares.

There has been a shortage of scrip in relation to demand in New York and London in particular.

A key reason is overseas investors took advantage of the abolition of the financial rand in 1983 to make capital gains by selling South African shares.

At the same time, South African institutions, the broker says, were ready buyers of gold shares.

But many of these institutions overbought and have been net sellers this year.

At the same time, overseas investors, particularly US gold funds, have been chasing the shares.

The inflow has given South Africa much needed help in its balance of payments.

The Reserve Bank says there was a deficit on the current account of R523m in the third quarter after shortfalls of R439m and R329m in the first two quarters.

The R666m net inflow to the JSE over this period was, therefore, a welcome boost to the capital side of the balance of payments.

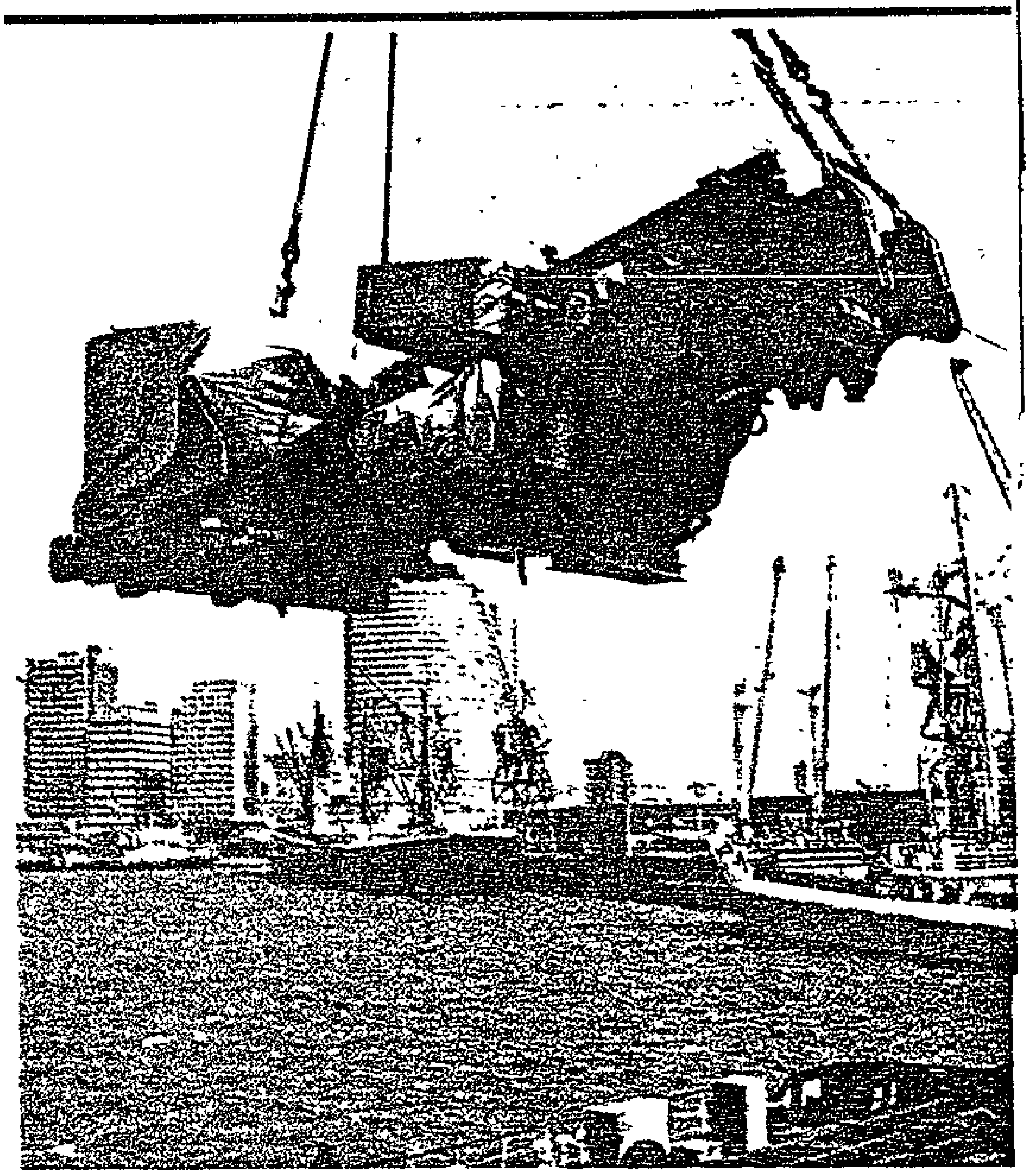
The December bulletin confirms that "present indications are that the upswing in the South African economy, which had been in progress from the second quarter of 1983, gave way to a downturn in the third quarter of 1984."

For all that, a real growth rate of 4% in gross domestic product (GDP)is still expected this year.

The bank stresses, however, that "monetary policy remains committed ... to bringing about the adjustment in the economy that will ensure an improved balance of payments, higher net foreign reserves, a stronger rand and a lower rate of inflation in order to lay a sound foundation for longer-term economic growth."

Mr Barend du Plessis, the Minister of Finance, has forecast that GDP growth in 1985 will be only about 1%.

It is evident, too, that 1984 growth has been primarily the result of heavy spending by the State.



The first section of a huge 160-ton Komatsu dump truck is unloaded at Cape Town from the Safari Services vessel, SA Morgenster. The truck is one of three HD1600-1 Komatsu dump trucks — the first to be imported into South Africa — which will be used in the coalmining industry.

The Reserve Bank says: "The strong upward trend in real Government consumption expenditure in the second half of 1983 and the first half of 1984 was arrested in the third quarter.

"Despite this decline, real Government consumption expenditure in the first three quarters of 1984 was nevertheless still 11,5% higher than in the corresponding period of 1983.

"As a ratio of real gross domestic expenditure, it amounted to 18% in the first three quarters of 1984, which not only exceeded the already high average level attained in 1983, but was also substantially higher than the longer-term average of 15% in the ten-year period 1973 to 1982."

There are, however, some points in the bulletin that will be warmly received by the private sector.

The Reserve Bank says: "Mainly on account of the cyclical recovery in production, real output per worker was 4,5% higher in the first half of 1984 than in the corresponding period of 1983.

"In 1983 it had declined by 0,3%.

"This improvement in labour productivity contributed to a lowering of the rate of increase in unit labour costs from 12,8% in 1983 to 10,4% in the first half of 1984."

The bank adds: "Except for corporate saving, which remained virtually unchanged, all other components of gross domestic saving showed improvements in the third quarter (of 1984).

"As a result, the ratio of gross domestic saving to gross domestic product almost reverted to its longer-term average of 25%.

"In the first half of 1984, the savings ratio stood at only 21%.

"Although Government saving remained negative in the third quarter, the extent of dissaving was markedly lower than in the preceding two quarters.

"The large swing in private consumption expenditure, from a marked rise in the second quarter to a substantial decline in the third quarter, caused personal saving to change from a small negative figure in the second quarter to about 3,5% of personal disposable income in the third quarter."

CAPITAL ACCOUNT
Storing up trouble

49

The crash of the rand has caught many traders in a vicious spiral of growing foreign debt. Inexperience in dealing with a freely fluctuating currency has contributed to an alarming increase in the value of uncovered offshore liabilities.

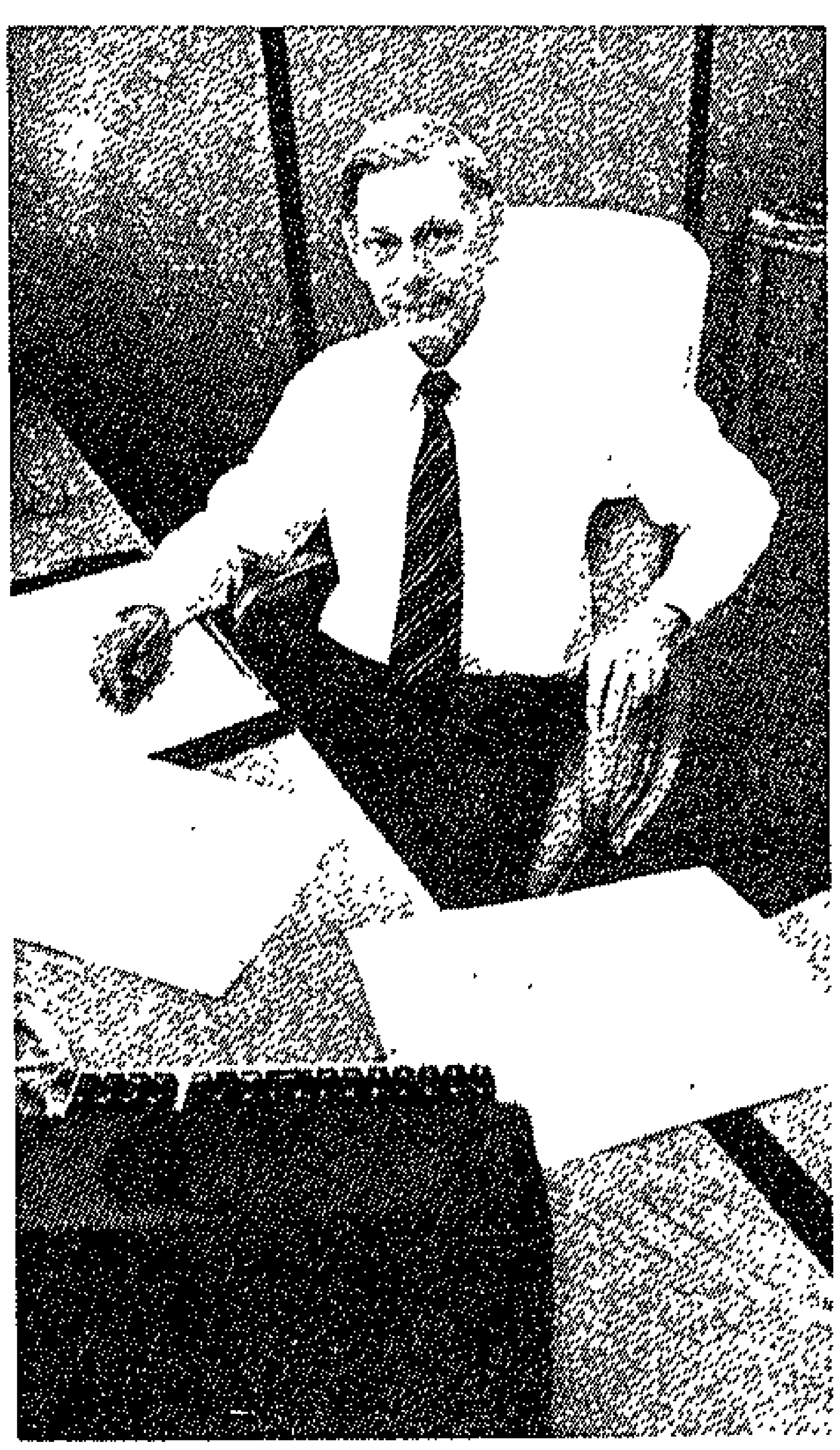
Short-term foreign debt has burgeoned primarily because more and more importers have held off repayment in the vain hope that the rand will recover lost ground. But the inevitable outcome of this, since the rand has persistently slid further into the abyss, has been a worsening of the debt situation.

To the burden of debt being constantly rolled over has been added interest accumulation and further import financing. And it was to be expected that the short-term bias in SA's foreign debt would increase dramatically.

As if this wasn't enough, debt in rand terms has increased through currency depreciation. For example, a debt of $1m in January 1984, expressed in rand terms at R1,22m, will by this month have rocketed to a colossal R1,85m, before interest.

Clearly, since the abolition of a managed rand in September 1983, businessmen have faced an expensive learning process.

Overall, SA's total foreign debt, both long- and short-term, is not at particularly alarming levels. Total debt was just under 51% of gdp in 1982, the latest year for which comprehensive figures are available. But this figure is well below the levels of the middle and late Seventies, and is not likely to have changed much since 1982.



Standard Bank's Schutte ... pointing to corporate debt

But short-term debt has assumed a greater part of total foreign liabilities since the start of this decade. After dropping to less than 19% of total debt in 1980, when dramatic increases in gold revenues allowed for their repayment, short-term liabilities rose sharply again to a level of over 31% in 1982.

And while quantifying the extent of SA's foreign indebtedness has become almost impossible as financial markets have become freer, it is generally accepted in financial circles that short-term debt continues at high levels.

Manfred Schutte, GM of Standard Bank's International Division, estimates that corporate debt is in the order of R8 billion.

"This was the amount mentioned by the Reserve Bank not so long ago. Working on our own figures and relative market shares, it seems a reasonable amount," he says.

But others believe the figure could be even higher — perhaps as much as R10 billion. And, as one international banker points out, the extent of foreign debt depends very much on which value of the rand is used in calculations.

Again it is impossible to put a figure on the amounts involved, but it is also generally accepted that a substantial portion of this debt is without the benefit of forward cover. This is confirmed by the year-end results published by many companies recently.

It is believed that some of it may have been incurred when the rand was around $0,75, or higher. It is these outstanding debts that are being rolled over in the hope that the rand will appreciate and save borrowers from enormous forex losses.

But the existence of large liabilities exposed to depreciations in the exchange rate in itself makes it unlikely that the rand will appreciate to any significant extent. Every time the rand appreciates because of inflows on the current account, these gains tend to be negated as repayments are made. This partly explains the extraordinary zig-zag pattern of the rand's downward drift in recent months.

In addition to corporate debt, the Reserve Bank itself is thought to have large short-term liabilities which it would like to repay. It has also been suggested that SA's creditors overseas might begin to insist on repayment of this debt, especially as the disinvestment campaign gains momentum abroad.

Without the benefit of the roll-over facility, many SA companies would sustain substantial losses, while outflows on forex

WHOLESALE PRICES

Wholesale prices climbed again in October, and will no doubt filter through to exert further upward pressure on consumer prices. Even so there is greater hope for a slowdown of inflation in 1985. There is clear evidence that consumer demand will continue to fall, not least because of the freeze on public sector pay next year.

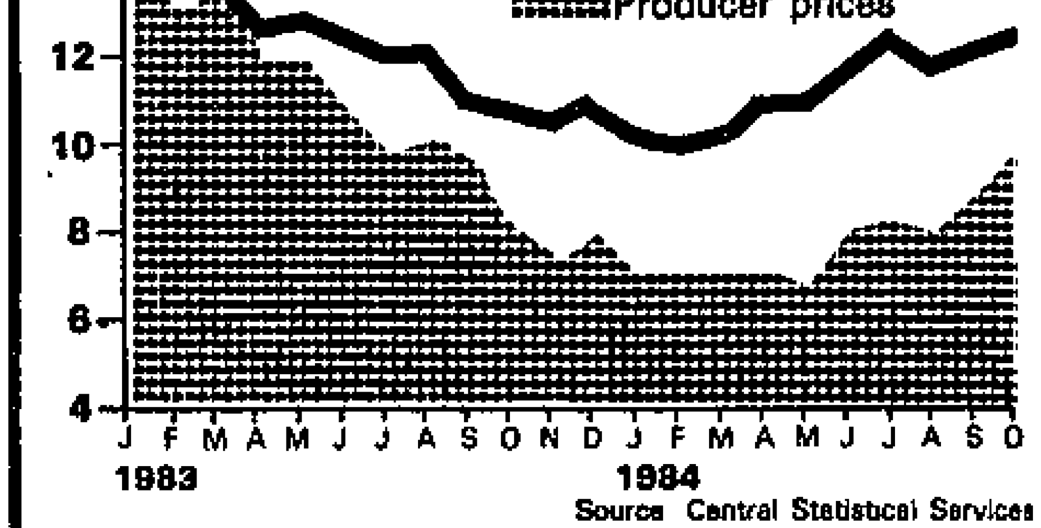
According to the latest official figures, producer prices climbed 1,51% in October, after September's increase of 1,1%. This contributed to a surge in the year-on-year rate of increase in producer prices from 8,8% to 9,8%, the highest rate since August last year.

Roughly 23% of the producer price index, is made up of prices of imports. The increase in the rate of growth of the producer index during September and October, after a slight decline during August, seems to reflect to some extent the rapid depreciation in the rand since mid-year.

But higher import prices take time to work through to domestic inflation. This lag effect makes it likely that inflationary pressure from costlier imports could continue well into the new year.

The freeze on civil service salaries provides more heartening news for inflation, however. Barclays' Johan Cloete, long an advocate of limits on State administered prices and wages as part of anti-inflation policy, welcomes the move.

"Hopefully it will also have a 'demonstration effect' on the private sector," he says, "and help to keep down the increases in salaries and wages elsewhere in the economy."



FM 14/12/84 (49)

markets would likely crumple the rand further. In this manner the float mechanism exerts a kind of ratchet effect on debtors with uncovered foreign exposure. Pressure to repay has the effect of making the act more painful.

Says Schutte: "We are monitoring events overseas carefully and are concerned about the disinvestment debate that is raging. But while there may be the possibility of overseas banks reducing SA credit lines, there is no imminent danger of this happening."

Meanwhile, any moves toward building up a surplus on SA's international accounts will continue to be hampered by the need to repay burgeoning foreign debt. And this will severely limit the scope for any strengthening of the rand.

MONEY SUPPLY

Shock rise

October money supply figures released this week showed an unexpected surge in the growth of all three monetary aggregates. The news was greeted with concern in SA's financial markets that the authorities had allowed interest rates to drop too soon.

Coming as it did just a few days after a second drop in prime to 23%, widespread feeling was that the Reserve Bank's "shock treatment" had had insufficient time to take full effect on bank credit in particular, and money growth in general.

But although both money growth and credit demand are still at excessively high levels, the situation may not be as bad as October's figures suggest. Depending on how one measures and views these money figures, the drop in interest rates may indeed have been justified.

Deputy Governor Jacobs ... figures not up to date

After declining to a growth rate of 31,3% in the year ending September, October figures showed a surge in M1 to a year-on-year increase of 36,6% — almost as high as the enormous 38,3% increase recorded in August.

Both M2 and M3 showed similiar jumps in the October figures. M2 went from 21,6% to 27,9%; and M3 went from 17,1% to 23,1%. Total bank credit extension (excluding that to the Land Bank) showed an increase of 45,1%.

These rates of increase are measured over the preceding year. But October 1983 was an unusual month from a statistical point of view. M1, M2, and bank credit all showed actual decreases during that month. This means, in effect, that present increases in financial statistics are being measured against unusually low levels.

The month-on-month increases suggest the situation is slightly better. The growth in M1 slowed from 4,3% in August to 2,8% in October. M2 showed a similiar decline, while bank credit, one of the major causes of money growth, slowed from 6,6% in August to 1,3% in October.

It is this slowing in credit demand growth which was apparently used to justify the lowering of interest rates in November.

As Japie Jacobs, deputy governor of the Reserve Bank, points out, these figures do not really reflect what is happening in the market at present.

"The numbers are for October, and we are already in December," he says. "We know that hire purchase demand, especially for consumer durables, has fallen sharply, as it was intended to. And the continued demand for credit is the result of involuntary inventory accumulation, and will decline as time progresses," he added.

But there is no denying that both bank credit and money supply growth are still too high. And UCT's Brian Kantor sees no chance of effective monetary policy under the present system of control.

"There is no reason to expect that we will ever get predictable changes in the money supply under present policy," he argues.

"Credit demand by the banks to both public and private sectors should not be allowed such easy access to Reserve Bank accommodation. Also, the Reserve Bank is not effectively removing inflows of money on the balance of payments from the system by the sale of government securities into the market."

BUILDING SOCIETIES

Draft Bill rehash?

The next salvo in the heated battle over proposed new legislation for the building society movement will probably be fired early in January.

And it is likely political lobbying will also intensify prior to the sitting of the Standing Committee on Finance. This is due to begin in the second week of January. To be chaired by MP Charles Simkin, it will decide on the final form of the Building Society Bill before its first reading in Parliament.

Harry Schwarz, vice-chairman of the committee, says any group that assumed it could influence the committee through political lobbying was mistaken. He also denied the committee had been lobbied by vested interest groups.

Meanwhile, the United Building Society (UBS), which supports the option in the legislation for building societies to go public, and its opposition, the SA Perm and certain mutual life offices, appear to have gone to ground.

Chairman of Old Mutual, Jan van der Horst, this week strongly denied his society had been involved in political lobbying. "Old Mutual has not considered, let alone taken a view on any building society legislation. I am not aware of the existence of any lobby in this regard nor am I part of any lobby whatsoever, should it exist," he told the *FM*.

Nonetheless, some commentators have suggested there are attempts by the mutuals to have the Bill shelved because of the perception that the SA Perm would be unable to compete in a free market against equity-based societies. They also believe that this does not square with the mutuals' manoeuvres to purchase numerous equity-based companies through free market mechanisms.

Recently, UBS senior MD, Piet

Old Mutual's Van der Horst ... denying involvement

Financial Mail

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BAREND DU PLESSIS

The common scold

We are at one with the Minister of Finance in his drive towards a cash-based system of remuneration. Punitive tax scales bred the perks system which led to excessive luxury in housing and transport, with government at all levels no stranger to these excesses. Employees became locked into their jobs, while some taxpayers clearly abused the system.

We are disturbed, however, by his timing, his rhetoric and his inconsistency.

He seems, somehow, to resent the material trappings of success, failing to understand that, in striving to achieve the good life, businessmen make the single most important contribution available to society: economic growth. Indeed at the recent *Sunday Times* annual business awards dinner, he spoke scathingly of "the great god Growth" and the "so-called free market principle."

There is about him an air of what Margaret Thatcher describes as the "politics of envy." He is a sort of down-home populist, reminding us in some ways of the righteous Jimmy Carter denouncing US businessmen for their three-martini lunches. To add insult to injury, he suggests that it is the business community's fault that blacks are disenchanted with capitalism.

We found it most informative last week when he saw fit to scold tax experts for working out pay packages that "sidestepped" taxation. These people should rather, preached the Minister, use their brainpower to the advantage of the country.

A curious puritanical strain runs through Du Plessis It is accompanied by a lack of grasp as to how markets work. He does not appear to understand the basic premise of a free society: that men left to advance their own interests, indeed encouraged to do so, benefit society more than when they set out with that intention in mind.

"I have never known much good done," wrote Adam Smith, "by those who affected to trade for the public good."

That's the philosophical side of it. But the Minister seems also not to be acquainted with the legal right of individuals, and businesses, so to arrange their affairs as to attract the least amount of taxation.

There is, of course, the landmark case of the *Inland Revenue Commissioners v Duke of Westminster* in which Lord Picton decreed:

"Every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it would otherwise be. If he succeeds in ordering them so as to secure this result, then however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax."

And in *Ayrshire Pullman and Another v IRC*, it was said:

"No man in this country is under the smallest obligation, moral or other, so to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow — and quite rightly — to take every advantage which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket. And the taxpayer is, in like manner, entitled to be astute to prevent, as far as he honestly can, the depletion of his means by the revenue."

Du Plessis' general attitude to taxpayers earned him this admonition from *Die Vaderland*: "We are unhappy that (he) is quarrelling with the taxpayer and is almost threatening him with criminal prosecution ... it is not only rich people who have to call in accountants when they draw up their tax statements. The fault is also not with the taxpayer, but with the tax system ... (which) is punitive and discourages productivity as it quickly brings people to a level where the State claims more for itself than the earner keeps for himself."

We all remember the outburst in which Du Plessis accused doctors and dentists of spending three days a week on the golf course. In his apology, he said of what he had said: "That would be a palpably ridiculous statement to make."

At a press conference last week, he suggested that the *FM* was "propagandist" and did not practise "professional journalism." This we find interesting, coming from someone who once lambasted SABC-TV for *not* giving Cabinet Ministers enough time on the air. His outburst in a TV interview then elicited this comment from *The Citizen*:

"If Barend du Plessis ... has anything to do with the control of the SABC, then heaven help us and the SABC ... we have never seen quite as disturbing a performance on the duties of the SABC ... Pale and fierce, he ticked off the SABC as if it were a naughty child that had done something awfully bad — and in the process set guidelines for the child's behaviour that must have made any true democrat shudder."

Then there was his gaffe at a conference attended by multinational executives at Yale University in the US. There he blithely advised Americans with interests in SA that they had a duty to "isolate" those blacks who, as he put it, misused unions for political purposes. He was reported to have said that those unionists who broke the law were charged, but the rest, as he quaintly put it, "were

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Financial Mail

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BAREND DU PLESSIS

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Du Plessis' general attitude to taxpayers

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removed for a little while." All this naturally appalled his audience and he quickly called a press conference at the SA Embassy in Washington, where he talked about "unfair distortion" by the SA press.

He has in the past slammed the PFP for both "white baasskap" policies and policies that give whites a "raw deal." We, too, find PFP policy confusing, so we have some sympathy with him here.

He has accused the SABC of broadcasting "party political propaganda" for the Conservative Party and later went on record as saying the SABC has never "been proved guilty of distorting or manipulating information." With Du Plessis you can take your pick.

His puritanism shines through in this remark to the *Sunday Tribune*: "The main stumbling block to decentralisation is not the so-called cost of creating a job elsewhere. It is the unwillingness of people to leave the bright lights of the city." They are so inconsiderate, these blacks who prefer the "bright lights" — along with shelter and jobs — to the desolation of the veld.

Our Minister seems not to understand what drives ordinary men. He calls for a return to "thrift and hard work" to restore the country's fortunes. He doesn't seem to understand that it is a law of nature that men seek their own ends. To save, they must have both the incentive in real returns and sufficient income after tax and the costs of living. To work hard, they need the incentive of adequate reward in terms of a stable currency. Men do not, like chess pieces, respond to demands, even those of Ministers.

We commend to him Adam Smith's *Wealth of Nations*, where he will read this: "The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operations."

In an address to the Afrikaanse Sakekamer in Port Elizabeth in 1982, Du Plessis revealed his collectivist bias: he said then that unless prices were kept down, government would have to use a greater share of resources to improve the lot of the poor. This reasoning suggests that the more government consumes of the national product, the better off are the people. This, of course, runs counter to the whole thrust of modern economic thought in the West.

Finally, as to timing, all we can say is that anyone who ever hit a golf ball or a tennis ball or bought or sold a share will know that timing is the essence of success. And the hammer blows the Minister delivered last week to business confidence could not have come at a worse time in the economic cycle.

CAPE TIMES 14/12/86

SA's problems 'interdependent'

Education Reporter

SOUTH Africa's economic problems would be solved only when the government removed certain basic socio-political obstacles that were adversely affecting the national economy as well as the operation of the free enterprise system, Mr Mike Rosholt said in Cape Town yesterday.

Addressing a graduation ceremony of the University of Cape Town, Mr Rosholt, chairman of Barlow Rand and chancellor of the University of the Witwatersrand, said the country's economic and socio-political problems were totally interdependant and neither could be solved on its own.

It was a matter for serious concern that the government did not appear to have a national economic plan or strategy, but was taking a series of ad hoc economic decisions, he said.

Calling for the formulation of such a strategy, Mr Rosholt said all future economic decisions should be related to a plan which included a cutback in the government share of the national economy, a plan and timetable for an attack on inflation, job creation and the elimination of recurrent periods of financial instability.

Warning

Mr Rosholt warned that the present cycle of unrest would continue into next year because it was unlikely that crucial factors would change immediately.

If the economy improved markedly and unexpectedly, the job situation would improve and this would have a significant effect on unrest.

● Rosholt calls for end to removals, page 13

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Offshore funds flow into SA

Cape Times 1/1/85 49

By PAUL DOLD
Financial Editor

LINES of offshore money are flowing into South Africa and leading to a drop in the short-term money market rates.

The capital inflow is occurring amid signs of greater confidence in the handling of the economy by the authorities following this week's new measures which have led to renewed stability in the rand.

The firmer gold price is also helping sentiment.

New measures

The new measures have been generally welcomed restoring stability to financial markets.

The Reserve Bank Governor, Dr Gerhard de Kock, has emphasized that monetary policy will remain tight until inflation declines.

Several banks are understood to have arranged offshore rates at well below South African rate levels raising two to three-month money at around 22,5 percent.

One bank alone secured R500m of finance.

This led to the market shortage falling sharply to below the R2 billion mark.

The increase in liquidity pushed the bankers' acceptance rate to 22,25 percent from Wednesday's 22,50 percent.

The bank loans are being fully covered.

The rand closed steady at $0,5055 yesterday after touching $0,5130 in earlier trading.

Gilt rates are tending to come off their recent peaks with the long RSA down to 17,23 from 17,34 and the long Escom easing back to 17,24 percent from 17,33 percent.

Weekly tender

The Reserve Bank announced it will be offering R30m of Treasury Bills at its weekly tender.

The following rates were indicated (in percent):

BAs: One month 22,40; two months 22,35; three months 22,25; fix 22,30.

NCDs: One month 23,40/70; two months 23,80; three months 23,80; six months 23,00; one year 22,00.

Treasury bill: 21,79.

Discount house call: 21,50.

Mercury 3/1/85 49

Tougher times forecast for workers

Labour Reporter

KEY trade unionists predicted yesterday that employees faced tougher times in the new year as the economy was still in the grips of recession.

They said the past year had been hard for many workers, with thousands retrenched, mainly from the motor and furniture industries, the hardest hit by the recession.

Unions had battled to secure fair and reasonable increases for their members during 1984, and many employees had received diminished Christmas bonuses.

There was very little prospect of further wage increases in the new year, and some workers would have to face being laid off, they said.

Mrs Ruth Imrie, acting general secretary of the Trade Union Council of South Africa (Tucsa), said unemployment and the misery, alienation and stark hardship it brought was a crucial issue to be faced in South Africa.

'Some way must be found to rescue the economy from its current state of devastation.

'Our people need jobs, homes, a decent livelihood and decent prospects for themselves and their children.

'Frightening'

'Let us hope that the new year will bring a sense of reality to those in positions of power so that we can all go forward in a spirit of conciliation to find a solution to the problems we face and which will otherwise tear us apart in bitter polarisation,' she said.

Mr Norman Middleton, regional co-ordinator of the Council of South African Unions, said it was 'too frightening' to even consider what the future held for workers.

'The past year was marked by retrenchments and a number of companies going on short-time. As the effects of company taxes and perks tax come into effect this year, workers will have to bear the brunt and face even tougher times than the past year,' he said.

Mercury 7/1/85

Business Mercury

Seifsa sees gloomy 1985

49

JOHANNESBURG — South Africa's steel and engineering industries have been hit hard by the recession and do not expect any 'meaningful turnaround' in their fortunes until early 1986.

A report issued at the weekend by the economics division of the Steel and Engineering Industries Federation of S A (Seifsa) presents a depressing review for 1984 and a gloomy outlook for 1985.

'At best, 1985 is seen as a period of consolidation with some expectation that the low value of the rand will offer opportunity for import replacement and some stimulus to Seifsa's export sectors,' the report says.

Prices

'Present indications are that recessionary conditions continue firmly entrenched in Seifsa's manufacturing sectors.

'Concern continues to be expressed, particularly by the machinery sector, at the inability of a number of production-efficient industries to compete successfully on a price basis with relatively low-priced imports in the domestic market and, internationally, in the markets of South Africa's trading partners.

'Competitiveness is also expected to weaken further during 1985, aggravated by relatively high input costs.'

But the report points out that despite the severely depressed levels of activity during 1984, the Seifsa group of industries continued to contribute significantly to the economy. — (Sapa)

Call for freeze on prices and wages

ARGUS 8/1/85 69

By BRUCE CAMERON, Political Staff

A NEGOTIATED but voluntary price and wage freeze was urged today to help boost the economy.

Mr Harry Schwarz, Progressive Federal Party finance spokesman, was commenting on the latest dive in the level of the rand against other currencies. He lashed out at the Government for not doing enough to rectify the situation.

Mr Schwarz said the Government should take steps to introduce voluntary wage and price controls in negotiation with commerce, industry and trade unions.

But he warned that no one would co-operate unless the Government did its share in controlling wages and prices.

Exports

He was not in favour of forced price and wage control and doubted whether it would gain any support from the private sector.

Mr Schwarz called for greater attention to be given to exports to make up for the decline in the gold price.

He said exporters had become complacent because the exchange rate was favourable for them.

Mr Schwarz opposed calls for the reintroduction of exchange control on non-residents.

He said: "This would be a tremendous blow to any confidence in the South African economy."

"Inertia"

Mr Schwarz said there were a number of reasons for the current state of affairs, "some of which are not our fault but some of which are".

He was particularly concerned about the "inertia of the Government" which was "giving the impression, rightly or wrongly, that it can do nothing to get to grips with the situation".

The Government had to take a lead and one of the first things it should do "is put its own house in order".

The inflation rate was not being tackled properly by the Government.

Mr Schwarz said the Government was not doing enough to keep down administered prices or control the money supply and figures would show that it was still not doing enough to control its own spending.

New low of 45,07 US cents after latest flurry of dollar buying

Rand plunges

49 ARGUS 11/1/85

Financial Staff

PRICES of imported goods can be expected to rocket this year as a result of the rand's dropping to new lows on foreign exchange markets today.

The rand, hit by speculators and an ever-rising US dollar, slipped more than two US cents in Johannesburg today to its lowest so far of 45,07 cents.

Later, the rand recovered slightly to 45,45 cents, still below last night's 47,15 cents.

Dealers said a sudden flurry of dollar buying in chaotic trading drove the rand through its previous low of 46,55 cents set on Wednesday. The drop followed a large commercial order for dollars.

Interest rates

Bankers say many industrial companies are taking a conservative view of the rand and planning ahead on the assumption that it might drop as low as 40 cents and help to push interest rates higher, taking the prime rate to a penal 30 percent from today's 27 percent.

The drop pushed the rand price of gold to a record R674, based on the new low. This fuel to a rush to buy gold on the Johannesburg ...hange.

Forty gold shares moved up — Vaal Reefs topping the list with a 700c jump.

Investors saw the dramatic effect of a low rand today when Gold Fields, the first of the big gold mining groups to publish its quarterly reports, produced record net profits of R222-million compared with R163-million a year ago, when the gold price was $371,25, well above today's $304.

Highest sales

More than R16-million of shares changed hands on the JSE yesterday, the highest sales this year.

Since January 11 last year, the rand has depreciated by 74 percent against the dollar and by 36 percent against the British pound.

A year ago the rand was worth 78,25 cents.

Although the pound today dropped to its lowest ever — $1,12 — it is now worth R2,40 against R1,76 a year ago.

Gold was fixed at $304 in London today, the same as last night's price.

● See Page 9.

Mercury 11/1/85 (49)

Jobs axed now above 100 000

JOHANNESBURG— The number of jobs axed by manufacturers hit by the recession has risen above 100 000 as the fall in consumer spending forces a slowdown in production.

Thousands of other industrial workers are trekking back from the Christmas/New Year holiday to find themselves on short-time.

The toll on jobs is expected to worsen when other business sectors, such as commerce, mining, building and agriculture, add their counts.

The Steel and Engineering Industries Federation (Seifsa) confirmed yesterday that member-firms had slashed 80 000 jobs from their combined labour force, now down to 374 000 from a 1981 peak of 454 000.

Executive director, Mr David van Coller, warns that no significant turnabout from the recession is expected until early 1986.

More than 25 000 jobs have been axed by the motor industry and its satellites. The National Association of Automobile Manufacturers estimates that the labour force of the main car and truck assembly companies has dropped from more than 48 000 to about 41 500 in the past year.

Director Mr Nico Vermeulen said it was believed that component suppliers and distributors had, in turn, been forced to cut back at a far sharper pace, meaning the loss of a further 26 000 jobs.

Most motor workers are returning from the holiday break — deliberately prolonged by several manufacturers with thin order books — to find themselves working only three or four days a week.

'The job cutbacks have been felt from top to bottom,' said Mr Vermeulen. 'If there is no stimulation of the economy, there may be worse to come.' — (Sapa)

Reserve Bank fails to stop rand's plunge

ARGUS 15/1/85 (42) (48)

Financial Staff

THE rand plunged again today to a new low, hitting 42,85 US cents — R2,55 to the pound — in spite of support by the Reserve Bank on the foreign exchange market.

It was quoted at 44,72 cents last night after reaching a record low of 44,65 cents yesterday.

The rand, sterling, the Deutschemark, and other currencies were all hit by the continued rise of the dollar.

However the low rand could give South African gold mines a record R705,95 an ounce for their sales overseas — increasing their profits and the dividend payouts to thousands of shareholders.

For most of the second half of last year and so far this year, the rand receipts of gold mines have been at near-record levels and this is reflected in the current round of quarterly reports.

And this, as far as the Exchequer is concerned, means increased tax from the mining sector — possibly the only bright spot in the local economic climate.

HIGHLY INFLATIONARY

Meanwhile Professor Brian Kantor, head of the department of economics at UCT, today urged the Government to act immediately to support the rand and stop it falling below 45 US cents.

He said the low rand was highly inflationary and the country was heading for a 16 to 17 percent inflation rate for the next six months. But he said it was also stimulatory and would encourage exports and discourage imports.

The professor said: "One can only explain the rand's weakness as a lack of confidence in the management of the economy.

"The rand has got to stop falling from what is a ridiculously low level. The authorities must com-

(Turn to Page 5, Col 1)

Bank fails to halt plunge of rand

(Cont from Page 1)

mit themselves to defending the rand even at this level and commit reserves to that end."

The currency could be defended by going to the international capital market and central bankers and asking for substantial standby credits which would convince the world that the rand would not fall.

"People are convinced that the rand will fall and we have got to shake them out of that assumption," he said.

MONEY SUPPLY TARGETS

This supportive action would not require high interest rates, which would slow the economy.

Better still, however, would be an announcement of targets for money supply growth, largely through bank lending.

Official figures last week showed the country's money supply soaring at an annual rate of more than 24 percent for November.

In contrast West Germany, with a two percent inflation rate, aims to keep the increase in money supply below five percent this year.

The latest figures, said Professor Kantor, showed the authorities have still not got the money supply under control.

● Gold was fixed at $302,50 an ounce in London today, up $3,50 on the previous fixing of $299.

● See Page 12.

Business Day

ROM

16/1/85

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Recession demolishes builders

By MERVYN HARRIS
Property Editor

THE deepening recession in the building industry is taking its toll of construction and development companies which are going under at the rate of several a week.

Record high interest rates are the crucial factor distinguishing the current recession from previous downturns, says to Mr Lou Davis, the executive director of the Building Industries Federation (Bifsa).

"The high rates do not make it worthwhile for builders who depend greatly on cash flow to borrow money to survive."

Home builders have been especially hard-hit, but the crunch has also come for tender companies such as Fleet Construction and developers like Miodownik. Both companies have been placed in provisional liquidation.

The demise of Miodownik, which was founded in the Great Depression of the 1930s and would have celebrated its 50th anniversary this year, ends a chapter in the development of Johannesburg.

Buildings erected by the company in Johannesburg include the circular Ponte apartment block in Berea, the President Hotel, the city's first five-star hotel, and numerous blocks of flats in Hillbrow.

The company was founded by Mr J Miodownik who came to South Africa in 1929 from what was then Palestine where he built the Mograbi Theatre, Tel Aviv, still regarded as one of the city's landmarks.

HIs son, Mr Max Miodownik, took control of the company in 1957 after his father died. He immigrated to Israel in 1970, but returned 10 years later to run the company with two other directors, Mr I Block and Mr C Reid.

The company was doing well until a year ago when work started drying up. "We have gone through many crises in the past," a sad Mr Miodownik told Business Day.

"But the current recession has been more prolonged, with high interest rates the major problem. You cannot borrow money to try and survive because you cannot earn the money to repay the high interest rates."

Another factor hitting the industry is low productivity. Mr Miodownik believes foremen and artisans today do not have the qualities of their predecessors.

"The white artisans of yesteryear were creative, reliable and took a pride in their work. This is not the case with the new groups which have entered the industry.

"I believe this is a transitional period in the industry, but it has hit productivity."

The problems faced by Miodownik — lack of work and high interest rates — are hurdles other companies will have to overcome in the coming weeks and months.

Gold profits soar as dollar pushes rand to new lows

ARGUS 16/1/85 (49)

By TOM HOOD
Financial Staff

MANY South African gold mines are reaping record profits as a result of the United States dollar pulling the rand down to its worst level.

More mines today reported huge increases in profits for the December quarter — when their income from gold was far below today's rand price of gold.

They will now get about R700 an ounce for their gold — 52 percent more than a year ago when the rand price of gold was R464.

The rand has dropped 46 percent, from 80 cents on January 16 last year to about 43 cents.

LOWER-GRADE ORE

Some mines are taking advantage of the high price and switching to lower-grade ore that was previously unprofitable.

The giant Randfontein mine's profits jumped 64 percent to R75-million after tax for the December quarter.

Other mining profits reported are Western Areas, up 12 percent to R18-million; Hartbeestfontein, up 15 percent to R30,4-million; Loraine, R11,8-million, up 55 percent; Prieska Copper, R10,2-million, up 30 percent; Consoliated Murchison, up 62 percent and Harmony, R33,8-million, up 34 percent.

The rand, meanwhile, rose to between 45 and 48 US cents in New York last night after speculation that South Africa might bring back foreign exchange controls in a bid to check the rand's plunge against the dollar.

"MOUSETRAP"

After falling to a record low of 42,30 cents in Johannesburg yesterday, the rand was quoted at 43,55 cents today.

However, the governor of the Reserve Bank, Dr Gerhard de Kock, responding to the New York speculation, said today the bank had no intention of reintroducing foreign exchange controls on non-residents.

"South Africa does not want to change the rand into a mousetrap currency, something that one can get into but not out of," he said.

The rumours centred on the possible reintroduction of the financial rand and a possible limitation on the speculative positions of the foreign branches of South African banks.

● See Page 15.

Gold at $302,45

GOLD was fixed at $302,45 in London today, up on the New York close of $301,65 last night.

The rand was quoted at 43,55 US cents in Johannesburg, up from last night's 42,95 cents and the record low of 42,85 cents yesterday.

RDM 17/1/85 (49)

Another shipping line on the skids

By DAVID FURLONGER
Industrial Editor

ANOTHER independent shipping line serving South Africa is on the skids.

European Lines SA (Elsa) has not made a single sailing since announcing its arrival in October to serve the SA-Europe cargo trade.

Shipping sources say that unless the line's backers act immediately, they will have to abandon the undertaking.

Elsa is owned by an anonymous London-based shipper. According to the line's agents, he operates other lines around the world, but refuses to have his name linked to the new SA service.

The line's day-to-day business is in the hands of agents in Britain, Belgium, France, West Germany and the Netherlands.

Mr Clayton Elsley, the managing director of the SA agent, African Shipping (Afship), blames the line's predicament on its London agents.

He says Elsa was established on their assurance that there was plenty of potential southbound cargo.

"We need base cargoes from the UK. The UK agent said he had open contracts with European companies. It turned out he didn't."

Mr Elsley insists there is no shortage of South African customers for a new breakbulk service to Europe, but he is resisting attempts by Elsa's owner to send empty ships from Europe to pick up South African cargo.

"The owner has offered us a vessel for February, but we are waiting for guarantees of a southbound cargo. It's not worth my while. Agents share commission and I don't want to be the only one to fill the ship and then have to share the results. We would lose face.

"We're not doing anything here until everything's settled. We can't start with a bad name or we'll never get any trade. We've told the owner we can't commit ourselves."

October's announcement of Elsa's entry into the Europe-SA trade was accompanied by bold pronouncements that the line was a surefire winner.

As well as South African cargo, operators predicted they would pick up business from Botswana, Mozambique, Malawi and even Zimbabwe.

The line's anonymous owner was expected to make five 26 600-ton vessels available for the SA service. However, the first voyage was to be made by a chartered Liberian cargo vessel, the Amazonia.

The first sailing from Europe was scheduled to arrive in SA in late November or early December. Mr Elsley stated at the time that the Amazonia was already 75% booked for the return voyage.

What Afship didn't know, however, was that the Amazonia had just completed a charter voyage for British Steel.

"The agent didn't tell us that British Steel had the right to re-charter the vessel," says Mr Elsley.

When the British nationalised industry duly took up its option on the Amazonia, Elsa's plans were immediately thrown into disarray. They have still to recover.

The owner has now appointed new British agents and Afship is waiting to see what happens. Mr Elsley says he is demanding a six-month sailing schedule and other guarantees.

"I'm very embarrassed by the whole thing," he says. "But there's nothing we can do until we hear from the owner."

Disclosure of Elsa's problems came a week after the announcement that another independent, States Africa Line (SAL), had debts of nearly $2m in the US.

Standard's Hamersma ... spending has been reduced

duced in a seemingly *ad hoc* manner.

And while the prophecies of doom have been met with numerous official reassurances that these policy measures are working, any headway that has been made in the protracted process of correcting the economy's imbalances seems largely to have remained unnoticed amid the general confusion.

Comforting noises have been made about controlling public expenditure; but any proof of success will obviously be a long time coming. Published statistics have yet to show any really encouraging developments regarding the monetary aggregates. Despite record interest rates, the rand has continued to fall, bank credit extension seems to be continuing at dangerous levels, and inflation looks set to get worse before it gets better.

In short, measures supposedly designed to ensure a return to some kind of balance between income and expenditure in the economy are now perceived by many to have failed in their aims. Business confidence is consequently at its lowest ebb in years.

But the danger is not only the confusion itself, despite the detrimental effects this is having on business confidence. In the present uncertain atmosphere, there is a growing and understandable feeling in business circles that something has to be done. If the confusion and uncertainty mount, it can be expected that such sentiment will become more widespread.

Unfortunately, this desire for action is providing the justification for those calling for a return to direct controls It is perhaps as well, therefore, to try and clear the air and identify what, if anything, has been achieved so far — and what still needs to be achieved.

As Assocom chief Raymond Parsons says: "The top priority now is to clarify economic policy objectives, so that the private sector knows where it stands."

The introduction of the Reserve Bank's August 1984 austerity package was aimed at the treatment of a number of symptoms — notably the ailing rand, the balance of payments deficit, excessive credit creation, and the longer-term problem of inflation. These symptoms of economic malaise, which have become very visible in the recent past, are all the result of the economy as a whole spending more than it earns by productive activity.

Despite record levels of interest rates since August, money supply figures, which reflect the total level of spending in the economy, have not shown much indication of assuming a downward trend.

Factors such as these have prompted some economists, such as Frank Shostak, to state that monetary policy has failed, and to argue that there will never be effective control over the surging monetary aggregates until present monetary mechanisms are overhauled.

Reserve Bank Governor Gerhard de Kock has given one explanation for this lack of responsiveness in the monetary aggregates. He argues that the velocity of money, the measure of the speed with which a given money stock is circulated through the economy — another factor which reflects total spending in the economy — has shown a marked decline This indicates that total spending is indeed responding to monetary policy, however slowly.

But, technicalities aside, it does seem as if there is some small cause for optimism as far as the success of monetary policy in reducing overspending is concerned.

Says Standard Bank's André Hamersma "While total spending in the economy may not be reacting as fast as would be liked, there is no doubt that private-sector overspending has been substantially reduced. It will take some time before this decline is reflected in the money supply figures, however, so we should not be over-concerned with the statistics at present."

The fact that total spending has not declined satisfactorily in spite of the sharp cutback in private-sector demand is accounted for by the continued high levels of State expenditure

If there is anything about which there is unanimity among economists, it is that present levels of government spending are excessive. The Minister of Finance has made numerous official statements recognising the need to cut back on government expenditure. But we can only hope that the 1985-1986 fiscal year will see the public sector breaking with tradition and keeping relatively close to budgeted levels of expenditure. That is the key requirement.

If the drops in spending expected during the forthcoming year do materialise, it is certain that at least some of the visible symptoms of overspending will start to

Economist Shostak ... monetary mechanisms must be overhauled

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show a healthy improvement.

The current account of the balance of payments is forecast to move into surplus during 1985 — a positive development after the deficit of 1984.

Bank credit creation, at present largely being fuelled by distress borrowing for the financing of inventories, is also expected to start declining to more moderate rates of growth as the year progresses.

The problems of inflation and the rand exchange rate are of a longer-term nature, however.

Inflation expectations are firmly entrenched in the minds of South Africans. It will take some time before any significant declines can be expected as the result of present monetary measures. But there can be no excuse for not trying to curb the price spiral.

Says Hamersma: "It is most dangerous to think that we can live with inflation in SA. If we do not reduce it, any attempts we make at developing the economy and solving our social problems will be in vain.

"It will not happen overnight, but we cannot not afford to bring inflation down."

Any progress in anti-inflation policy is going to be retarded by the effects of the substantial depreciation of the rand over the last 12 months. And despite the expected move into surplus of the current account of the balance of payments, likely developments on the capital account rule out most possibilities of a significant improvement in the rand's external value in the foreseeable future.

It is perhaps in this area of the capital account that there lies the major cause for concern. In the absence of windfall gains from booming commodity markets, SA has only one source from which the capital necessary for the development of the economy can be derived. That is direct foreign investment.


Assocom's Parsons ... policy consistency needed

If foreigners regard potential SA profits as unattractive, or see the taxation structure as being burdensome, they are not going to invest in this country. With the growth of disinvestment sentiment overseas, we should be doing everything in our power to attract capital to this country.

We are not going to be able to do that if we return to direct controls. There is nothing so permanent, or as great a disincentive to foreign capital, as a temporary control measure.

Says Parsons: "What has caused the trouble hitherto is not that market-related policies are at fault, but that they have not been applied with the necessary determination, consistency, and co-ordination to ensure obvious success."

To be sure, there are factors detrimental to SA which are beyond our control. But there is no reason why the necessary adjustments cannot still be made. What is needed is some positive indication from those in authority that present policy is not a collection of reactive panic measures.

It cannot be too greatly stressed that any moves towards direct controls would be retrogressive and unfortunate. Increased intervention, with the laager mentality which that encourages, would be disastrous for any future participation by SA in the international economic community.

In addition to that, the development of the financial institutions here since the Seventies makes it unlikely that direct controls will work. They are more likely to distort statistically what is happening in the real economy.

In short, what businessmen have to worry about is not money supply or the balance of payments. It is the formation of public policy. If what De Kock and former Finance Minister Owen Horwood set in motion is reinforced and pursued with vigour, the economy will still adjust to more difficult circumstances and do so quite quickly.

But if the vacillation of the recent past and drift towards direct controls is the choice, the recession will not only be prolonged, it will eventually deepen. The economic and social consequences of that will be profound.

CAR PERKS TAX

Bridging the gap

Various lobbies have been pressuring government to ameliorate the imposition of fringe benefits tax on company cars. And it looks as if they have had an effect. Clear statements are now needed from government.

It is now a running certainty that, in their present form, the company car provisions of the fringe benefits tax will not be promulgated as scheduled on March 1. The R10 billion/year car industry, with 267 000 employees, is fighting a tense undercover battle to have the provisions postponed, watered down or, preferably, scrapped.

The industry is mounting its case, and the pressures for change are growing. The mayor of East London, where Mercedes employs 4 200, has despatched telexes to Cabinet ministers and the Margo Commission; the National Association of Automobile Manufacturers has filed a comprehensive file with the Commission, and manufacturers BMW and Mercedes, who will be the most affected by the car perks tax, are to meet government leaders on the matter.

Given Pretoria's mulish insistence that the broad provisions of the measure should be emplaced by March, the motor lobby concedes that the present values to be added to gross remuneration of people with company cars will be maintained. The most likely amendment to the proposals is that the tax will be phased in over five years, a car's average life, rather than two.

It is argued that the longer transition will give employers time to plan the shape of their fleets by 1990. The change is all the more probable because some housing subsidies have been given a seven-year phasing-in period. Housing and cars are the biggest perks and the motor lobby argues that the law should treat them as equally as possible.

The strikingly different treatment accorded to the two perks is not difficult to demonstrate. In the 1986-1987 tax year, a houseowner with a R50 000 mortgage bond who is accorded the seven-year phasing-in benefit will pay extra tax of R64/month for his housing perk (assuming his rate is 4%/year and market rates are 18,5%/year).

In the same tax year, the user of a com-

What to worry about

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To say that the past months have been confusing for the business community would be a gross understatement. Businessmen, already hard-pressed in adjusting from a mini-boom to greatly depressed demand in the space of a few short months, are faced now with an unprecedentedly bleak and uncertain outlook for the immediate future.

The real danger is a return to direct economic controls. If that happens, foreign investment will be scared off, the recession will be prolonged, and the benefits of current monetary stringency be weakened.

Against a background of falling world commodity prices, and the non-appearance of the long-awaited export-led boom, policy measure has followed policy measure in what have been interpreted by many as panic reactions. Interest rates, once remarkable for their relative stability, have moved — generally upwards — with unpredictable volatility. In particular, changes to gst and HP regulations have been intro-

RDM 18/1/85

Recession hammers furniture industry

By DIANNA GAMES

THE furniture industry in South Africa has been hard hit by the present economic recession with several outlets around the country being closed, and December credit purchases down to half.

Mr S F Redelinghuys, executive director of the Furniture Traders' Association — which represents 92% of all the country's outlets — said: "You can be assured we are taking the necessary action to remedy the situation as fast as we can.

"As much as the industry doesn't want to go to the Government for assistance every time we are in a difficult situation like this one, they are unfortunately involved and we have to look to them," he said.

He said the high cost of money and "unreasonable" instalment sale agreement regulations such as increased deposits and reduced repayment periods had had a "terrific impact" on business.

He said December had shown a drop of 50% in hire purchase sales, while cash sales had only risen by 22%.

He said the drop in HP sales meant a drop in income from finance charges. "With a turnover of R2,4-billion in 1984, that amounts to a considerable sum."

The uncertainty of the market could make any long-term planning and budgeting in 1985 a "waste of time", he said.

"We are worried that both the traders and consumers will lose confidence in the furniture market and I urge them not to," he said.

Mr I Sturrock, managing director of Russells which has 150 outlets countrywide, said: "All our questionable outlets are under review. We have closed one and have one or two others lined up."

He said the recession had "quite dramatically" affected the industry which was in its worst situation since the Second World War.

A spokesman for Bradlows said business was substantially down on last year and he did not envisage any improvement within the next six months.

Mr I Cohen, managing director of Amalgamated Retail which owns six furniture organisations countrywide, including Lubners and Geen and Richards, said they would also be looking at closing non-viable outlets as business was bad.

Farmers deep in the red

By GERALD REILLY
Pretoria Bureau

FARMERS' debts — aggravated by three years of drought — have soared to nearly R10 000-million, the president of the South African Agricultural Union, Mr Kobus Jooste, said yesterday.

To service this vast debt burden demanded interest payments of about R1 800-million a year — a crippling burden for most farmers.

This was why SAAU had decided to ask the Government urgently for further farmer aid amounting to about R1 000-million.

Mr Jooste said the Minister of Finance, Mr Barend du Plessis, had been told by SAAU there were two alternatives — either the farmer must be assisted with subsidies or the country's monetary and fiscal policies had to be amended.

He stressed it was important that taxpayers be made to appreciate agriculture's urgent need for help.

"It is in the interests of the country, the consumer and the man in the street that farmers be kept on the land," he said.

Mr Jooste said organised agriculture wanted to get away from subsidies. "We don't want the farmer to be locked into a situation where he is permanently dependent on the State."

This was the long term aim, but in the short term aid was "urgently necessary".

Star 18/1/85

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Economy: New hope

Current account swings back into the black

Weekend Argus Correspondent

W/E ARGUS 19/1/85 49

JOHANNESBURG. — A big swing-back into surplus of South Africa's current account balance of payments in the final quarter of last year, plus the recent rains should begin to take some of the pressure off the rand.

Reserve Bank governor Dr Gerhard de Kock said that while exact figures for the year-end were not available it now seems that for the last three months of 1984 the current account was showing an annualised surplus in excess of R1-billion.

In addition, he noted that if the recent countrywide rains prove as beneficial as some suggest at least another R200-million may be saved through avoiding the import of basic foods.

While any upward movement in the rand will depend almost entirely on the direction of the US dollar, he emphasised that it was not as serious as some would make out that it has fallen to current levels.

Net increase

He pointed out that although the Reserve Bank has, at times, intervened in the market, this was not to defend the local currency but rather to prevent short-term fluctuations having a distorting effect on the rand.

He noted that although on one day last week the Bank spent $100-million in the foreign exchange markets it actually ended the week with a net increase in foreign exchange reserves.

But he also indicated that this form of intervention may soon be a thing of the past. Often, he said, these massive sales of rands-for-dollar purchases come from the major public corporations who found they needed large amounts of dollars for legitimate reasons at short notice.

"We are in the process of talking to them about coming directly to us when such an order materialises so that it does not impact so sharply on the exchange rate and force panic trading which may push the rand violently in one direction or another."

Expected to continue

The major benefits, however, of the weakness of the rand were beginning to filter through to the economy. He noted that while the net gold mine receipts to the exchequer had fallen quite sharply in the first three quarters of 1984, they leapt substantially in the last three months.

Given the continuing increase in the rand price of gold this trend can now be expected to continue.

And while traditional exporters, particular those of minerals, were already benefiting from the rand's depreciation, it was opening up new markets to those who had previously never looked offshore for markets.

He said there had been several recent examples of companies receiving orders, particularly from the US, on a scale they could never have previously contemplated. There was still hope that SA could follow the trend already established in West Germany, where exports to the US jumped by 50 percent last year.

Farmers deep in the red

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Inflation set to hit 15% this year

S. Express 20/1/85

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By TONY KOENDERMAN, Financial Editor

THE collapse of the rand — which this week plunged for the third time in 12 months — could push the rate of inflation to a new peak of more than 15% this year.

This was the almost unanimous opinion of leading economists, some of whom felt the rand's decline would account for 3%-4% of the rise.

Mr Frank Shostak, of the forecasting unit Econometrix, believed the official rate of inflation, aggravated by a failure to control the money supply adequately, would rise to 18% before falling again, though most other economists were less pessimistic.

The main hope, ironically, was that the severity of the recession would impose a lid on the inflation rate.

"It is not so easy to pass on price increases when the economy is very depressed," said Barclays Bank economist Dr Johan Cloete. "Probably many businesses will have to absorb rises in costs and accept lower profits."

Rising inflation is the main down side of continued adherence to the monetary authorities' current policy of non-interference with market forces. Despite some opposition, both in business circles and from within the government, the authorities seemed determined this week to pursue this policy.

Controls

"We are firmly against direct controls," Reserve Bank governor Dr Gerhard de Kock told Business Express. "These are socialist controls and I don't think they would have helped.

"In the past, we have used these methods, but they have not enabled us to avoid devaluations."

Dr de Kock rejected complaints about the failure to control the money supply, arguing that the decline in the velocity of circulation of money (the speed at which it is recycled through the economy) showed that the authorities' objectives were being achieved.

"In present circumstances our money supply figures have not accurately reflected spending," he said. "Final demand was excessive until the middle of last year, but now we can see that the economy is in a downward phase."

There is no doubt, however, that the money supply has risen at an alarming rate. In the 12 months to November, M1 (notes, coins and demand deposits) rose by 39,6%. Even M3 (M1 plus all other deposits), which Dr de Kock argues is a better measure, had risen by 24,7%. This compares with M1 increases last year of 4,6% in the US and 2,2% in West Germany.

Lobby

Deep divisions over economic policy surfaced in the business community this week. While there is apparently a strong lobby in favour of reimposing controls, the pro-free market group seems to be bigger.

There is less certainty as to the relative strength of the two viewpoints among politicians, however.

And even among the majority of businessmen who are in favour of a continued hands-off policy, there has been a marked loss of confidence over the government's management of the economy.

"Business confidence has been going down mainly as a result of the deteriorating economic circumstances," said FCI executive director Dr Johan van Zyl. "The question businessmen are asking is whether government is actually in control of the economy or not."

Endorsement of free market policies came from Barclays National Bank managing director Mr Chris Ball, despite Press suggestions to the contrary.

"We completely support Dr de Kock," he said. "We are not in favour of controls."

Opposition to the reimposition of controls has been building up strongly among economists.

"Controls might be tempting, but they would be silly and retrogressive," said Standard Bank's Mr Andre Hamersma. "The trouble is that one control leads to another."

The decline of the rand stems from a number of factors, including the strength of the dollar, the weakness of the gold price and poor agricultural prospects. This has been turned into a rout by speculative trading.

However, money market traders question whether there would have been these so-called speculators if there was confidence in the currency.

"The rand would not be going down if anybody had confidence in the economic management of the country," said one. "And as for the dollar and the gold price, these are red herrings. The rand has declined against all major currencies, not only the dollar."

A lack of confidence in the general management of the economy had undermined confidence in the rand, agreed Mr Hamersma.

Undervalued

"Every action is based on the assumption that the dollar will be strong and the rand weak. But people typically overdo things. At 42 US cents, the rand is undervalued. R2 can buy more here than a dollar in the US."

What's been happening is that importers pay for their dollar purchases immediately, or take out cover, so that they are paying before the rand's value declines even further.

Exporters, on the other hand, delay repatriation of their funds as long as possible, believing that in a week's time the dollars they have earned will be worth even more rands.

"Speculation has worsened the situation," said Nedbank economist Mr Rudolf Gouws. "The fundamental problem is the domestic economic imbalances. So I would not favour a clamp on capital flows."

Is there a bright side to this litany of gloom? "There are things happening at the moment which encourage one to be quite optimistic," said JCI economist Dr Ronnie Bethlehem.

"The export sector is standing on the brink of a very large switch in its profitability, based on increased volume and the massive devaluation of the rand.

"Some exporters have sold forward and therefore are not enjoying the full benefit, but my own feeling is that the position is a lot better today than it was six months ago. A lot of the forward sales are beginning to run out. The drop in the rand is a very big bonanza to the export sector.

"By the middle of the year we will see a great improvement."

Business Day/ECONOMY

Rom 22/1/85 (49)

Direct controls no answer — Stanbic

Dr Conrad Strauss, the new managing director of Stanbic, agrues forcibly against the re-introduction of direct controls as a cure for economic ills.

By HAROLD FRIDJHON

IT IS tempting to respond to SA's unpalatable decline in prosperity by turning to direct controls, but these do not provide an easy solution to economic problems.

This is the emphatic view of Dr Conrad Strauss who took up his new position as the managing director of Standard Bank Investment Corporation (Stanbic) last week. Dr Strauss was previously managing director of the Standard Bank of South Africa, the group's commercial banking subsidiary.

In an interview, Dr Strauss said that South Africa's external environment had undergone a substantial change in recent years and the consequences were now being clearly felt. The changes were:

- Generally a more modest and steadier world economic growth rate than in the past;
- A return to a low inflation rate in most industrial countries;
- Technological changes, which had created a new situation in the commodity and precious metals markets.

Fortunes had in fact moved in favour of major industrialised nations at the expense of commodity-producing countries like South Africa.

"This is a relatively new situation for us, but we must accept that it won't change back soon and that we will have to adjust to it and learn to live in this new environment. The whole situation, of course, is temporarily aggravated by drought."

Dr Strauss said that it was tempting to respond to SA's decline in prosperity by wanting to deal with it through the medium of direct controls, but a return to a defensive or "laager" stance would be an ill-considered reflex reaction for three reasons:

- Isolating oneself did not remove the need to adjust to a changed world environment. It merely postponed the evil day and put the country's fortunes at the mercy of arbitrary — and perhaps impulsive — decision-making.
- A comprehensive set of direct controls was not consistent with the new, more dynamic political dimension being introduced into SA society.
- A system of controls could not work for any length of time in a world environment in which market forces were now more dominant than when South Africa last experimented with direct economic management. It would simply be out of step with its trading partners.

Dr Strauss emphasised that South Africa's problems were long-term and not short-term. This meant they had to be approached more realistically by creating a consistent set of defined fiscal, monetary and social policies capable of attaining credibility among the population at large, as well as among the local and foreign business communities.

For this to be achieved, policies and their objectives must be clearly spelt out. There must be a visible commitment to them and they must be applied with complete consistency.

"One of the reasons for anxiety at the moment is that we have not applied, for instance, monetary policy with enough conviction. The money supply is still expanding too rapidly because the stance with assistance to the market and, therefore, to interest rates is too accommodating.

"Both America and the UK had to go through periods of equally high real interest rates before they were able to reap the benefits. Even France had to abandon its more doctrinaire socialism shortly after President Mitterand came to power."

Dr Strauss said that in any circumstances South Africa could not be shielded from the world economy and the adjustments which had to be made could be painful in the short-term. Only by following constructive and clearly defined targets could we open up new growth paths for the future.

Rand spurts as central banks push $ lower

CAPE TIMES 23/1/85

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By PAUL DOLD
Financial Editor

THE rand rose over the $0,44 level yesterday in its strongest performance in weeks in foreign exchange markets, while the dollar moved down in the wake of concerted intervention by central banks.

The brighter performance of the currency lifted some of the gloom which has enveloped financial markets in recent weeks as the rand fell sharply, seemingly with little apparent floor.

Investors were also cheered by the no change in the inflation rate for the country in December, which suggests that the increasingly fierce competition for the consumer's rands since the August austerity package was introduced is having the desired effect.

Profit margins are being cut leading to lower prices and inflation.

While a sharp rise in the fuel price is likely and the effects of the lower rand still have to be digested, December's performance is nonetheless encouraging.

Yesterday's improved rand is a strong warning to gold share speculators. The sudden lift in the rand unnerved the gold board on the Johannesburg Stock Exchange which came back fairly sharply after earlier opening higher.

Investors should be highly cautious in accumulating gold shares at this stage in case the rand firms further.

With the rand grossly undervalued by any standard speculators are open to high risks in taking positions against the currency.

The Central Bank intervention against the dollar — the German, British, French and Austrian Banks sold dollars yesterday — is highly significant and flowed from the recent meeting of Western finance ministers in Washington.

The banks pushed the dollar down to 3,1650 marks and dealers said there now appears to be a ceiling of 3.18 marks on the dollar.

But for the central bank action the dollar might have climbed to new peaks yesterday after news was released that the United States economy in the fourth quarter grew at 3,9 percent instead of the earlier estimated 2,8 percent.

The overall economic growth last year was 6.8 percent — the highest in 33 years. This was coupled with an inflation rate of only 2.4 percent in the fourth quarter. The annual rate was 3.7 percent as against 3.8 percent in 1983.

There was no indication that the United States Federal Reserve intervened against the dollar yesterday but the central bank was selling dollars on Friday.

RDM 25/1/85 (49)

South Africans braced for widespread increases

By DAVID CAPEL

SOUTH AFRICANS, reeling under the impact of Wednesday's massive 40% petrol price increase, yesterday braced themselves for a bombardment of further across-the-board hikes including foodstuffs, public services and transport.

While shock waves — combined with sharp attacks from all quarters on the fuel increase — swept through the business and industry sectors, South Africans were told:

- Food prices across a broad spectrum would go up, some almost immediately;
- The massive increase would cost the Johannesburg City Council at least R1-million in additional expenses in the financial year;
- South African Transport Services tariffs, including rail and air fares, would be raised;
- The bus transport company, Putco, intended applying for a fare increase;
- The price of gas, oil and other petroleum-related products was increased yesterday.

Food chains were still assessing the fuel increase yesterday, and no price adjustments have as yet been made.

But the Housewives' League said it expected a ripple effect throughout the economy.

The President of the league, Mrs Joy Hurwitz, said her main concern was with basic foodstuffs. She said manufacturers would not be able to absorb the increase without passing some of it on to the consumer.

A spokesman for the Pick 'n Pay food chain said he expected food prices to increase over the long-term.

The chairman of Johannesburg's management committee, Mr Francois Oberholzer, said the city would be "cut to the bone" by the fuel increase.

He said it would effect not only the city's buses and big services like refuse removal, but also the running of Johannesburg power stations, since their turbines used diesel.

Mr Andrew Stewart, the president of the Building Industries Federation of South Africa said the increased prices would have a detrimental effect on the industry.

The Associated Chambers of Commerce, Assocom, said reasons for the increase would not alter the impact on the cost structure of the SA economy.

There would be a strong ripple effect on all sectors of the economy and the inflation rate was likely to rise further — Assocom estimates conservatively that the immediate effect could be a 1,5% increase in the CPI and the indirect increase, within 9-12 months, a further 5%.

"There is an urgent need for authorities to take appropriate action in the management of the economy if South Africa is to . . . control the inflation rate," Assocom said in a statement.

The Consumer Council said the increase ignored the root of the problem — "uncontrolled Government expenditure and a failure to curb monetary supply conditions".

It pointed out that during negotiations with the Minister of Mineral and Energy Affairs, Mr Danie Steyn, promises were made that, should the rand firm considerably against the dollar, the price structure would be revised.

The furniture trade would suffer a severe blow from the increase because it now faced across-the-board price increases from suppliers, the managing director of the Furnbea Group of the furniture division of Beares, Mr Mike Farmer, said in Durban yesterday.

The full increase would hit every aspect of the retail furniture business, he said.

Meanwhile, Putco announced that it would apply to the local transportation board for its fare increase to become effective from February 1.

It said it had tried to secure a subisdy, but this was unsuccessful.

Black taxi associations yesterday expressed grave concern at the increase, saying that they too would shortly have to implement fare increases.

However, motorcycle companies are in the pound seats, expecting the price rise to push up sales in what has recently been a fairly depressed market.

Fuel-price increase adds to toll of blows for faltering economy

The day the bubble burst

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S. Times 27/1/85

THURSDAY'S 40% increase in petroleum prices has shattered confidence in the South African economy. It comes on top of successive economic blows, including:

- Huge rises in taxation, interest and other living costs
- Small wage and salary increases
- Soaring bankruptcies and widespread unemployment.
- Disastrous agricultural seasons.

By David Carte

Dearer fuel will take an estimated R4 000-million a year out of the pockets of South Africans. It will push the inflation rate towards 20% in the next few months and keep interest rates at record levels.

Debt doubled

Because of the plunging rand, SA's foreign debt in rand terms has doubled in the past year (see page 7). More and more observers are talking of a "banana republic" and only the low rand has prevented a tide of emigration.

Economists say South Africans have never seen their economic welfare deteriorate as suddenly as in the past year.

They warn that if the dollar gold price declines with softening world oil prices, worse could lie ahead. This would give another twist to the vicious stagflation spiral.

The economic decline has contributed to political unrest and fears are that it will worsen as unemployment mounts.

Business Times economist Rex says that this time — unlike after Sharpeville in 1961 and Soweto in 1976 — SA's problems are firstly economic and only secondly political. He argues that they are largely of SA's making.

Gold prop

He says they stem from excessive dependence on gold and primary commodity exports — the essential structural fault in the economy. While other one-product countries have made strenuous attempts to diversify their exports, says Rex, hardly one economic commentator here has bothered to address the question.

"Our long-term weakness was identified by the Reynders Commission in 1972, but no Minister of Finance has tried to reduce our gold enslavement with an export drive of manufactured goods a la Japan, South Korea and Taiwan."

Economists say the evidence that SA's problems stem from economic mismanagement and not only from the lower gold price is that the rand has fallen twice as much as the gold price. Ari Ulliel says that in other currencies gold has fallen only slightly.

The crippled rand symptomises a lack of confidence in the authorities and their allegedly free-market policies.

Apart from a six-month rally in 1982, gold has been falling since early 1981. It has done so for a clearly identifiable reason — the industrial economies have re-established monetary and fiscal discipline.

Extravagant

The South African authorities have protected extravagance in the public and private sectors with stimulative policies and by allowing the rand to plunge.

The public service payroll last year rose 28% and its numbers by 20 000.

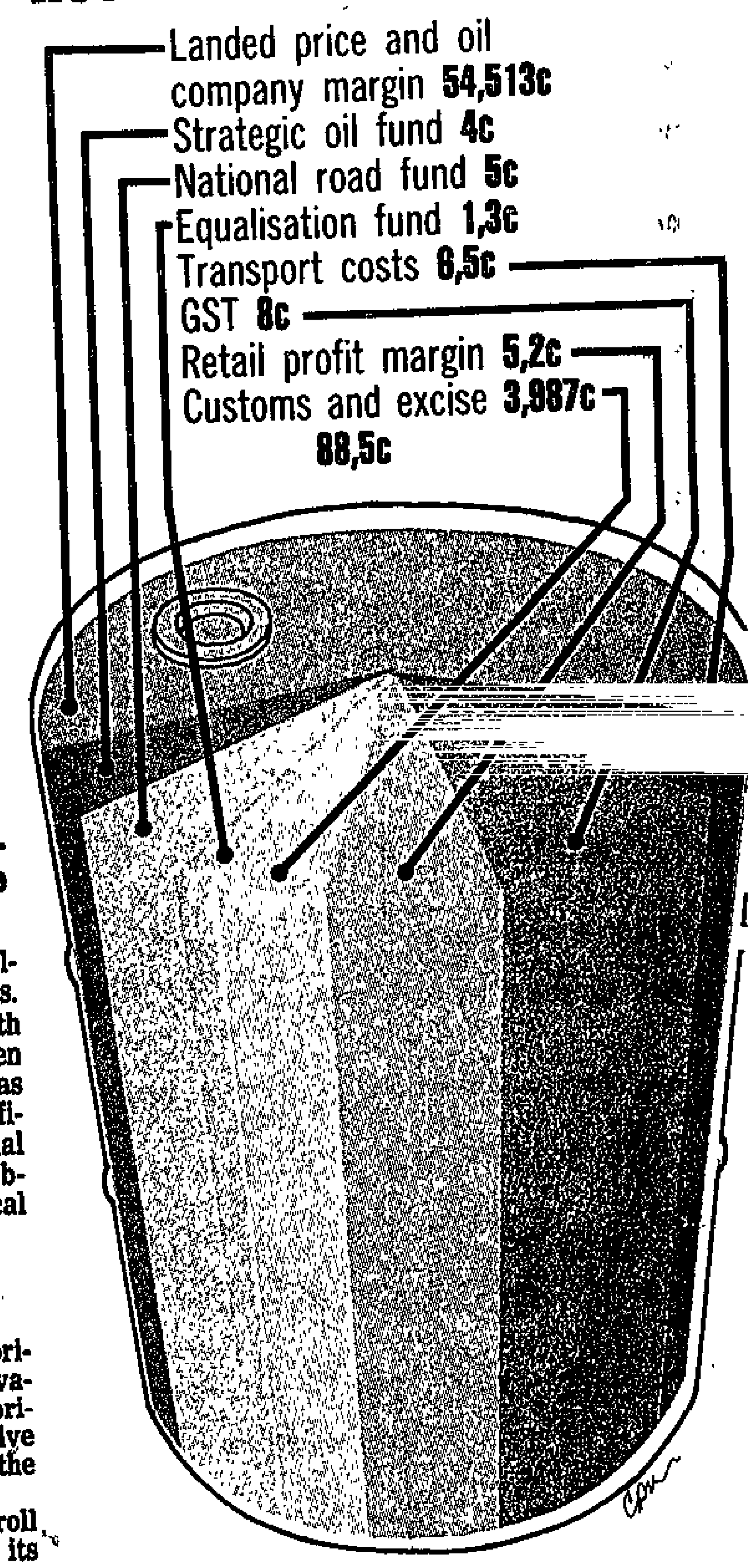
Gold, the authorities reasoned incorrectly, would eventually come to the rescue. It has not and economists warn that it is not likely to.

Because of sacrosanct "free-market" policies, the authorities have depended exclusively on interest rates to cool the economy. These have not worked because rates were not permitted to reach the politically unpopular levels required by real market forces — 30% and more. Instead, there has been ready accommodation of the banking system.

Non-gold exports are rising in volume and rand terms and the balance of payments

□ To Page 3

How the litre is shared



□ From Page 1

is narrowly back in the black. The higher petrol price will cause consumption to fall and thus result in import savings. This will assist the balance of payments further.

Economic observers say this could be the basis of recovery — but not if the gold price falls another $50 an ounce. In this not-inconceivable scenario, they warn that SA can expect hardship for years rather than months.

Controls

Rex advocates a long-term strategy of encouraging manufactured exports with an all-out drive, particularly now that they are so competitive because of the rand.

Another priority should be close examination of political spending and reduction of the Government's role in the economy.

For the short term, he advocates temporary direct controls over imports, if this is possible in terms of the General Agreement on Tariffs and Trade, and tighter control over overnight accommodation to the banking sector.

The rand should be quoted not against the dollar but a basket of currencies of SA's trading partners.

Other analysts call for tax relief on individual savings. For many savers a 20% interest rate boils down to 10% after tax, which is no compensation for inflation.

Until now, the rand has taken the brunt of SA's economic misfortune. These measures could shore it up and help roll back the inflationary tide.

Rand surges to $0,4770 — gold shares fall sharply

CAPE TIMES 29/1/85

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By PAUL DOLD
FINANCIAL EDITOR

THE rand surged to $0,4770 yesterday in the strongest performance for weeks, reflecting closer monitoring of export proceeds and increasing nervousness that the Reserve Bank may soon announce new measures to strengthen the currency.

The change of sentiment caught the market by surprise and trading at times was hectic as dollars flooded the market in a sudden reversal of the leads and lags situation.

The rand's performance was even more impressive given the weak gold price which hovered below the $300 mark.

There was intense market speculation yesterday that the authorities are considering tightening the regulations covering the gold mines foreign exchange revenue.

Dealers are suggesting the authorities may be planning to retain some 50 percent of the dollar proceeds, while allowing the full proceeds in rand terms to be channeled to the mines.

The central bank would thus be in a stronger position to control the flow of dollars to the foreign exchange market.

A severe shortage of dollars has been one of the causes of the rand's recent sharp fall.

The rand which has been fundamentally underpriced for some time may well have bottomed although the weak gold price could again apply pressure.

The rand's strong rise is a notable achievement for the Reserve Bank Governor, Dr Gerhard de Kock, whose recent talks with the commercial banks has led to some shift in sentiment surrounding the rand.

The currency closed at $0,4690 after Friday's $0,4455.

Gold shares closed sharply lower reacting to the fall in the rand gold price and declines of six to 10 percent were widespread.

Randfontein fell R14 and Kloof nearly R6 with some 40 shares closing lower on the day.

The gold index fell more than 40 points towards the 909 level from Friday's 954,6.

The Kruger rand was also hit and the one ounce coin dived R35 to R640.

The industrial index came back to around the 790 level with sector leaders such as Barlows and Brews continuing to ease. But there were some notable gains among industrials with Kersaf, a firm spot, spurting 50c and Pick 'n Pay adding 25c. Some 42 shares eased while 12 were higher and 56 unchanged.

It was a dramatic day too for sterling with yet another rise in interest rates as the pound fell to new lows reflecting weaker oil prices.

Barclays led the rise in bank base lending rates to 14 percent (12 percent), bringing the gain to 4,5 percentage points in the past three weeks. The increase took rates to a three-year high.

The Bank of England later supported the move by the banks by increasing its money market dealing level by two percent.

- Against other major currencies, the rand closed at:

USA: 0,4680/4700.
UK: 2,3800/20.
Germany: 1,4835/55.
Switzerland: 1,2470/90.
Netherlands: 1,6760/80.
France: 4,5350/5450.
Japan: 119,00/50.

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HELPING THE MARKET TO DECIDE

In rather apt circumstances — during the no-confidence debate in the House of Assembly on Tuesday — Finance Minister Barend du Plessis announced the introduction of measures designed to restore confidence to the foreign exchange market and reverse the slide of the rand.

They came at a time when the rand was already showing clear signs of buoyancy. They are designed to refine the mechanisms available to the Reserve Bank to cushion excessive volatility in the exchange rate and provide it with improved information of currency flows.

Hopefully, they will encourage a reversal of the 'leads-and-lags' which have been blamed for the currency's dramatic plunge during past weeks.

The most important of these measures were:

□ Firstly, the introduction of penalty rates of interest in the money market for commercial banks seeking excessive amounts of accommodation from the Reserve Bank.

Thinking in official circles is that both the banks, and their corporate customers, have been borrowing to speculate in one form or another against the fall of the rand. Commercial banks will now have to borrow against certain assets directly from the Reserve Bank instead of going through the discount houses as was previously the case.

This measure will enable the authorities to penalise, if needs be, particular banks who exceed some previously determined credit limit. It will also enable Church Square to link more accurately any otherwise inexplicable movements in the exchange rate to excessive borrowing by particular banks;

□ Secondly, the payment to gold mines of half of their export proceeds in US dollars and half in rands.

Gold mines have been paid their entire export earnings in US dollars, a situation which has been partly blamed for the tremendously volatile movements in the exchange rate of late.

This measure could go some way towards reducing the impact which these large amounts of foreign currency have when they appear suddenly on SA's relatively small forex market;

□ Thirdly, the threat of the reimposition of an import deposit scheme, similar to the one introduced in 1968.

Du Plessis ... sticks to market orientation

Under the previous scheme, importers had to produce proof when clearing imports that they had lodged with the Reserve Bank a deposit amounting to a large percentage of the value of the imports. This was done on a six-month interest-free basis. Du Plessis gave an example of 100% in his speech, but official sources indicate that the figure would more likely be of the order of 25% if the scheme were reintroduced.

The Minister did state, however, that this kind of restriction would only be introduced if the other measures failed to achieve their ends, and he did emphasise that the measures were temporary.

Anticipation of the announcement of these measures had an immediate effect on the exchange rate. The rand, which had been floundering in the region of $0,43 for some time, recovered rapidly over the space of two days to above the $0,49 level.

These measures will no doubt be effective in the short term in reducing the effects of negative sentiment about the rand, which has been causing the wild swings in the exchange rate. They are wisely market orientated. But they will not themselves turn the rand into a strong currency. More fundamental economic adjustments are needed for that to happen.

Hopefully, too, these measures will give greater credibility to official policy. For there has been doubt that Pretoria had the will to tackle the problem of the rand appropriately. They must be followed up by a determined attempt to correct the fundamental imbalances in the economy if the recovery is to be sustained.

This week State President P W Botha added the weight of his office. They were welcome reassurances.

Trouble is that after the petrol price shock and growing political pressures for a return to direct controls, they were not enough. Businessmen fear that the collective economic ignorance of the Cabinet may lead to a spending spree of such proportion that Pretoria will panic at the consequences and resort — as it has always done in the past when in trouble — to the statute book to get it out of the mess.

If that happens and direct controls are placed on imports, with bank credit being rationed again and the value of the rand pegged at some fictitious dollar rate, there will be no natural adjustment within the economy to our more straitened circumstances.

We will be on the path to sure disaster.

For we have not the reserves to defend for any length of time a rand value that does not coincide with the market's view. And a quantitative bank lending ceiling will simply lead to the growth of unchecked lending through grey and black markets while official money supply figures will give the illusion of monetary stability.

Inflation will soar, the competitiveness of our imports will decline once more and the rand will face a massive devaluation that will shock the economy much along the lines that the petrol price did this week — but it will be even more damaging.

What Mr Botha needs to do now is, by some bold and imaginative economic strokes, convince businessmen that he will not be deviated from the general principle of letting the market decide.

The time is ripe now for the auction of a public corporation such as Iscor, or some of the coal mines associated with Escom or elements of transport services. Or perhaps a parcel of government properties. The amount of money raised is of lesser importance than the policy implications and the switching of assets from the public sector to the more productive private one.

After the disastrous episode of the fringe benefits taxes, perhaps Mr Botha needs to announce his intention of introducing a staged reduction in taxation — once current spending is again within the bounds of income — to boost investment and output and thus ultimately increase the tax take as a whole.

Nor is it only in the economic field that government needs to bolster its credibility. Political reform has been confined largely to words rather than deeds. Nor do political controls mesh with a free-market orientated economic policy.

The Group Areas Act and other laws aimed at denying blacks the benefits of urbanisation and encouraging a costly and unproductive decentralisation policy need at least substantial and rapid revision. And, most important, the forced removal of millions of blacks from their homes to fit in with the grand apartheid plan must be stopped.

It is measures such as these, not promises of a vague forum in which to discuss

PUBLIC POLICY

Which way now, Mr Botha?

Seldom has the confidence of businessmen in SA been at such a low ebb. At the best of times it is fragile. But after the buffeting it has had of late by so many contradictory signals from government and so much bad economic and political news, there is a danger of inertia and despair. The economic implications could be ruinous.

Government appears to have lost its way. The decisive and bold leadership so necessary during times of change is missing. Its political and economic policies are sometimes contradictory and retrogressive. A bold and imaginative initiative is badly needed.

It is not so much uncertainty that is the cause of this unhappy state. Businessmen are used to calculated risks in an uncertain world. It sharpens the wits and spurs competition. What is lacking is the belief that those running the country and steering the economy have a firm grasp of what they are about and know where they are going.

It is one thing to face business risk; it is another to invest either capital or energy in a project the parameters of which are constantly mobile. And that, in effect, is what government is asking business to do here at the moment.

Experience both here and abroad has shown that by allowing markets to operate as freely as possible, order is brought out of chaos. The mass of diverse influences are channeled by the market into price movements that enable businessmen to make calculated business decisions. They provide governments with basic economic information vital for the formation of public policy.

So, for government to blow hot on competitive markets at one moment and cold on another, removes the elements of leadership that define acceptable parameters. It means policymakers battle in the dark with predictable results. Likewise, in political matters — in this country of prime concern to businessmen — the consistency of firm leadership is an important element in raising business confidence to the extent that it encourages new and continuing investment. It leads to widespread and infectious erosion of confidence.

As the *Economist* said last week: " 'Let the market decide' is shorthand for saying that freely adjusting prices are in principle better than controlled ones. It does not mean that government can ignore what these prices do. On the contrary, they deserve its fullest attention."

That is why government should take note of at least two key price movements in recent weeks. One was the low to which the rand plunged (and from which it is now happily recovering, as the *FM* forecast) and the other is the 40% jump in the controlled price of petrol.

The low price of the rand told government that those who trade with this country and invest in it have declining confidence in present fiscal trends. Government is living beyond its means, financing current expenditure from borrowings and accommodating these borrowings by allowing the money supply to grow; in other words, using the overdraft to pay for the groceries, as we have pointed out before.

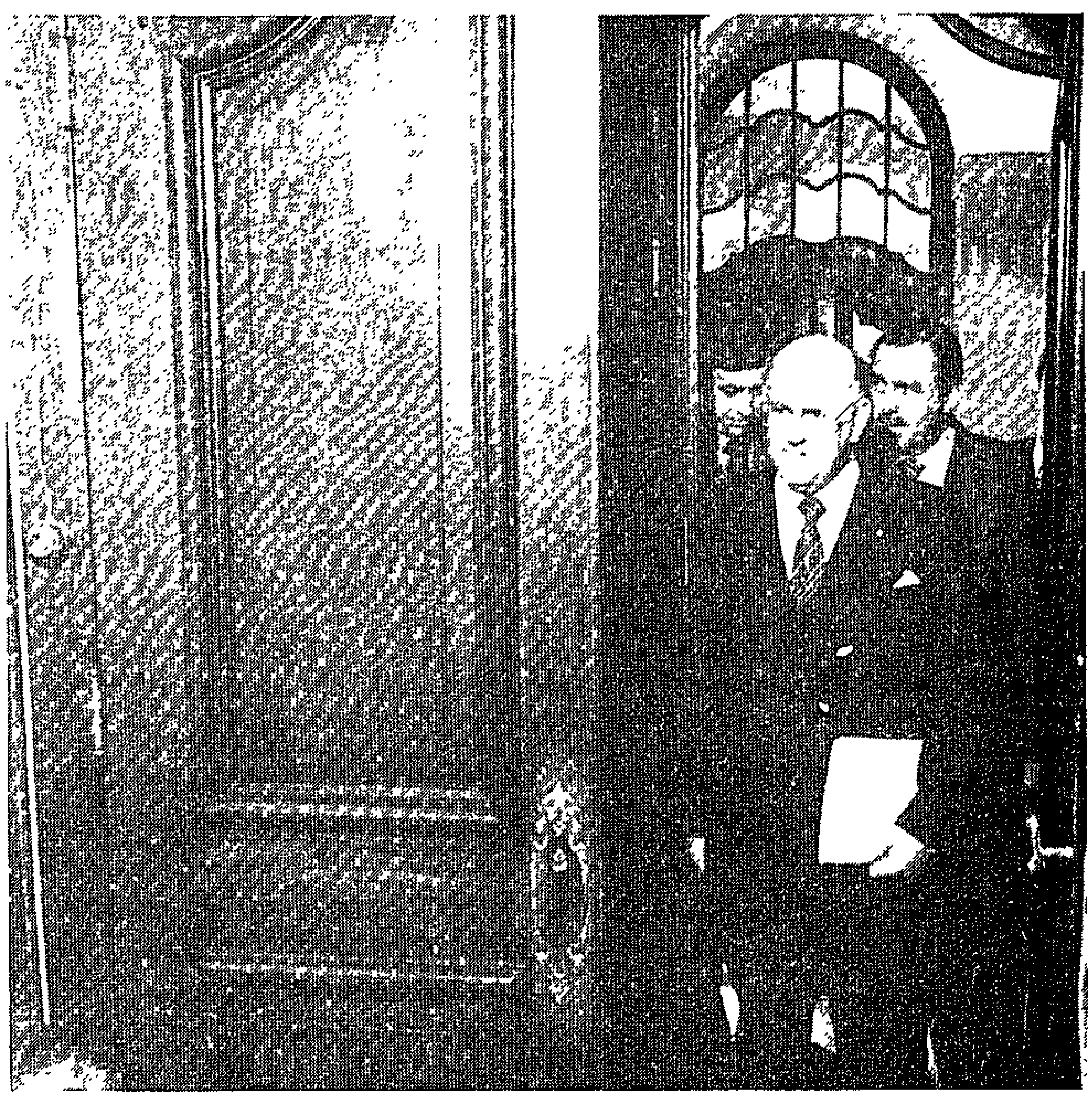
As this view drew more adherents it led to a massive leads-and-lags position against the rand, because no firm measures were taken to convince investors that government plans to curtail its own profligacy.

The process of adjustment set in motion by the plunging rand will gradually enable a return to sounder financing (provided government spending is also curtailed) by boosting income from exports and making imports more expensive for South Africans. In time, this will set off a chain reaction of events that will lead to an orderly return to economic growth.

In contrast, the enormous jump in the price of petrol is rippling through the economy and disrupting markets and budgets as well as other sensitive prices. Government's decision to administer this price and ignore important economic forces was taken at its peril and was a mistake. It deliberately cut itself off from vital economic information, which led to maladministration manifestly against the public interest.

Had the petrol price, like the rand, been adjusted down by the market, an orderly readjustment would have been set in motion. The economy would not have been given a chaotic shock, which will have political and social repercussions. And in their planning businessmen would themselves have been able to forecast what the future price of petrol would be.

What is needed to ginger up business confidence now is a convincing demonstration by government that it will not deviate from its declared policy of market-orientated economic policy. Finance Minister Barend du Plessis has given verbal confirmation of commitment to this policy in recent weeks.



President Botha . . . time for a bold initiative

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quotable

Harold Lever, former British Financial Secretary to the Treasury, writing in the *Spectator*:

Floating rates were sold as an automatic pilot which would react appropriately to relevant signals. In fact, the rates react to quite different signals, sent out by the chronic feverishness of a leaderless world market which has developed mechanisms resulting in a destructive travesty of market economics. The automatic pilot has become a whimsical disruptive force in the world economy. We have exchanged the pragmatism of the Bretton Woods system, which gave time for flexible responses to market pressures, for the inflexible urgencies of parity threats which have injured every government in turn.

When it became clear that we had brought about a system manifestly divorced from the purposes we intended to serve, a new line of argument made its appearance. The floating rate market was to be valued as a thing in itself. It was no longer a tool to be used. Its pronouncements were true, fateful and inescapable.

What is the alternative? There has to be an understanding among a few leading nations about what extremes of parities are mutually tolerable and those which are so badly out of line that they must be firmly resisted by concerted intervention. Intervention would not be directed to achieve optimum rates. It would only be directed to prevent extremes of fluctuation.

sometime in the future black aspirations, that will convince businessmen here and abroad that Botha is capable of giving the country the kind of leadership that it needs.

His reforms so far, especially in the legalisation of trade unions and improvement of urban living standards for blacks, are both significant and are likely in themselves to create uncertainty. That is not a drawback. But failure to continue to provide the type of firm and far-sighted leadership that brought about these reforms is what will keep business confidence down where it is now.

Until the State President shows he is not reluctant to take bold and decisive action, businessmen will not know whether he is leading them to the brink of disaster — or beyond — or to renewed real and sustained economic growth, which is vital to our wellbeing.

(49) FM 1/2/85

DISINVESTMENT

The two-year timebomb

The call for US divestment from SA is intensifying. It keeps US corporations on the defensive. In fact, it may have prevented unknowable millions of dollars from flowing to the Republic.

Within the anti-apartheid movement in the US there are two camps. One is wet and favours a halt in future flows of capital and investment to SA. This is the disinvestment lobby. The other is hardline radical and demands an immediate withdrawal of the US corporate presence in SA. This is the divestiture lobby.

For the time being the wets are more vocal and more visible than the hawks, but even moderate opinion concedes that their time will come — in a few years as Reagan's second term draws to a close.

At the same time, writes our Washington correspondent, it would be wrong to assume that the anti-apartheid crusade is the main topic of debate across 100m family dinner tables in the US.

An opinion sampling conducted last week by the ABC television network and the *Washington Post* revealed that only 52% of Americans were even aware that there were daily protests being conducted (usually for the benefit of that evening's television broadcast) in front of the SA embassy in Washington.

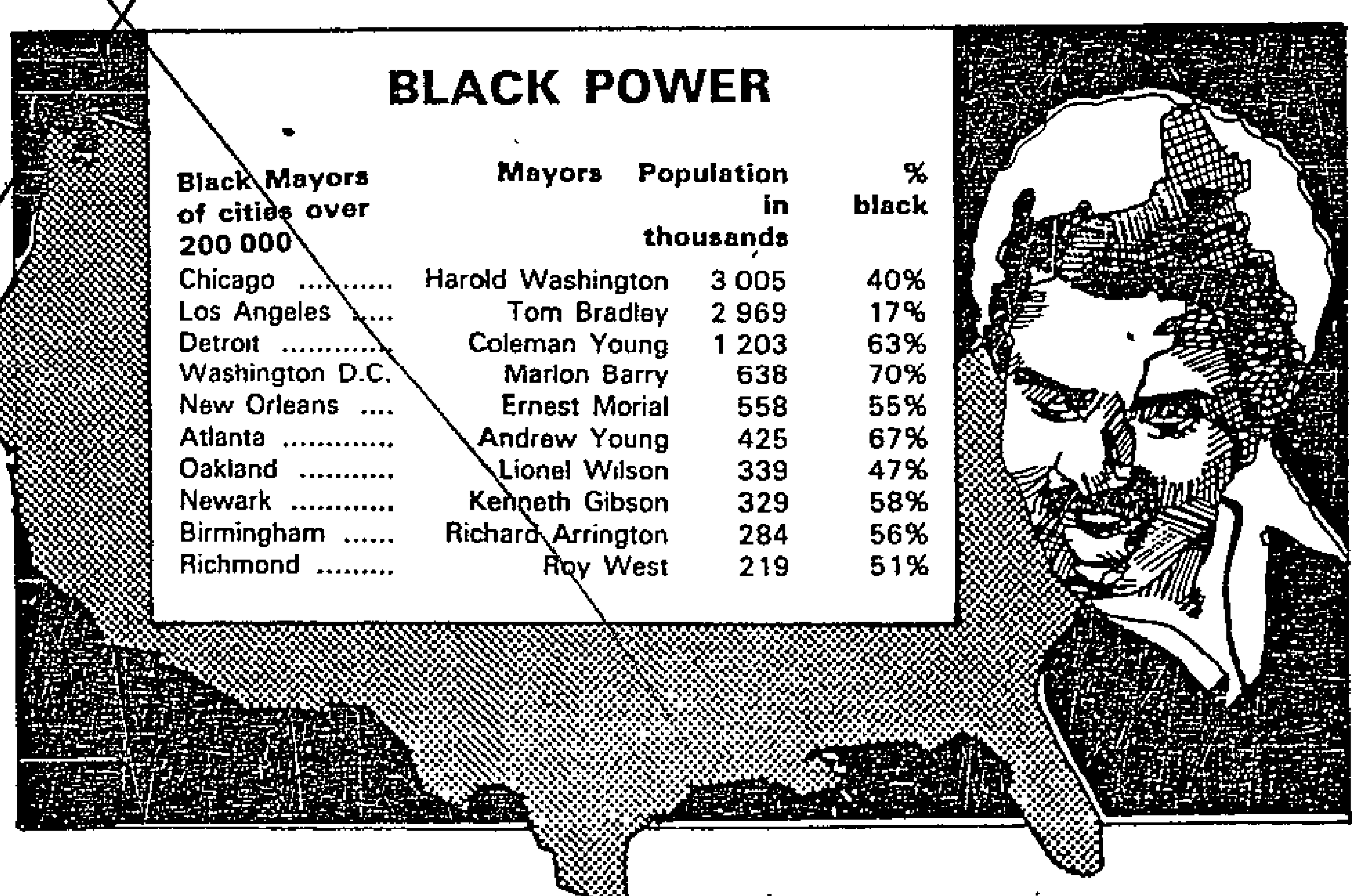
Celebrity arrests

Those protests, which have been running since November 21, have resulted in the arrest of more than 500 celebrity protesters (senators, children of the Kennedy family, film stars and so on) and perhaps 1 000 more have been detained by police in a dozen other cities as they demonstrate against apartheid in front of SA consulates and US corporations identified with SA investments.

So the protests are pretty small beer when it comes to raising the US consciousness about apartheid. Even more telling, more than half of those US adults who do know about the anti-SA protests say they either have no opinion about the issues involved (33%) or disapprove of the protests (21%).

Even black Americans are strangely ambivalent. Roughly 37% of those blacks aware of the protests had no opinion and 7% disapproved. This contrasts with 34% of white adults who had no opinion and 23% who disapproved. In all, 43% of all white Americans who are aware that the protests are going on approve of them, while 56% of the blacks support them. Hardly a ringing mandate.

But mandates can be generated in other ways than by televised media events. And if the US public is not yet turned on by an anti-apartheid fervour, US politicians in in-



BLACK POWER

Black Mayors of cities over 200 000	Mayors	Population in thousands	% black
Chicago	Harold Washington	3 005	40%
Los Angeles	Tom Bradley	2 969	17%
Detroit	Coleman Young	1 203	63%
Washington D.C.	Marion Barry	638	70%
New Orleans	Ernest Morial	558	55%
Atlanta	Andrew Young	425	67%
Oakland	Lionel Wilson	339	47%
Newark	Kenneth Gibson	329	58%
Birmingham	Richard Arrington	284	56%
Richmond	Roy West	219	51%

On the question of the deed of grant, he says the talks have not reached finality. Government is apparently sympathetic to building society concerns, but, as Hart points out, any changes to the regulations would require parliamentary sanction.

Settlement of the outstanding issues is obviously effecting the pattern of building society lending. John Bennett, GM of the NBS, notes that there has been no lending in homeland areas in Natal. Neither is there likely to be, he says, "until we get a signed agreement and the untenable conditions in the deed of grant removed."

However, building societies have traditionally been more wary of making funds available for black housing in Natal. Though the precedent of lending under the

ROBIN MCGREGOR

Scrap controls

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Robin McGregor, author of *Who Owns Whom* is chairman of Purdey Publishing.

Almost every free enterprise country in the world is now on an economic high, and we are way down and going down still further. I give five main causes for our economic position, all of which can be laid at the door of government:

- ☐ The cost of what I call ideological fantasies;
- ☐ Allowing the country's economy to continue to be based solely on gold;
- ☐ The cost of the public sector — it has bloomed like an atomic mushroom at an enormous cost in terms of both cash and efficiency;
- ☐ The imposition of First World standards on a Third World society; and,
- ☐ Not recognising and preventing the serious inherent dangers of concentration of economic power in the private sector.

Ideological fantasies

In looking at these causes, one must take into consideration the cost of the government's policies which include: subsidising independent states; buying land to increase the size of independent states; moving blacks to those independent states; influx control with all its implications, such as expensive administration boards, chasing round the country with bulldozers; and the millions of rands spent on the new parliamentary system, which I imagine is acceptable only to the 130 new MPs who are earning R46 000 a year each, and having to be accommodated in large expensive buildings.

Gold

I believe our dependence on gold has been brought about by the State killing our most valuable asset, that of entrepreneurship. It has been killed by the creation of bureaucracy, inefficient the world over. And we see it both in the public sector and the private sector.

In the public sector alone, we must have the most expensive bureaucracy proportionately in the world outside Russia and other communist countries. This bureaucracy has turned our magnificent country into a banana republic. By far the most effective way to create wealth, and therefore economic progress, in a country is by using to the fullest extent every vestige of entrepreneurship the country has to offer.

In the private sector, a form of bureaucracy has developed through the concentration of control on the Johannesburg Stock Exchange. Our three biggest moneyspinners, Anglo, Sanlam and SA Mutual have two different philosophies.

Anglo, of course, uses its enormous cash flow to get bigger. And by far the most important area in which it gets bigger is in mining and allied fields. Of course, with Anglo it is every field. But unfortunately its tendency has been to buy existing businesses, not to create new ones. The only real major capital expenditure in respect of creating wealth and jobs has been in mining, thus the country's dependence on the one product.

The philosophy of SA Mutual and Sanlam is somewhat different but with the same result. They have millions of rands to invest as we all know but of necessity, because they are dealing with policyholders' money, they have to invest in basically blue chip companies. And very rarely are these new businesses.

Thus we have almost all the country's investment capital going to existing enterprises. This is very unhealthy since we don't get away from our single commodity dependence; nor do we create wealth or new job opportunities.

So with this trend plus the concentration of control and the rambling public sector, there is very little room left over for the development of private initiative.

First World standards

The third thing that government did to wreck this country's economy was to impose every kind of control that anybody could conceivably think of. Not only do we have very dangerous price controls and control boards, but we have hundreds of other controls that impose First World standards on a Third World country. For example, we have controls that stultify expansion, job creation and entrepreneurship, namely our ridiculously high building regulations, health regulations, and the various Acts such as the Factories Act, Companies Act and Offices Act.

I do not suggest Acts of this nature are not necessary in a developing country — in fact they are essential. But I do say that where somebody wants to put up a block house or a timber house, or even in some cases, a wattle-and-daub house, he must be allowed to do so — especially if that is all he can afford as a roof over his head.

If a motor mechanic has the ability and the initiative to repair cars in his backyard, for Pete's sake don't stop him. For it won't be long before he will employ somebody else and, in due course, will move into more suitable accommodation. In the meantime let's encourage him. We can't afford to demotivate him to the extent that he says "what the hell" and gives up to play snooker or darts.

Where I come from we have an abattoir in a rural area. We had a visit from the State Health authorities, and the abattoir was closed down because of a lack of hygiene. I know the abattoir extremely well and although it is far from perfect it has never been any different as long as I have known it. And no one in our town has ever had a problem after eating meat which comes from it. On the contrary, we have people coming from Cape Town to buy at our local butcher. We are now told it is going to cost between R20 000 and R30 000 to upgrade the abattoir to the standards required by our bureaucracy.

Most of that R20 000 will be going to Federated Timbers for material which is owned by Barlow Rand, which is controlled by SA Mutual; and to Crown Mills, the suppliers of slaughtering equipment, which is owned by Murray & Roberts, which is controlled by Sanlam. The cost of borrowing that R20 000 will go to one of the banks, and the person who is going to pay for all that is going to be the consumer, since the cancelled coupon.

But Rodney Schneeberger, MD of Sasria, says: "PFV has been given exemption to keep business with its present underwriter until July 31, at which time it is anticipated we'll be able to offer personal lines business on a monthly basis."

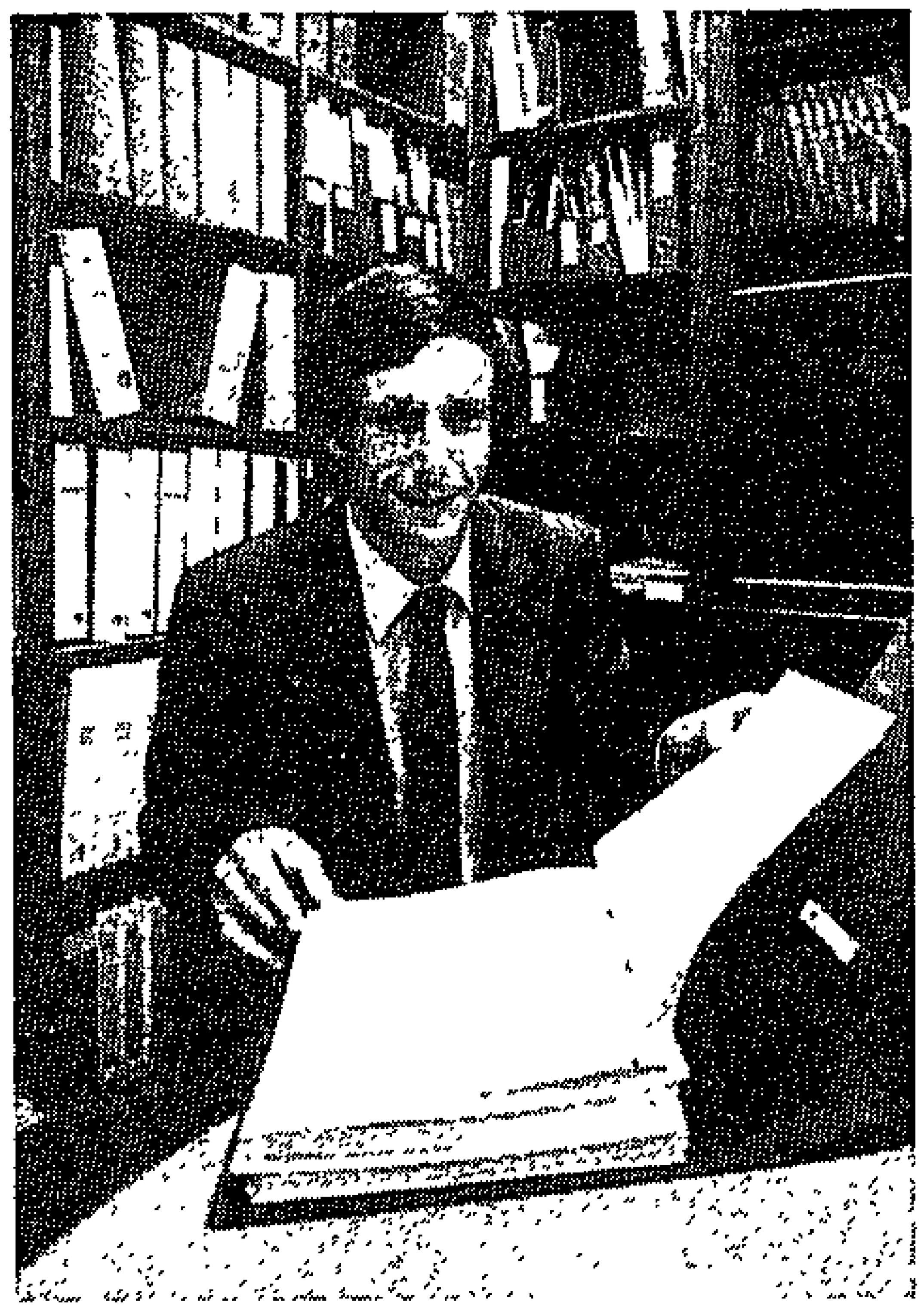
Schneeberger explains that since the cost of Sasria cover is extremely low, it has not up to now been feasible to operate cover on a monthly basis. Besides, from a practical point of view, he says, any changes that take place will not affect the man in the street.

"But I think it is practicable to arrange monthly premiums for schemes business," says Schneeberger. "And the individual, of course, will be able to participate in these simply by buying not only broker policy packages, but also the company ones; for example, Mutual & Federal's Allsure plan.

"We are at the moment looking into this and working out the details, and it will be put up to the board as soon as possible."

SHARE PURCHASE SCHEMES

Too much too quick



Kessel Feinstein's Fine ... sees major problems

One of the most hotly debated issues among tax consultants is the taxing of share purchase schemes in terms of the fringe benefits tax to be implemented on March 1. The issue is confounded by the conflicting interpretations on how the different stages of such schemes should be taxed.

One matter common to any analysis is that, compared to the present situation, taxpayers will be out of pocket when perks tax comes in.

Interpretation of the law concerning share schemes means combining the written word, past practice, and rulings and statements by Inland Revenue officials. In any event, the issue is cloudy and causes consternation among senior management, the major beneficiaries of such schemes.

The *FM* has attempted to have several points on share schemes clarified by Inland Revenue, but to no avail. Tax consultants say the issue has been referred to the Margo Commission for re-examination. General consensus is that share schemes should not be lumped in with the treatment of soft loans, but handled as a separate and unique issue.

Share purchase schemes are one of the most important tools used in staff motivation, especially for executive-level employees. Companies usually structure share schemes by allotting shares to a trust which, in turn, lends money to employees from funds provided by their employer. This is necessary to escape section 38 of the Companies Act which makes it an offence for a company to lend money to a buyer of its shares.

The employee invariably buys the shares by using a "soft loan" granted, via the trust, by the employer. Because the interest payable on the loan is below market rates, the amount is deemed to be a perk and will be taxable in terms of the legislation. The amount to be added to the employee's salary is the difference between the actual amount paid by him and the amount that would be payable at the "official rate," now set at 18%.

Assume the employee is given a soft loan which costs him R12 000 a year in interest repayments. The interest repayment, were it set at the official rate of 18% a year, works out at, say, R36 000 a year. The difference of R24 000 is added to the salary to be taxed at the taxpayer's marginal rate.

If his marginal rate is 50%, extra tax of R12 000 a year is payable. There is, however, a 50% phasing-in allowance of the tax in the 1985-1986 fiscal year.

A benefit exists in that the interest repayments can be deducted from income. And it is not the actual amount that he pays that can be deducted, but the *amount he would have paid had the interest been charged at the official rate*, that is R36 000 a year. However, the taxpayer cannot deduct this full amount because it is limited by rules applying to dividends.

Since only two-thirds of dividend income is taxed, only two-thirds of the interest payment can be deducted from income. Thus only R24 000 a year may be deducted, a cash saving of R12 000 at the 50% marginal rate.

So the net cost to the taxpayer would appear to be neutralised.

But Raymond Fine, tax partner at Kessel Feinstein, points out that the taxpayer's net position is in fact eroded by 25% under the proposed changes compared to the present situation. On R36 000 dividend income, the taxpayer parts with R12 000 interest and R8 000 of tax, leaving cash of R16 000. The R8 000 is calculated as follows: after deduction of interest, two-thirds of the balance of dividend income is taxed at 50%.

With the perks tax, the same income attracts R12 000 each of interest and tax, leaving cash flow of R12 000. This is 25% less than the present situation, and must be a concern for all employers.

Fine points out that another major problem is that ownership of share purchase scheme shares is often conditional upon, say, four years' uninterrupted service. So with the perks tax, the taxpayer could pay tax for three years, leave service, and end up with no shares.

Another problematical area is tax on acquired shares that are sold for a profit. About half of our case law concerns the "capital versus revenue" test, which hinges on the taxpayer's intentions. The general rule is that if shares are bought with a speculative intention, profits will be taxed as income. But if the shares are held with an investment or capital intention, profits escape tax.

Although everyone hopes for the best from the Margo Commission, any final treatment of share schemes will be tempered by the attitude of Pretoria. Inland Revenue officials have reportedly said that share purchase schemes have been good to too many taxpayers for too long.

BUILDING SOCIETIES

Homeland loans

Building societies are still waiting on government to clear away the remaining obstacles precluding them from granting home loans to blacks in self-governing or independent states.

Two problems remain. Societies are unhappy about the political risk involved in lending in foreign territories. They especially fear the consequences of homeland governments nationalising property, or enacting laws which jeopardise their investment. In addition, they feel the deed of grant, the form of title most commonly used in homeland transactions, offers a less secure tenure than the 99-year leasehold. They want the two brought into line.

On the first count government has apparently agreed to the wording of a document drawn up by the societies' legal experts, which in effect binds it to compensating them for any losses incurred through political action. But the minister has yet to sign the document.

Director of the Association of Building Societies, Tim Hart, believes that government inertia is gumming up the works. He says officials of the Department of Cooperation and Development called him a few weeks ago to discuss a minor change in the phraseology. "He's expecting the document to be signed any day now. We are not arguing about principles at all," says Hart.

99-year leasehold scheme has been well established in black urban areas in white SA in the PWV, the eastern Cape and elsewhere, there have been few advances — even under this approved form of tenure — in Natal.

Three areas, Chesterville, Hambanati and Lamontville, were recently approved by government for 99-year leasehold. But so far the societies are yet to commit themselves. Bennett eventually sees the societies coming into the picture. But, quite sensibly, he argues that those who are in the position to buy their own homes should first make use of the cheap finance and favourable terms available under government's black home ownership plan, while it is still on offer.

in my opinion

49

the R20 000 will be passed through the cost of meat.

And, though the consumer will pay more, our primary producer of the beef and the butcher will get nothing. So the fat cats will get fatter — all because we have ridiculously high standards of health; not to mention the costs of implementing and policing those controls. Imagine you have thousands of expensive inspectors travelling thousands of expensive kilometres with magistrates hearing cases all day long in expensive courts.

So I feel strongly that many of our controls should be scrapped immediately, while the rest should have their standards significantly reduced immediately.

Concentration of power

I much prefer a monopoly to a cartel — at least with a monopoly you know with whom you are dealing and can watch it and criticise it and bring pressure to bear upon it, even if the Cabinet won't listen.

But a cartel is insidious. By definition, cartel members keep a very low profile and it is very difficult to prove their existence. Not surprisingly, perhaps, most of our commodities have their prices controlled by monopolies, cartels or, at least, by oligopolies; and we all know an oligopoly can become a cartel overnight (see table).

Firstly, the Competition Board must be given powers to take *ad hoc* decisions overnight if needs be. It must not have to refer to the Cabinet for a political decision. It must have the teeth to fine up to a quarter of a million rand if it finds a cartel exists. It must have very wide powers to investigate the existence of cartels and it must have the ability to act immediately, not, as it does now, take 18 months on average to complete its investigations, only to have its recommendations rejected out of hand on a political decision.

Secondly, I think legislation should be introduced, such as exists in the States, that no company can have more than 30% of the market. This effectively controls both selling and buying cartels. Furthermore, the law in the UK — where if you own 30% of a company you have to make an offer to buy out all the other shareholders — should be introduced. This would mean that anybody who increases his stake to 30% has got to have an awful lot more capital available in case all the other shareholders accept his offer.

This should keep a lot of associate investments below 30% and effectively create more competition, and prevent conglomerates forming as easily as they have been doing. Once the Competition Board has got itself together to prevent monopolies and cartels, price control should be scrapped. Although it was supposed to protect us from the cartel, the price control has ended up being used by the cartels to increase the price of a product.

As far as other controls are concerned we have a very efficient CSIR and SABS. I think they should be instructed immediately to downgrade standards to suit our Third World conditions — particularly any regulation that attempts to formalise the informal sector.

For instance, we have 60 000 pirate taxies on the Reef. As soon as you formalise these by making sure they have all kinds of licences, you'll end up with maybe 5 000 formal taxies and 55 000 drivers out of a job — and not only 55 000 drivers out of a job, but 55 000 entrepreneurs out of a job, who would otherwise, if given free rein, buy second vehicles and employ another 30 000 drivers, say.

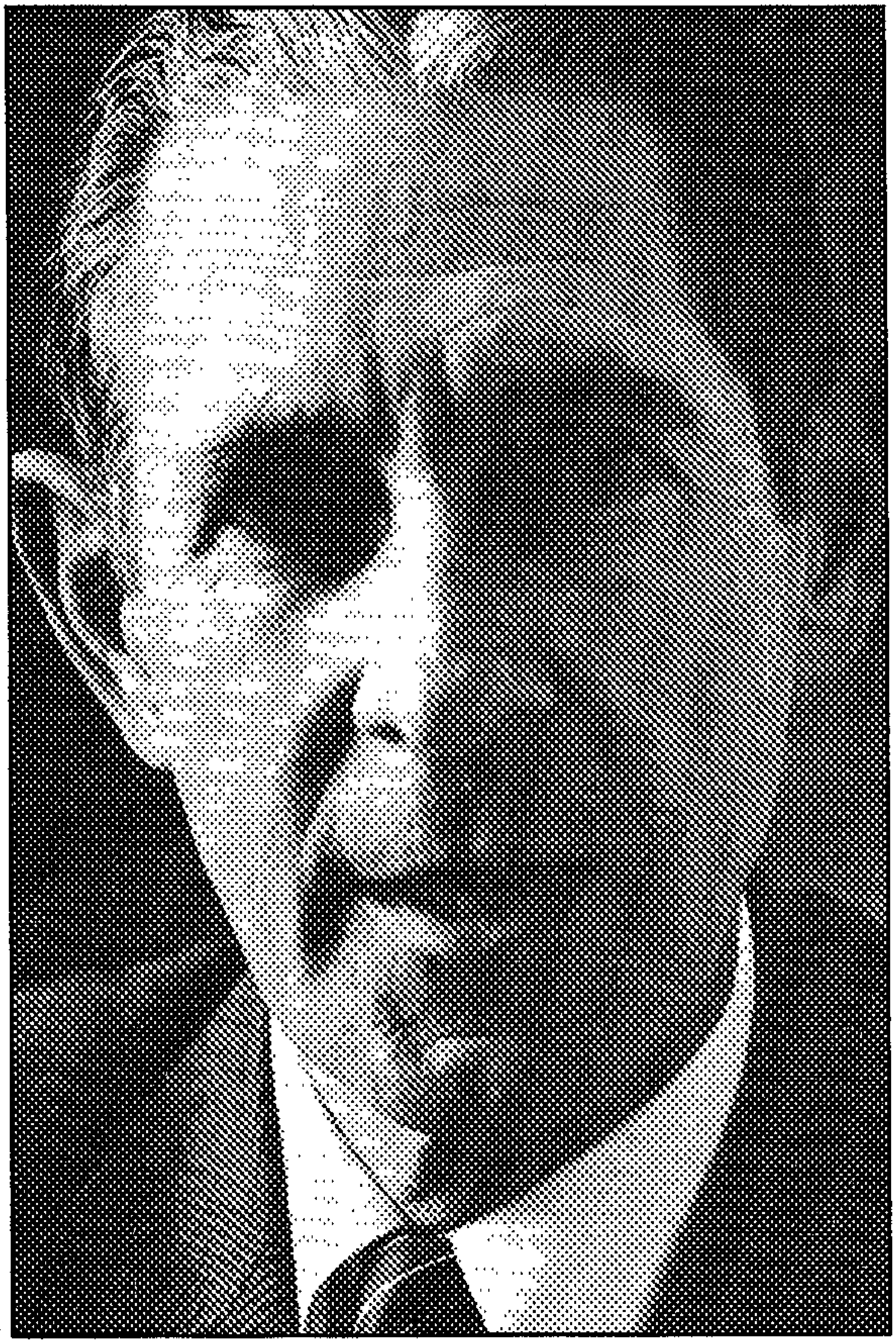
And don't force the Sowetan who has a backyard business employing people into a Small Business Development Corporation factory with six lavatories, three showers, and five of this and 10 of that. Leave him where he is, let him get on with the job of creating wealth and employing people — that's what we need desperately.

I believe we must now make demands for control boards to be scrapped immediately.

Now is the time before we become the victims of total bureaucracy.

COMMODITIES UNDER THE THUMB
Price increases from 1978 to 1984

Commodity	Increase	Price controlled by: State	Private sector
Mealie Meal	187	Control board	Cartel
Bakers Margin	160	Price control	Cartel
Bricks	157	Ex-price control	Monopoly?
Eggs	152	Control board	
Brown Bread	150	Price control	Cartel
Oranges	147	Control board	
White Bread	140	Price control	Cartel
Cheese	139	Control board	
Butter	135	Control board	
Wheat Millers Margin	135	Price control	Cartel
Meat	130	Control board	Cartel
Railage-coal	126		
Inflation	**115**		
Petrol	114	Price control	Cartel
Coal	114	Price control	Cartel
Frozen chickens	97		Oligopoly
Breakfast cereals	95		Oligopoly
Sugar	88	Price control	Cartel
Detergents	71		Free competition
Vegetables	69		Oligopoly
Teabags	61		Oligopoly
Beer	61		Monopoly
Creamers	44		Oligopoly
Coffee	33		Oligopoly
Toothpaste	21		Oligopoly



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W.A. Birrer, Senior Partner, M.L.H. and Partners. Architects and Planners.

When you think that R2 500 million is spent each year on energy in buildings in South Africa, shouldn't more time be spent planning energy efficient systems for them? Systems that not only conserve the country's natural resources but give real bottom-line savings.

At MLH we think so. We rose to the challenge, because we know that it *is* possible to make better use of energy in buildings.

A case in point is the Standard Bank Administration Building in Johannesburg. Designed from the word go with energy management in mind, it achieved the remarkable. A saving in energy of as much as 30% a year, compared with a conventional building of similar size — without any increase in capital costs.

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Energy Management A New Concept in Profitability

Department of Mineral and Energy Affairs

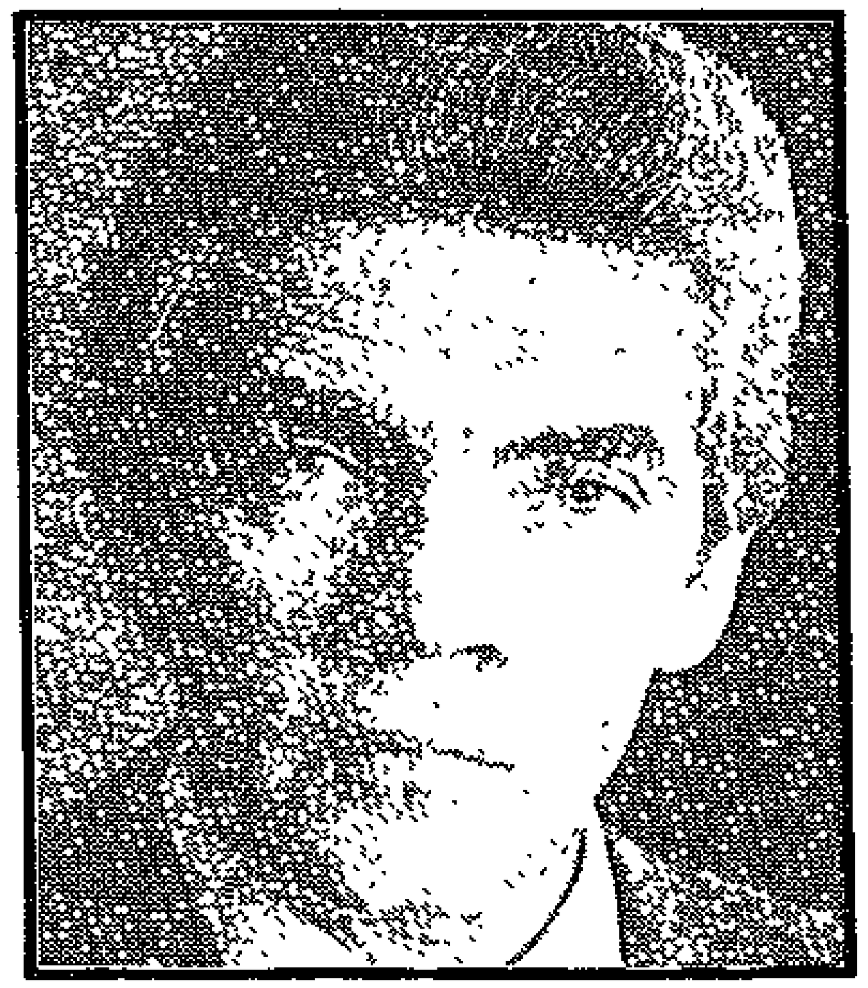
VZ, OGILVY & MATHER 84/745

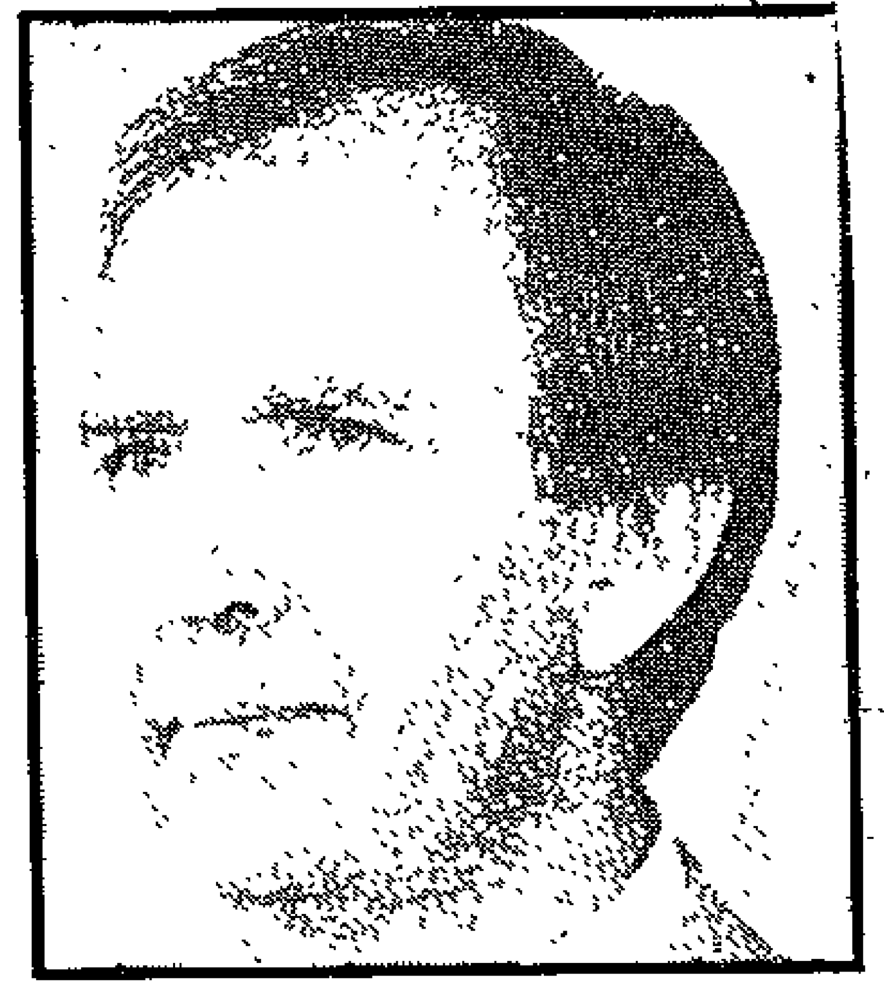
THE RAND . . . AND SA

FRANKEL, KRUGER INVESTMENT CONFERENCE HAS COME AND GONE BUT HAS LEFT PEOPLE IN THE DARK ABOUT THE ECONOMY,


● Mr Peter Wrighton


● Mr Warren Clewlow


● Mr Bill Venter


● Mr Barend du Plessis

S. Express 10/2/85 (49)

Rollercoaster ride of gloom and doom

By PATRICK McLOUGHLIN
Deputy Financial Editor

THE Frankel, Kruger investment conference — one of the most important regular forums for the exchange of ideas among businessmen, investors and the government — has come and gone leaving everyone still in the dark about the direction of the economy, the rand and South Africa as a whole.

Not that one necessarily expected unanimity of opinion at such an event — that would be to deny the very nature and function of such conferences and the inherent differences of opinion, ideas and styles in business and investment.

But if worried businessmen went to the Carlton Hotel this week seeking direction, little was provided.

The conference atmosphere, if anything, reflected the palpable differences in the sentiment that currently exists between the fiscus and those in the firing line — those businessmen who are wilting under the combined effects of an economic recession, ballooning taxation, the drought and a weak gold price.

The smiles and frowns rollercoasted depending on who was speaking and when.

First on the podium were top local businessmen of the ilk of Barlow Rand's Mr Warren Clewlow and they, with few exceptions, painted the by now familiar and pervasive picture of economic gloom and doom.

As to the future, opinions ranged from cautious optimism to marked negativism. And there were calls for the government to do a multitude of things, from intervention to withdrawal from certain 'inhibiting' direct regulatory measures.

According to Mr Peter Wrighton, deputy chairman of the Premier Group, for example, the country was experiencing the worst economic conditions in 50 years and the drought imposed a particularly tough environment on the food industry.

"These are certainly tough times," said Mr Wrighton in almost classical understatement. He added that current inflation pressures came from serious structural imbalances in the economy. Market equilibrium did not exist in the agricultural sector. This was because of many external factors such as guaranteed producer prices, producer levies and control board regulations.

He said the health of agriculture determined, to an extent, that of the entire economy. However the drought had crippled the economy and things had not been helped by the slump in the rand. If these factors continued — food accounted for 25% of the weighting of the CPI — hyper-inflation could be the result.

Mr Clewlow hardly detracted from the pall of gloom when he noted that high inflation, crippling interest rates and heavy taxation were draining the economy of vital capital resources which should be ploughed back to ensure adequate growth.

The shrewd investors had already seen this deficiency and were contemplating the long-term effect if it were not resolved. "This is the main reason why our country and currency have been down-rated in recent times."

Mr Bill Venter, chief executive of Diagonal Street high-flyer Allied Technologies, said: "The uncertainty of the economy is almost too much to absorb and it needs all the courage, ingenuity and effort of senior management to keep the ship on course.

"It is very probable that these factors, compounded by the disinvestment threat and labour instability, will depress the growth rate of the electronics industry in the short-term."

Lightened

The atmosphere lightened appreciably, however, when Dr Gerhard de Kock, Governor of the Reserve Bank, told the audience that the rand would appreciate in the immediate future and its rise could even be spectacular.

The monetary authorities, he said, were dead on course and their diligence in sticking to the current monetary and fiscal policy was starting to pay dividends.

This optimism — marred slightly by the fact that the rand was weakening while he spoke — was reinforced to an extent by the Minister of Finance, Mr Barend du Plessis.

Despite a few preliminary jests which indicated that he was all too aware of how the business world regarded him, Mr du Plessis went on to restore some of the confidence that he has lost

Rebuffing various remarks that the government was acting in an ad hoc and undisciplined manner in relation to new developments on the economic front, he said: "There is an official economic strategy and it is working."

He said the first two main objectives of the current economic policy — that of curbing government expenditure and reversing the deficit of the

P.T.O.

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balance of payments — had been achieved and that the authorities were on their way to cracking other objectives such as cutting the inflation rate.

But any cautious optimism businessmen allowed themselves following the De Kock and Du Plessis speeches was transient and shattered by the very euphoria emitted by visiting United States' speakers.

Mr F G Fitz-Gerald, chairman of American Express Credit Corporation, said: "The US economy is strong and will continue to be so. The patient is alive and well. Our confidence is back and we are ready to lead again and are economically and politically able to do it."

This view, obviously, held little attraction to those from an economy whose main export earner's performance is dependent in no small part on world inflationay expectations.

Mr Hardwick Simmons, vice-chairman of investment brokers Shearson Lehman Brothers Inc, the second largest firm of its type in the US, was equally ecstatic. World inflationary pressures remained low, the Opec oil pricing cartel was beginning to break up and US productivity had begun to increase — at a faster rate than inflation.

Furthermore, the US debt overhang — whose size seems massive to South Africans who see it as eventually cracking the overwhelming strength of the dollar — was a "most overblown issue".

Americans would rate it in order of importance at around number four in a list of 10. The deficit, he added, was only a small part of gross national product and most Americans were ebullient about the economic situation.

Favourable

"The dollar won't fall for a while. There are a whole series of geo-political factors helping this. Overall, it's a pretty favourable picture for us."

The shallow and bruised confidence of local business received little bolstering even when N M Rothschild director Mr Robert Guy, for example, noted that strength in physical demand had given strong support to the gold price and if it had not yet reached its cyclical bottom, there was "only" one more downward move to be expected.

After the conference Mr Simmons probably echoed the perceptions of many of the overseas participants when he told Business Express: "I sensed that local businessmen's confidence was overly down.

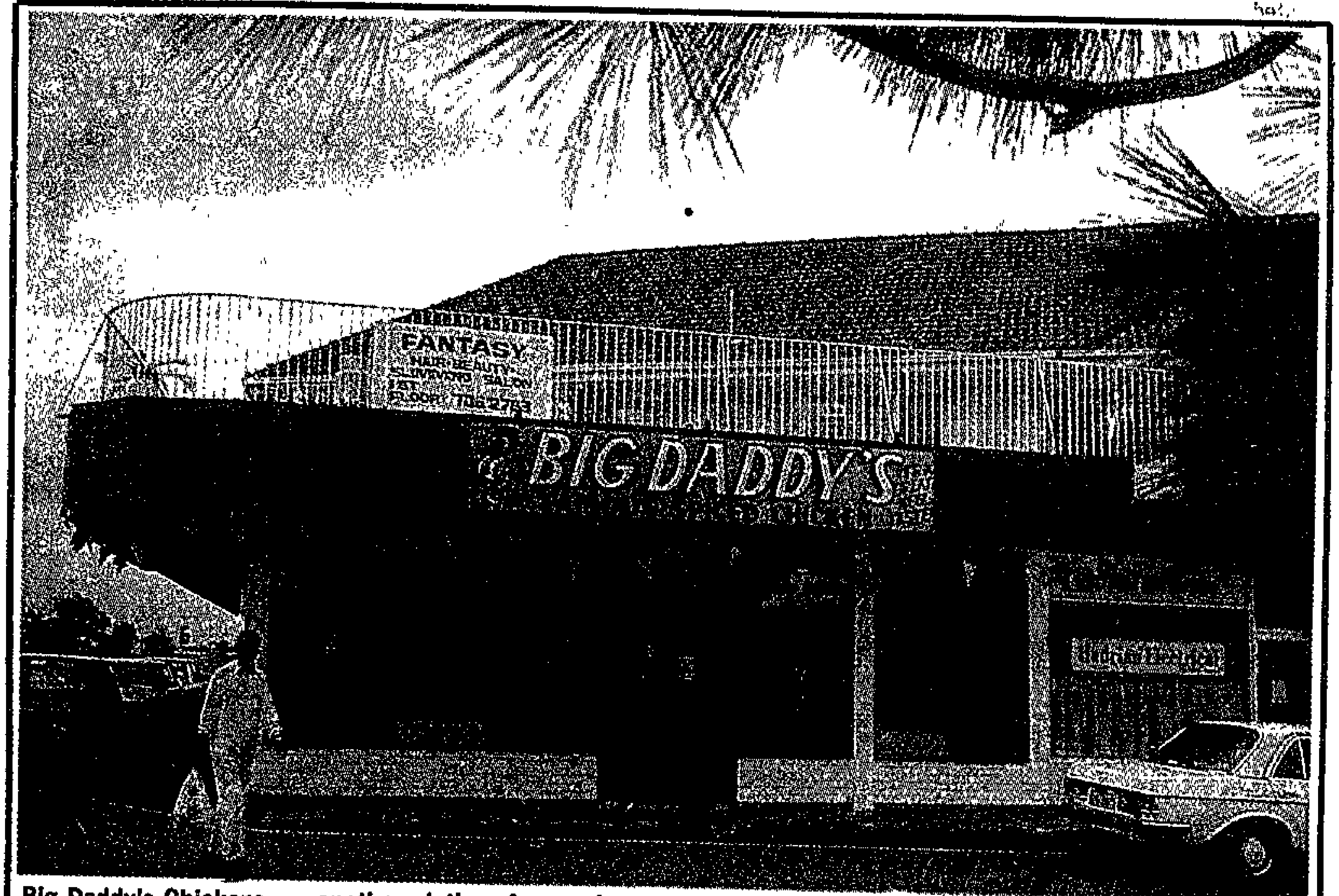
"But we were in this position ourselves a few years ago. What has happened in the US is that we have had four years of a strong leader.

"My feeling is that once you have a set of rules, then as businessmen we can learn to play within them."

He inadvertently touched the raw nerve that is affecting South Africans, however, when he added: "But when the rules are in a constant state of change, that is a different process.

"The main advantage of Reagan has been his consistency enabling businessmen to safely plan ahead."

Would that that were so in South Africa.



Big Daddy's Chickens ... another victim of recession

Picture: Herman Palnczyk

(49) S. Times 10/2/85

Record 350 companies facing bankruptcy

By Alec Hogg

MORE than 350 medium-sized companies will probably go to the wall this month, overtaking the record of 289 set in February last year.

Next month's figure could be higher.

Liquidators, who had a breathing space in December and January as many companies held on in the hope that Christmas would come to the rescue, are working at a break-neck pace.

Of particular concern is the number of established companies which have cracked under high interest rates and depressed demand.

Bids drop

Agricultural product supplier Gollach & Gomperts, established in the 1930s, and the equally old construction company, Miodownik, which built the large Ponte flat complex in Johannesburg, survived the 1976 recession, but they have been crippled by the present slump.

Brian Winterstein, of auctioneers Aucor, says: "We will have twice as many liquidation auctions this month than in February 1984. They range from boutiques and shoe shops to fairly large industrial concerns."

Another problem for creditors is that assets are fetching low prices. Mr Winterstein says: "Reserve prices have been chopped or dropped. Something which fetched, say, R10 000 a year ago is going for at best R7 000 today."

Impossible

One of the larger companies to run into difficulty is Krugersdorp-based trailer and body builder Pieterse Engineering, which once had an annual turnover of R8-million.

Pieterse Engineering held a R4-million stock liquidation sale this week. It was the biggest of its kind in SA for some time.

Chief executive Gary Pieterse says: "The slump forced us into judicial management. The biggest factor which affected us was high interest rates. Someone who buys a truck and trailer must meet interest charges of about 30%. It is impossible in this economic climate to pass on such a cost."

Mr Pieterse believes his decision to go for judicial management will help to save his company. He recommends this route to similarly smitten concerns.

"Since we have been under judicial management I have been able to concentrate on the small things about which one normally forgets when times are good.

"For example, we had 17 company cars on our books last year. Today we have five. In spite of reducing our staff from 150 to 100, our output is the same as before."

Taps off

Big Daddy's Chickens, a Kentucky competitors, has failed. Its three fast-food outlets in Bryanston, Orange Grove, Johannesburg, and Vanderbijlpark, will be auctioned in a week's time.

The managing director of another private company who did not wish to be named as "negotiations with creditors are still in a delicate stage" said

□ To Page 3

Business is tough, 'but people have to eat'

CAPE TIMES 11/2/85

(49)

Staff Reporter

BUSINESS is tough — this was the message gained from a survey of business trends conducted last week.

The survey showed business, excepting food sales, was generally slow in January.

Mr Ken Coote, operations general manager for a national chain of department stores, said sales in furniture, appliances and televisions were bad as a result of the goverment clampdown on payment terms and the increase in deposits. He said there had been no drop in food sales and clothing was "holding it's own".

Mr Alan Baxter, senior buyer in the Western Cape for a national food chain, said his company had had a strong January, with sales 20 percent up on January 1984.

Mr Michael Stakol, managing director of a national clothing store which also has food departments, said: "Business has been tough. Food sales have held up reasonably well — people have to eat."

Ms June Kritzinger, deputy managing director of a national retail discount store, said sales were up 24 percent on last Janaury. She said the beginning of the month had gone well because of to the holidaymakers, but mid-January had been disappointing.

Mr Clive Downton, regional manager of a national liquor retailing chain, said business was quiet, although the beginning of January had been busy with the holiday-makers.

Mr Brain Howard, executive director of a national furniture chain, said: "Nationwide sales have declined since last year. In Janaury we had a surge on fridges, stoves and video recorders, as these are imported goods and people want to buy before the prices rise."

Business Day/THE ECONOMY RDM 20/2/85 (49)

SA economy needs tuning

By HOWARD PREECE

SOUTH AFRICA'S policy makers are showing, belatedly, that they know how to cool an economy down.

But that is the easy part.

The real test is to know when and at what speed to let it heat up again, and to take the right measures now to stop everything from just boiling over in the future.

The general recessionary conditions already under way are a natural accompaniment of the much-needed tough monetary policies that are at last being pursued.

Nedfin Bank reports that there has been "a dramatic slowdown" in the amount of credit granted by the banks.

The parent, Nedbank, says: "The sharp fall in imports in December and the preceding contraction of domestic spending are clear signs that monetary policy can produce tangible results in a relatively short time."

A severe Budget next month — as is now widely assumed — will obviously make the short/medium-term outlook for economic growth and jobs even more depressed.

This has largely to be accepted as inevitable.

There is no way of avoiding a painful period of financial stringency if the economy is to be restored to a reasonably sound basis from which healthy growth can later develop.

But we need not give the authorities too many cheers for what they are curently doing, even though we might accept the necessity for it.

There is, after all, no great skill required to bring an economy to a stop.

Tread on the brakes hard enough and long enough and it will happen.

Besides, if the Cabinet had been politically prepared to take strong financial measures in 1983 (instead, apparently, of giving the constitutional referendum priority), we need not have ended up in such a mess in 1984.

Nor will it be difficult to secure an eventual economic upturn.

The further the economy goes down, the more certain is a cyclical recovery at some point.

What does require skill — immense skill and, of course, some good fortune — is keeping the economy on a sustained and significant growth path.

This is something that South Africa has failed to achieve since the 1960s.

Can we expect anything better in the late 1980s and 1990s?

That is the challenge for the Government, the Reserve Bank and the Treasury.

The evidence of the record of the past 15 years or so is not encouraging.

Both the two big booms during this time — 1973-74 and 1979-81 — were heavily dependent on the external windfall of a surging gold price.

Both of them ran into unexpectedly early reversals as the economy became swiftly trapped in dangerous inflationary excesses.

The 1979-81 experience is worth particular study.

During the 1975-77 recession, and the early upturn of 1978, the authorities were insistent that the mistakes of 1973-74 would not be made again.

The economy, they said, would move up to a manageable growth level (around 5% annually) and then be kept on a "steady as she goes" course.

All the talk, too, was of financial discipline.

But then what actually happened from 1979?

- Growth bounded up by 8% in gross domestic product (and over 10% in real national income) in 1980.
- This, plus past policy failings, caused chronic shortages in skilled and semi-skilled labour that were soon evident in almost every sector of the economy.
- Inflation, already too high at 10%-plus, was fuelled further.
- Money supply was allowed to soar excessively.
- Public sector spending raced extravagantly ahead.
- Too little was done to counter the massive international poliical hostility to South Africa, a hostility that profoundly affects the economy, as the whole disinvesment issue indicates.

Some or all of these factors could recur.

South Africa's education and training, academic and industrial, is still much too inadequate for the country's long-term economic needs.

Apartheid still imposes tremendous strains on public spending — and provides continuing ammunition for the disinvestment lobbies.

Inflation is entrenched by the lack of competition in too many areas.

The time to start cheering will be when there is solid grounds for believing that the Cabinet is determined to tackle all these issues.

EVENING POST, THURSDAY, FEBRUARY 21, 1985

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Wilking criticises economic policies

(49) E. Post

LOUIS BECKERLING
Business Editor

THE present state of the South African economy "cast doubt on the ability of the Government to manage its own affairs", according to Mr Lou Wilking, managing director of General Motors.

Addressing the annual dinner of the Port Elizabeth branch of the Institute of Cost and Management Accountants in Port Elizabeth last night, Mr Wilking predicted he would "get no medals for what I'm about to say, but it must be said".

"As business people, what would your assessment be, of a country which has seen:

- "Double-digit inflation for over a decade;
- "Interest rates rise from 7% to 25% in four years;
- "Its currency devalued in excess of 60% in a little over two years;
- A government that employs nearly 60% of all whites increased their salaries by 30% in a year of major recession.
- "GST raised from 6% to 10% in less than a half a year — and it looks as if it will add another 2%-5% in March.
- "A government which continues to implement programmes that add tremendous cost to the economy such as the Atlantis Diesel Engine plant, and the Saidana rail line?"

These were "but a few items of concern," said Mr Wilking, which "have created a stop-start economy not matched anywhere".

Continuing an uncharacteristically blunt attack on the Government, Mr Wilking said businessmen in South Africa were urged to "get out and tell the world what change is taking place in South Africa".

"I can assure you this is taking place, but when is the Government going to assist the telling of the story by doing away with the Mixed Marriages Act, the Immorality Act, detention without trial, and the Group Areas Act?

"If this can take place, then this disinvestment issue can be laid to rest and I would hazard an educated guess that the economy could begin to come right and South Africa can fulfil its promise in this beautiful spot in the sun."

On prospects for the motor industry, Mr Wilking said the Ford/Amcar merger would result in a "further decrease in market share for the Eastern Cape".

It was inevitable, however, that certain mergers would take place.

"We have more manufacturers relative to market potential than any other country in the world.

"Furthermore, in recent months the taxes imposed on the motor industry have placed the industry in a very unfavourable situation.

"A run-down on recent taxes from which the industry has suffered tells its own story — customs duties, excise tax, ad valorem tax, increased general sales tax, perks tax, and most recently the new proposed taxes on wages and floor space, which, I must reluctantly mention, will all ultimately be borne by the consumer."

Mr Wilking contrasted this high-cost production with the fact that the South African motor industry had the capacity — based on a single shift only — to produce 740 000 vehicles, whereas forecast demand for 1985 was 360 000 units and the all-time record volume achieved in the country was 453 541 units in 1981.

"It is obvious that there is more capacity in place than required on a one-shift basis and cost efficiencies do not begin to occur until facilities are worked on a two-shift basis.

"So it would appear that manufacturing rationalisation will occur if synergies exist

The PE/Uitenhage area, said Mr Wilking, had since the development of the motor industry in South Africa, changed from being the least costly area in which to build motor vehicles, into the most expensive.

"However, the problem is broader than individual companies, or the Midland Chamber, or the Mayor. It is also the people of Port Elizabeth and Uitenhage.

"How many of our professionals, our politicians, and shopkeepers, the workers of Port Elizabeth and Uitenhage, support their own area?

"If they don't, they may wonder where their patients, or voters, or customers, or employers have gone.

"I don't wish to embarrass my hosts this evenig, but how many of you working and living in Port Elizabeth are driving products manufactured in the Eastern Cape?"

Flights

14 bankruptcies each day in '85

CAPE TIMES 27/2/85 (49)

Own Correspondent

JOHANNESBURG. — Fourteen South African companies will go bankrupt every business day this year — with the figure over the next three months expected to be the worst since the 1930s depression.

Already, official figures show the number of companies liquidated in the Transvaal alone so far this year at 386, while the number of private people sequestrated stands at 208.

While only 30 companies from across South Africa were liquidated in court actions in January last year, the figure last month rocketed to 140, according to figures from the Registrar of Companies in Pretoria.

Worst month

When voluntary liquidations are taken into account the number of companies unable to weather the effects of the recession is more alarming. Voluntary liquidations in January last year were recorded at 183, dropping significantly to 104 last month.

One of the worst months for court liquidations last year was November, when 115 companies went under as the result of court action.

On the unemployment front, an even gloomier picture is emerging — although accurate figures for the number of unemployed are difficult to obtain, with independent studies differing vastly to official statistics.

Central Statistical Services puts the number of unemployed blacks at 525 000, but Professor Jeremy Keenan of the Department of Social Anthropology at Wits University says this figure is "absurd". He is backed by economists, some of whom put the figure at well over 2 million.

Rural areas

The Government Unemployment Insurance Fund paid out R18-million to 34 000 people in November last year.

Professor Keenan's own studies show that at least 50 percent of potentially active blacks in rural areas are unemployed.

His research also shows a dramatic rise in unemployment among urban blacks. In Moroko West, for example, the figure stood at 27,8 percent in December 1980 and has shot to 44 percent now.

Even official figures show a significant increase. Latest statistics show 12 048 whites were registered unemployed in November '83, while the figure rose to 15 592 in November last year.

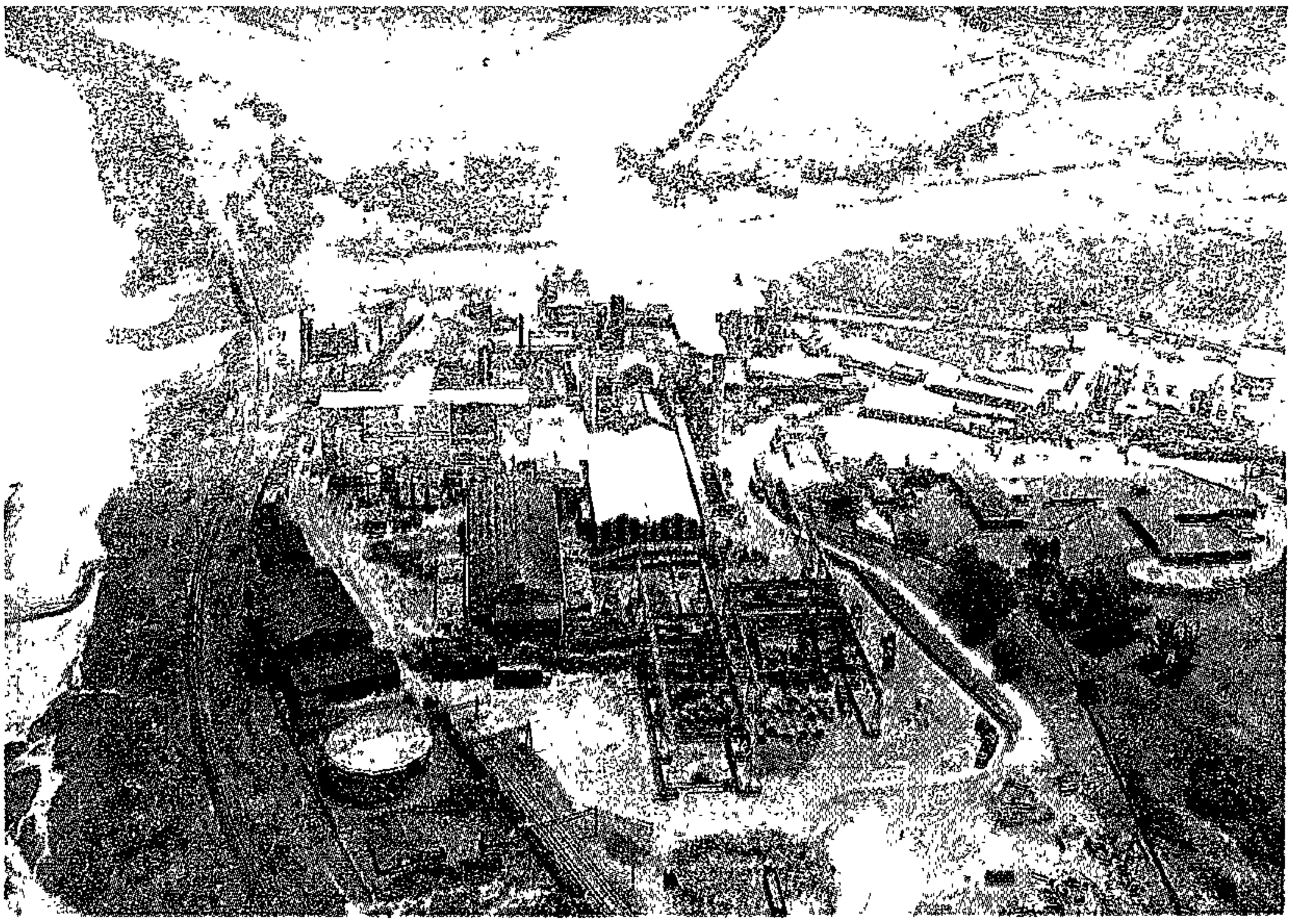
The figures show that in August '83 458 000 blacks were registered unemployed, while this shot to 526 000 in August last year.

Forecasts

The official statistics also reveal 60 000 coloureds were registered unemployed in September '84, opposed to 69 000 in the same month in '83. Also in September, 20 000 Asians were registered unemployed in '83 and 17 000 in '84.

One of the country's leading credit reference companies, Dun and Bradstreet, forecasts that every business day 14 companies will be unable to continue, opposed to 12 last year.

The company's managing director, Mr Alan Mankoss, said yesterday once the effects of the drop in consumer spending over the festive season had been accounted for, more and more businesses would fold.



The CG Smith Sugar complex at Sezela, on the Natal South Coast is the biggest sugar mill in South Africa, with an annual production capacity of 245 000 tons of sugar.

Argus 27/2/85

Why R417m surplus may disappoint

49

Exports and imports soar

By HOWARD PREECE

EXPORTS and imports both soared last month in rand terms as South Africa recorded a R417m surplus on the balance of trade.

But the overall surplus on the current account of the balance of payments must have been minimal.

Welcome though any surplus must be — there was a plus of at least R250m on the current account in the last quarter of 1984 — the January overturn will probably be seen by the Reserve Bank and the Treasury as slightly disappointing.

Mr Barend du Plessis, the Minister of Finance, is hoping for a current account surplus of between R1bn and R2bn for 1985.

Exports in January bounded up to R2,78bn, equalling the record amount achieved in October 1984, according to the preliminary estimates from Customs and Excise.

However, imports were also surprisingly buoyant — at R2,36bn they were the highest since the R2,42bn of August last year.

This provided the overall trade surplus of R417m.

The export and import figures include all gold sales, including Krugerrands, and purchases from abroad of oil and military equipment.

But they do not include service items, so-called "invisibles", such as dividend and interest payments, shipping, tourism and insurance.

According to the latest Reserve Bank statistics, South Africa was showing a net deficit of nearly R400m a month on services in the second half of 1984.

On that basis, the January trade surplus of R417m was almost cancelled out by the services deficit.

This meant that the overall surplus on the current account of the balance of payments last month must have been minimal.

Indeed, the current account could even have been narrowly in the red.

In any event, the position will disappoint Mr Du Plessis, because South Africa wants a large current account surplus over the coming months to help strengthen the foreign exchange position of the rand.

Still, the figures from Customs are only provisional and the later, official data from the Reserve Bank can sometimes show a considerable variation.

What is rather puzzling about the January trade figures is the huge leap in imports — to R2,36bn from R1,64bn in December.

Given the clear downturn in the South African economy and the great cost, in rand terms, of all imports, it is surprising that the amount of overseas purchases was so high.

However, any one month's figures should be treated with caution.

Special factors — such as a large oil bill payment, or delivery of particularly expensive heavy equipment (including that for military use) — can sharply distort the statistics.

The slump in the foreign exchange value of the rand has also given a huge boost, in rand terms, to both imports and exports.

This gives a misleading impression of the volumes.

The January export total of R2 778m is way up on that of January last year of R1 856m.

Imports rose from R1 673m to R2 362m.

In volume terms, however, imports were actually lower, while exports showed little growth.

Sapa reports that a breakdown of trading in world zones showed that Europe remained the largest importer of South African goods, with sales totalling R749,4m, versus R413,5m in January 1984. Imports from Europe stood at R933,4m (R743,6m).

Substantial increases occurred in exports to Asia, now standing at R399,7m (R235,9m), and in imports from America, R401m in contrast to R286,2m in the same period of 1984.

Exports to America stood at R249,4m (R151,9m).

Imports from Asia, which were in second place to Europe at R324,7m during January last year, have fallen behind American trade to R299,9m.

The statement said exports to Africa stood at R82,6m (R49,5m) and imports at R31,1m (R19,5m). Exports to Oceania were R13,9m (R18,3m) and imports R43,9m (R16,9m).

Other unclassified goods and balance of payments adjustments totalled R1280,1m (R984,7m) for exports and R652,4m (R282m) for imports.

RDM 28/2/85

14 firms collapse every week day

49

By DAVID CAPEL

FOURTEEN South African companies will go bankrupt every business day this year — with the figure over the next three months expected to be the worst since the 1930s depression.

Already this year, official figures show that 386 companies have been liquidated in the Transvaal alone, while the number of private people sequestrated stands at 208.

While only 30 companies throughout South Africa were liquidated in court actions in January last year, the figure last month rocketed to 140, according to official figures from the Registrar of Companies in Pretoria.

When voluntary liquidations are taken into account the number of companies unable to weather the effects of the recession is more alarming. Voluntary liquidations in January last year were recorded at 183, dropping significantly to 104 last month.

One of the worst months for court liquidations last year was November, when 115 companies went under as the result of court action.

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Central Statistical Services puts the number of unemployed blacks at 525 000, but Professor Jeremy Keenan of the Department of Social Anthropology at Wits University says this figure is "absurd". He is backed by economists, some of whom put the figure at well over 2 000 000.

The Government Unemployment Insurance Fund paid out R18-million to 34 000 people in November last year.

Natal Mercury 3/12/85

Demand for 300 000 extra jobs each year

Labour Reporter

SOUTH Africa needs to create about 300 000 additional jobs each year to cater for new job-seekers, says Mr P T C du Plessis, Minister of Manpower.

Official figures released in September last year indicated that there were about 600 000 people unemployed in South Africa, he said in an address at the annual trade test awards ceremony organised by the Building Industries Federation of South Africa, Bifsa, at Sandton in Johannesburg yesterday.

'It is clear that the private and public sectors face an important challenge with regard to job creation and job preservation.

Important

'I would like to appeal to all sections of the economic community to eliminate measures that unnecessarily inhibit the activities of entrepreneurs and particularly the establishment, growth and development of small businesses,' he said.

He pointed out that many artisans in South Africa had started small businesses which had developed into large concerns.

Referring to the recently completed investigation into manpower training, Mr du Plessis said that the report contained some important findings which would be released once the Cabinet had studied its recommendations.

'One factor which is disturbing is the compilation and speed of revision of training schedules by the Manpower Training Committees which are not consistently up to the desired standard and do not adequately meet the needs of the various industries.

Practical

'However, I am happy to inform that the National Traning Board has already requested the National Institute for Personnel Research to develop a job analysis and description system for the precise determination of job requirements and training needs.'

He said many artisans who acted as supervisors for practical training were often not qualified to train people and this led to various deficiencies in practical training.

Mr du Plessis appealed to employers not to let their training efforts dwindle during the current economic cycle.

49

Business Day RDM 28/2/85 (49)

Living standards set to fall

By HAROLD FRIDJHON

INFLATION will grow faster than wages this year with a consequent decline in standards of living.

Dr Hans Falkena, writing in the UBS Economic Monitor, forecasts the average inflation rate as measured by the consumer price index (CPI) will reach an all-time high of 16% but he estimates the total wage bill will go up by only 12%.

In the last quarter of 1984 the CPI rose to 13% from 12,2% in the third quarter. The main reason for the increase was the drop in the value of the rand and the rise in the money suypply.

The total impact of the higher petrol price will be to increase the CPI by 3% points, lifting the inflation rate to 17% in the next few months. The full effect of the rand's depreciation is not yet reflected in the CPI but the production price index of imported goods has accelerated from 6,4% to 17% in the six months ended December.

"Fortunately, a few anti-inflationary factors are also at work. The stringent monetary policy has virtually eliminated demand inflation, while producers are forced to absorb at least part of the cost-push price increases (at least in the short run)."

Dr Falkena says unemployment is expected to rise higher than the rate recorded in the second half of 1984 "when Asian, coloured and white unemployment rose by 5 000 to 34 000 and black unemployment was estimated to be 500 000, about 8,5% of the black labour force".

Employees' bargaining position has declined, says Dr Falkena. The public sector has announced a wage freeze — other than annual promotions — while many industries are unable to grant a real pay rise. The end result is that the total wage bill will rise by only some 12%.

Assuming a 6-million-ton maize crop this season farmers' incomes could rise by as much as 30% but incomes of other householders are expected to decline. Direct tax could rise by as much as 20% and personal disposable incomes could rise by about 13%.

"This is hardly enough to finance the expected increase in nominal consumption expenditure and consequently personal saving will remain at a very low level of some 1%."

Money market rates are not expected to decline too rapidly. At the end of the year the prime overdraft rate could be about 22%. Capital market rates are expected to follow money market rates but not to the same degree. A fall of 1,5% to 16% does not seem unlikely.

Assuming an average gold price of $330 for this year, an average rand exchange rate of 55 US cents, an increase of 4% in total export earnings and a decline in the volume of imports, the trade surplus this year could be R7bn but interest charges on foreign loans, estimated at R20bn, would whittle this down to a current account surplus of about R2bn.

Prospects for the domestic economy are bleak and the authorities have no leeway to stimulate it.

The corporate sector, facing a sharp decline in consumer demand, is battling to pay its interest rate charges while importers have taken a knock because of the weak rand. The after-tax profits of companies will probably be slashed by 15% with an expected corresponding cut in dividends.

Government finances are even in worse shape with current expenditure running at a high rate. The salary bill will rise by 12% and the heavy borrowing at high rates on the capital market are now taking their toll.

Since 1980 the interest charge on public debt has increased from R1,1bn (or 9,5% of the Exchequer spending) to about R4bn (or 15%).

A worrying aspect is the Government's use of loan capital to finance current expenditure.

are brushing up on its figures to ensure the banks' willing co-operation.

"The last thing the Reserve Bank wants is an explosion on their hands," says one banker.

Sources say the capital ratios for more common types of assets will vary from between 2% to 6% and bad and doubtful debts and non-performing loans will probably require full capital coverage.

The exercise is fraught with difficulties. Not least of these is the extreme difficulty of categorising assets according to their risk and substantial variation will have to be allowed within categories.

"If Reserve Bank officials are not careful they could end up with an enormously complicated system that would only be manageable by supervisors who move in and have to pass judgement," says one senior bank source.

"And whatever is decided, someone will always be offended and inevitably some will ask for exemptions," he adds.

It appears as if the Reserve Bank has taken the only solution — to postpone matters and write into the draft Bill that the finer details will be laid down by regulation. Once the Bill is passed the Reserve Bank will negotiate with banks on an ongoing basis.

The phasing-in period and method is seen as the crucial issue.

The Reserve Bank has done various exercises with different ratios and last year circulated models based on the Dutch

face to face

(49)

LOU WILKING

Disinvestment issue critical

"The overall state of the economy and the extreme measures taken by the government cast doubt on the ability of the country to manage its own affairs."

Tough words, particularly when they come from a foreigner, General Motors SA MD, Lou Wilking.

***FM:* One of the extraordinary things about your recent speech was that you speak as a foreigner.**

Wilking: It's true. I am a foreigner. But I've lived here since 1977; I've buried my wife and my mother from here; I've raised my family here and married my second wife from here. I'm currently president of the Midland Chamber of Industries and a past president of the National Association of Automobile Manufacturers of SA (Naamsa). I think I am as much a South African as a lot of other people.

Are your views representative of other foreign companies operating in SA?

I can't speak on behalf of others, but I've certainly had support for my views from a lot of people, including managing directors of other multinationals.

What prompted the strong views you expressed in your speech to the Institute of Cost and Management Accountants?

The disinvestment issue is getting so critical that we need a clear statement by the SA government saying what they're going to do, when they're going to do it and, by God, they must do it.

The politicians have to quit making statements, such as on the opening of CBDs to all races, and then letting it drag out.

Even so you must feel the pressures are getting enormous.

Absolutely. General Motors has had shareholder resolutions on SA since 1971, none of which have been passed, and will face one again in May from the state of New York. A number of states as well as cities and universities, all big investors, are now prepared to risk potential returns on investments by doing away with their stocks in any company which does business here.

You must understand the total United States citizenry has very deep-seated feelings about racial prejudices. One can say there have been substantial changes here. For me the most meaningful change is that blacks are now allowed to own their homes in the cities because that says they belong where they are. Americans say that's all fine and dandy, but is it true you can't sleep with a black woman?

Now, you throw that in with economic mismanagement and you've got no pluses. In the past SA was considered a pretty solid sort of place. However, when you look at the final litany of results of recent economic management — interest rates up from 7% to 25% in four years, the value of the rand down by 60% in two years, a government that employs 62% of all whites and increases their salaries by 30% in a year of a major recession, gst up from 6% to 10% in less than half year — what do you say?

These are more recent events. One gets the impression your lack of faith goes deeper.

That's right. Let's go back to the first fundamental: gold is a figment of someone's imagination. Number two: because of apartheid we duplicate facilities, people have to live out in the boonies and ride trains and buses to work and we've got to subsidise Mr Schoeman's Transport Budget. And then to the grander plans: Atlantis Diesel Engines is an example. It cost R600m to build and in my opinion creates a R300m cost penalty every year and in the year 2000 we're going to be 20 years behind everybody in technology.

The Saldanha facility cost some R850m and they're incurring losses of about R150m which gets lost in Iscor's budget and pushes up the steel price when that railway line could have been built to Port Elizabeth, where we have a harbour for R80m.

What should our approach be?

We should be looking at the type of industries suited to the current capabilities of the mass of the people. I'm looking at the Taiwan and Korean type of approach, making T-shirts and tackies. And you've got to cull the public sector and put a choke-chain on every minister. If he overspends his budget, he's out.

And maybe we should look at the losses on some of these big projects and maybe we should shut them down. Take the savings and build the houses and the schools that are needed. That in itself will generate jobs and the demand for door frames and bricks and the things we can make.

Are you saying the disinvestment pressure combined with unfulfilled political promises and economic mismanagement means things are getting so bad it's no longer worth staying here?

Let's get this straight. We're staying here all right. For me SA has the most interesting set of opportunities in the world. There are some of the rarest minerals, a First World infrastructure and, its biggest asset, employable people. But there has to be change. We have to get this political thing sorted out. The sooner we do it, the sooner we'll show what this country's promise is.

You're on record saying you would be interested in a South African partner. Is that not a way of disinvesting?

Who would want to buy into the automobile business in SA when we've got the enormous excess capacity? There ain't any money to take home. However, by getting a partner you may get a better capital structure and, from a networking point of view, it would make sense to give South Africans a stake in the company.

INFLATION — 1985'S MAJOR PROBLEM

My Budget

w/e Argus 9/3/85

by HARRY SCHWARZ, MP

(49)

WHAT kind of Budget should be presented on March 18?

In responding, it is not unfair to point out that perhaps if we would have had the opportunity of contributing to the framing of economic policy in years gone by, the country might not be in quite the economic mess it finds itself, and which now requires more drastic medicine than would otherwise be the case.

The setting in which the budget is to be presented requires due regard for both the strength of the dollar and the weakness of gold and realistic budgetting cannot rely on a sudden major crack in one or an upsurge in the other.

The drought appears to have been broken in many parts of the country and this means that assistance to the farming community need not escalate further.

Consumer demand is still at relatively low levels. The current account of the balance of payments while likely to improve during the year needs to be carefully monitored. A "Safety First" approach to the balance of payments situation is, I believe, necessary.

Inflation is going to be 1985's major problem, with the plethora of administered price increases, high cost of imported goods and the filtering through of such increases as in fuel, transport and postage, the Budget should be anti-inflationary orientated.

Recession in past eras meant high unemployment and low prices. In 1985 it means not only increasing unemployment, but also high prices. The incidence of high unemployment cannot be brushed aside, particularly in a volatile political situation, and after all stability should be an economic as well as a political objective.

The key options to be exercises in this budget are whether to:

- cut back drastically on state expenditure;
- increase taxes;
- limit borrowings.

The option I would choose is to limit government expenditure where it can be done without permanently harming the economy and causing undue hardship. I do not believe in asking those who are already in many ways deprived to make sacrifices.

There needs to be zero based budgetting. Every rand a department of state needs to spend must be justified. We must decide whether a particular state activity is necessary, whether we can safely do without it or postpone it.

Cutting remuneration when inflation is running at 14% per annum and is likely to increase is not an option except in the most dire straights, as a constant nominal salary actually means a reduction in real terms, *ie*, a reduced purchasing power. A reduction of wages in nominal terms will not encourage productivity, nor will longer hours in the public service necessarily produce more work. Incentive to work hard and encourage productivity requires much else.

What should be done is to not replace those who retire, die or resign. Nor should vacant posts be filled unless the replacement or filling is shown to be absolutely essential. So that without retrenchment and without reduction in nominal salary terms the overall cost of personnel would be substantially reduced.

All the innumerable laws which are administered by our public service should have been reviewed long ago to determine which of them we can do without. Massive savings could be effected in this way in this over-governed and over-regulated society.

While there must be major cuts in government expenditure they can only be effected where stability and essential services are not effected adversely. There are aspects of expenditure which cannot be cut back. In some cases there will have to be increases. We will have to provide extra money for pensioners and adjust the means test and we will have to adopt a formula for closing the gap between the races. In respect of social services there needs to be money for the relief of real poverty which is biting seriously in many parts of the country.

There should be assistance, through guaranteed bank loans and lower interest to employers of labour who have viable businesses but have had temporary set-backs. We help farmers in a drought, why not viable industrialists in a depression? One is pleased that previous appeals to do this have resulted in some limited offers of such assistance by the State.

There also needs to be money for housing, but do we at this time need it for removals and consolidation?

There cannot be cutbacks on education and training as this lies at the root of a solution to some of our long term structural problems. The object is a budget without excessive borrowings and without tax increases, particularly not of GST. This is necessary and is also attainable.

There are some tax reforms which could be considered even now without waiting for the Margo Commission Report, such as incentives for new job creation without ideological strings, incentives to save for the private individual, encouragement to foreign long-term equity investors as part of an answer to disinvestment campaigns, and encouragement of productivity.

The public would, from the measures suggested, know that the country is being put not only on a path of political reform, but economic reform in regard to de-regulation, privatisation, job creation, productivity, opportunity and real effort at solving long term structural problems relating to education and training and other acquisition of skills. White current economic conditions might make immediate major changes difficult, at least the Budget should indicate the road on which the country is to be set.

What we would try to do, is to use the Budget as a mood piece, to set the tone for more optimism and confidence as to the future and for credibility and a belief in ourselves and our ability to solve problems. If we do not have this belief in ourselves then we cannot expect others to have it.

Cape Times 13/3/85

Budget to reduce govt spending

49

Political Staff

MONDAY'S budget will aim to reduce government spending as a contribution to fighting inflation, the State President, Mr P W Botha, indicated yesterday.

In a statement in Cape Town in which he commented on deliberations earlier this month by the Economic Advisory Council (EAC), Mr Botha said: "The budget which is soon to be presented, and which cannot be anticipated in detail here, will also be aimed at, among other things, making a contribution to the fight against inflation.

"In this regard, the government is in total agreement with the (Economic Advisory) Council on the need to reduce government expenditure . . ."

Economic strategy

He added that because indiscriminate reductions in government spending could have far-reaching and undesirable social and other consequences, continual close attention was given to determining priorities in the public sector with a view to restricting State spending in the medium and long term.

"Such priorities will be determined against the background of the national economic strategy, which is at present receiving attention from the Central Economic Advisory Council with a view to the formulation of recommendations to the government," Mr Botha said.

He reaffirmed the government's policy on job creation, and emphasized its serious concern about unemployment.

In a resumé of the EAC discussions earlier this month, Mr Botha said all members emphasized that it was essential that inflation be fought more effectively, although it was accepted that the rate would continue to rise "for some time".

Different opinions

The council also emphasized that government-administered prices had to be fixed strictly on the basis of sound economic principles.

With regard to the economic policy in general, Mr Botha said there were different opinions in the EAC on the most appropriate combination of measures.

"Nonetheless, there was unanimity that a more balanced combination of monetary and fiscal policy, with greater emphasis on fiscal policy, supplemented by a conservative approach to the adjustment of salaries, wages and prices over which the government has direct control, is essential if the present economic problems are to be dealt with effectively."

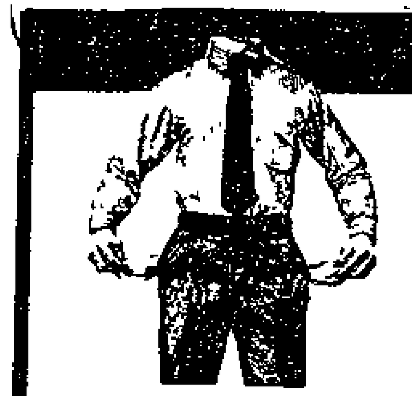
...ne Friends of America ...s; Mr Mike Kovensky, ...the cubs were born; ...or of Aromaland.

...km dash after bite

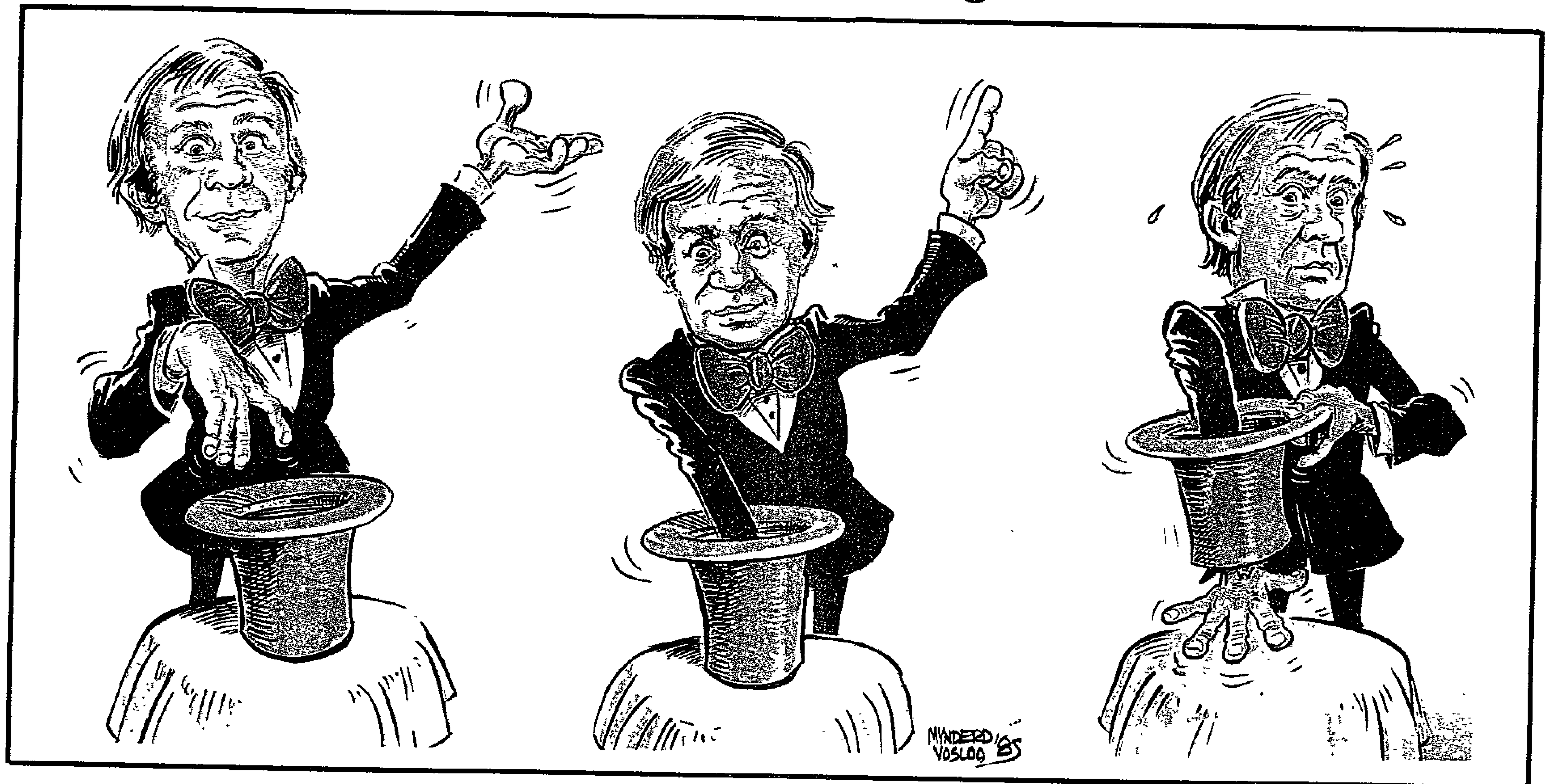
Meanwhile serum from the Transvaal Snake Park, at Halfway House, had to be rushed to the Johannesburg Hospital. The assistant curator, Mr Dave Morgan, got the stocks there an hour before Mr Strydom's arrival.

Because of the severity of the bite, a large dose of 100ml of the costly serum was administered. The ...

WEEKEND FOCUS



Will the Minister of Finance pull something from the hat?



Barend's Budget Box

AND HOW IT ALL WORKS

BACKGROUND

to the

BUDGET 1985

by JOHN MacLENNAN
Political Staff

IT usually weighs just under two kilos, comes in two languages of closely-packed type and runs to about 750 pages.

The latest print order is only 650 copies and every year it is a best seller at something like R12,50 in spite of its dry title: "Estimate of Revenue and Estimate of Expenditure from State Revenue Account."

This is the book of facts and figures which Finance Minister Barend du Plessis will present to the House of Assembly on Monday when he makes his first Budget speech since taking over the portfolio.

Pat Kelly, who is Deputy Director — Financial Administration — of the Treasury, provided Weekend Argus with nuts and bolts facts on how the authors of this tome set about producing the country's annual financial blueprint.

Budgets run in three year cycles. January No 1 sees departments providing their so-called pre-planning figures. By January No 2 these modified and approved estimates have percolated through to the Finance Minister for his budget of the second year and only towards the end of the third year is the original budget closed off in book-keeping terms.

The Government's 28 departments are parcelled out among the four sections of the Treasury which therefore asked these departments in January,'84 to predict their expenses for the financial year starting in 15 months' time... at the end of this month.

Mr Kelly explains:"At this stage the sky is the limit and they ask for as much as they think they can possibly get. Then we have to trim them down to size."

The "trimming" is not done without proper investigation.

In one case, for example, the Department of Sea Fisheries wanted funds to replace the rusting steel platforms and ladders which provide access to one of the guano islands off the West Coast. No way, was the Treasury's first response. But after Treasury officials visited the storm-swept outcrop they agreed to pay.

None of them was willing to climb the rickety structure in order to prove a new access would be a waste of taxpayers' money.

The pre-planning figures provide the basis for protracted financial arm wrestling when representatives of the departments motivate their spending before the 16-man estimates committee of the Treasury.

Hot under the collar

"They sometimes get very hot under the collar when they talk to the committee," says Kelly. The representative of one department, for example, might demand that a certain favourable ruling in terms of another department also be applied in his favour.

The Finance Minister (and we're talking about January No 2) receives documents reflecting the bureaucrats' requirements, their recommendations as well as the estimates committee's decisions... the Cabinet for approval...

... on the veteran gnomes of his department), advice and requests from the private sector which are conveyed through interviews granted by the Finance Minister to business representatives, top officials of the Reserve Bank and the State President's Committee for National Priorities.

At Cabinet level the Minister of Finance is likely to have come under heavy pressure from more senior Ministers who are unhappy about the amounts their departments may spend. If there has been township unrest, for example, the Minister of Law and Order will have cogent arguments for more cash.

When Mr du Plessis was in charge of black education he also presided over one of the fastest rising budgets, second in size only to Defence. It is therefore almost a case of a poacher turned gamekeeper and predictions are he will find it difficult — especially as he is a junior cabinet minister — to say "NO" to demands.

Whatever happens, happens and the departments are told what the Cabinet has decided. If they are unhappy they may still take the matter up again with Mr du Plessis, or even appeal over his head through the relevant Minister to the Cabinet.

Officials of the various departments then draw up their estimates within what the Treasury calls the "guideline amounts" before the entire batch of proposals are again tested against new factors which might have arisen. The Department of Agriculture, for example, might need extra money to cope with the effects of a disastrous drought or flood.

four main authors traditionally go for a splash lunch to celebrate.

At the same time top officials of his department will have drafted the speech which will take Mr du Plessis more than two hours to deliver on Monday. The Finance Minister naturally retains the right to make changes as he sees fit, but by and large he delivers the goods as prepared by his backroom staff.

This raises interesting questions. Is there a humourist in the department who littered the speeches of his predecessors such as Mr Owen Horwood and Dr Nico Diederichs with platitudes and jokes on a set theme such as "Confucius says...?" Or were the Ministers themselves to blame for these awful witticisms?

It also makes sense to leave finance to officials who know their field instead of someone who is a rookie at the subject. Dr David Rees, an economist at UCT's Graduate School of Business, notes that Mr du Plessis "started very badly by making some intensely stupid statements. He doesn't know very much about the job.

"In some portfolios you don't need technical knowledge. The Minister of Health, for example, need not be a doctor. But a Minister of Defence should know about tanks and jets and a Minister of Finance should similarly have technical knowledge."

He does concede, however, that Mr Du Plessis is "getting better as he goes along".

Only the Minister, his closest associates and those who had a hand in preparing, typing, copy-ing the speech actually know what he is going to say regarding tax and the revenue he will earn from it.

Security within his department is basically a matter of trust, but officials still ensure that every advance copy of the Budget and the Minister's speech is signed for so they can trace leaks back to source.

In his speech the Minister will also make a series of announcements which are not provided for in the "White Book's" figures. So it will be back to the calculators again next week so officials will be able to produce the revised and final "Blue Book", which will contain all the amendments and in fact has a blue cover.

For certain VIP's the Government Printer also produces a gift-pack in black hardcover with fancy gold writing.

Woe betide the department that overspends or uses funds for purposes other than those for which they were originally approved.

A department cannot, for example, acquire an aircraft instead of the 10 000 dustbins for which it originally earmarked the money.

If a department does go over the top it can approach the Minister of Finance and ask him to condone extra spending.

And in the case of plain unauthorised spending, says Mr Kelly, Parliament's select committee is there to ask uncomfortable questions.

"They (department officials) all know Harry Schwarz sits on that and they're very scared of him because he knows his onions."

Tax cuts could be Monday's surprise

By DEREK TOMMEY, Finance Editor

SOUTH Africans may be in for a few pleasant surprises — including a further cut in income tax — when the Minister of Finance, Mr Barend du Plessis, presents his Budget on Monday.

The latest tax figures show that Government revenue is buoyant and that he should have no need to raise taxes to meet next year's expenditure — providing this is kept under control.

Economists who have analysed the State's finances, believe that Mr du Plessis will need to raise R27-billion in taxes next year to meet expenditure without having to resort to excessive borrowing.

No trouble

However, the latest Treasury statement shows that the Government already has a tax income of about R26-billion on an annual basis. This means that with the natural increase in tax revenues from the normal growth in the economy and inflation he should have no trouble reaching his target.

In fact, with Mr du Plessis having convincingly demonstrated by way of the wage freeze on the public service and the cut in public service annual bonuses by a third that he is determined to limit Government spending, there is a strong possibility that he could even announce a number of tax concessions.

The biggest candidate for a cut is income tax. Although this was trimmed at the beginning of this month the rate is still excessively high. Inflation has pushed South Africa's income tax rates well above those of most Western countries and are a major target for any tax changes.

Moreover, because of continued inflation, income tax rates have to be reduced if the income tax rate is not to be increased again.

Because of the steep tax rate gradient, South Africans — even at the new rates — still reach a 50 percent tax rate at only R60 000. In West Germany and the United States, married taxpayers hit a 50 percent tax rate only at R120 000.

Whether after adjusting income tax rates, Mr du Plessis might have sufficient cash in hand to also trim the general sales tax is a moot point. However, there is a possibility that he could reduce GST to eight percent and partly make good the loss by imposing taxes on perishable foodstuffs which are exempt from tax at present.

This would result in a uniform tax structure and also make it easy to check that retailers are passing on all the GST they collect to the Government.

The ordinary excise duties on liquor and tobacco, which are continually being eroded by inflation, are likely to be increased in order to enable the Treasury to maintain its income.

Businessmen will be waiting to see if there will be any major changes in company taxation. It has been suggested that certain tax concessions might be abolished and company tax also reduced.

Although this is Mr du Plessis's first Budget it is expected to have major implications for the country's long-term growth and for the economic welfare of the public.

Man-in-street hit

THE ARGUS 18/3/85

Du Plessis takes a swipe at Horwood

Political Correspondent

FINANCE Minister Mr Barend du Plessis today took a side-swipe at the policies of his predecessor, Mr Owen Horwood, when delivering his first Budget.

Mr du Plessis told Parliament that until the middle of 1984 the response in fiscal and monetary policy to external shocks to the economy was "too slow and too lenient."

This allowed "total spending to rise at an excessive rate with adverse consequences for inflation and the balance of payments."

He said that since he had taken over the portfolio there had been more resolute application of the financial stabilisation policy, which had succeeded in achieving the initital objectives.

These objectives were the curbing of total spending and bringing the balance of payment into surplus.

"NOT IDEAL"

Mr du Plessis said that for the past two years the mix of monetary and fiscal policy had not been ideal.

Fiscal policy had been unduely expansionary, while monetary policy had to take too great a share in stabilising the economy.

This sparked the increase in interest rates, which had brought hardship but had not at all times been high enough to curb overspending, inflation and the drop in the value of the rand.

Parliamentary Staff

ACROSS-THE-BOARD spending cuts and a tough year for the man in the street were spelt out in Parliament today by Finance Minister Mr Barend du Plessis.

But there was some relief in what he described as one of the most important budgets in the economic history of South Africa.

Delivering the Budget speech before a joint session of Parliament this afternoon, Mr du Plessis said: "A temporary decline in the average standard of living, before it resumes its upward movement, must be accepted as inevitable."

The Government was prepared to do its bit and had cut spending in real terms by more than two percent after seven rounds of tough negotiations with State departments.

Social pensions are to be increased by R300-million, nurses and under-qualified teachers are to get pay rises, and there will be more money for education.

Three conditions

Defence spending will go up but by less than the inflation rate, and defence will receive a smaller slice of the overall Budget cake.

Mr du Plessis said he would meet three basic conditions for the recovery of the economy. These were:

- No increase in real terms in Government spending this year.
- Current expenditure, such as salaries, must not again be financed by borrowed funds, as had happened to an unacceptable extent during the past two years.

Reduce spending

- The "deficit before borrowing" — the difference between total spending and tax revenue — must be restricted so that there is minimal borrowing.

He would achieve this by reducing public and private sector spending, ensuring the maintenance of a surplus in the balance of payments and reducing excess demand to bring down the rate of inflation.

However, it was still important to achieve objectives of growth and employment, with special attention being given to relieving the effects of unemployment.

'We must hurry, but carefully'

Political Correspondent

SOUTH Africa had to hurry with its constitutional changes but had to make them carefully, the Finance Minister, Mr Barend du Plessis, said today.

Stability, security and prosperity were the aims, he added.

Delivering his Budget speech in Parliament, Mr du Plessis said constitutional development, with its concomitant demand for social and economic upliftment, had substantial financial implications.

"The irreversible and dangerous social and economic consequences of irresponsible constitutional experiments are incalculable and therefore clearly unacceptable to reasonable South Africans. We must hurry, but carefully.

"The benefits of orderly and responsible constitutional development materialise slowly.

"If the differences in our society can be resolved by negotiation, by bold initiatives and the development of political structures at all levels, our great land of promise will achieve the stability, security and prosperity that is its birthright.

"It is encouraging that, within the constraints of this Budget, this vital area of responsibility can be accommodated to enable the Government effectively to pursue its complex and daunting brief."

'State cannot write off farmers' debts'

Parliamentary Staff

THE Government would not be able to write off farmers' debts, the Minister of Finance, Mr Barend du Plessis, warned.

Instead, he said, farmers had to be helped to help themselves.

He told Parliament that the Government had to dig deep into the taxpayer's pocket to help the agricultural sector as a result of the calamitous drought of the past three years.

Financial aid by way of grants and subsidies came to R447-million in 1984/'85 alone, and the method whereby farming was financed had to be reappraised.

He said: "The crop prospects in most areas are very much better this year and I therefore make an earnest appeal to our farmers to avoid as far as possible outlays on less pressing capital items and to devote any surplus funds rather to the redemption of existing debt.

WILL AND ENERGY

"Suggestions are heard on occasion that the State will ultimately have no choice but to write off farmers' debt.

"But those holding this view would be well-advised to take note of the fact that the Exchequer does not now have, nor is likely at any future date to have, sufficient surplus funds to apply in this way."

The desperate debt situation in which many farmers found themselves was well understood by the Government, which regarded it with sympathy and compassion.

"However, the lasting solution to agriculture's problems — apart from climatic considerations — is clearly not to be found in grants and subsidies but lies in the will and energy of every producer to organise his affairs according to the best principles of both farming and finance."

The authorities would help to create conditions and facilities to this end, he said.

Privatisation policy to forge ahead — Minister

A STRONG stand on the privatisation of State undertakings was taken today by Mr Barend du Plessis in his Budget speech.

He said that in keeping with the policy of promoting free enterprise the Government was seeking ways of defining and effecting the privatisation of Government and State corporations and enterprises.

And the President's Council is to investigate the hurdles facing businesses looking for work in the public sector.

Privatisation would allow for the harnessing of skills and energies of the private sector in major areas of economic activity still within the public sector.

The attraction of this policy was that through sensible privatisation:

- Services could be made available more cheaply.
- Unused or underused capacity could generate income.
- Expenditure could be reduced.
- The proceeds from the sale of public assets could be used to lower the public sector debt which, by reducing the interest burden, would assist in further pruning of expenditure.

Govt committed to rapid growth — Du Plessis

By DEREK TOMMEY, Finance Editor

THE South African economy had the potential for rapid and sustainable growth and the Government was committed to the realisation of this potential, said Mr Barend du Plessis.

The main goals of long-term budget strategy were high and sustainable rate of real economic growth and the creation of adequate employment opportunities with reasonable price stability and a sound balance of payments.

He was concerned that the expected annual average growth rate of 3,6 percent forecast in the 1979 EDP would leave the country with a structural unemployment problem. Special measures to deal with this were therefore called for.

The Government's strategy to achieve its long-term economic goals would be based on a number of financial principles.

All expenditures, current as well as capital, for which the Government assumed responsibility would be brought back in to the central Government's Budget.

Expenditures of such bodies as Sats, Post and Telecommunications would be excluded.

Total public sector spending, which had risen from less than 35 percent to 37 percent of GDP in the past three years would be reduced to below its 1981 level before the end of the decade.

Except in unusual circumstances, the deficit before borrowing would be kept below 3 percent of GDP.

The public sector deficits would be financed in a way that would facilitate the achievement of target growth rates for the money supply that might be set by the authorities.

Mr du Plessis said the State President's Cmmittee on National Priorities had already discussed indepth preliminary guidelines for growth in public sector spending until 1990-91, and preliminary targets had been agreed for nearly three-quarters of central Government expenditures.

New system to cut spending

Parliamentary Staff

THE Minister of Finance, Mr Barend du Plessis, today announced that the Government was to implement an "early warning system" for possible over-expenditure by State departments.

This would replace the system to control Government spending announced during last year's Budget, which had achieved only limited success, said Mr du Plessis.

[illegible]2,4-billion boost for State from tax

Financial Editor

ON the basis of current tax rates the Government expects to collect R26,6-billion in 1985-86 — an increase of R2 750-million, or 11,5 percent, on the revised estimate for 1984-85, Mrdu Plessis said.

Inland revenue collections were expected to rise by R2 785-million, or 12,7 percent, to R24,7-million.

He said all the major revenue sources were expected to show increases notwithstanding the low levels of economic activity.

Tax and lease revenue from gold mines were estimated to rise 16 percent to R2 350-million, while tax income from non-mining companies should yield R4 250-million — an improvement of more than 10 percent.

A SMALLER INCREASE

Individuals should contribute about R8 950-million in income tax, an increase of R1 110-million or 14,2 percent. This was a smaller increase than in 1984-85. It reflected the net loss of revenue from fringe benefit taxations as well as the more moderate average increases in taxable emoluments in the public and private sector and therefore the lessened effect of fiscal drag.

Sales tax receipts in 1985-86 should rise to R7 100-million, which was R1 205-million above the 1984-85 figure. After taking into account changes in the tax rate, this was equal to an increase of about 12 percent.

Customs and excise revenue might fall by 1,8 percent to R1 880-million, even though customs duties were expected to rise by 7,7 percent to R1 475-million. This fall was mainly the result of the growth of customs duties payments which were expected to rise 9,9 percent to R1 550-million. This matter was being investigated.

Mr Du Plessis said revenue in 1984-85 was R23,8-billion, which was only 4,6 percent above the budget estimate of R22 777-million.

Gold mines were expected to pay R2 025-million, an increase of 9,8 percent.

Structural changes in this sector, such as joint ventures and mergers, increased capital expenditure and higher outlays had contributed to a decrease of R1 608-million in total revenue from the gold mines since 1980-81, from R3 633-million to R2 025-million, in spite of the 1984-85 rand price of gold being about R550 an ounce or some R100 higher than in 1980-81.

No news on separate taxation for couples

Parliamentary Staff

WORKING couples are still none the wiser about separate taxation of their income after this afternoon's Budget.

Mr du Plessis said he had hoped to address the problem today but the Margo Commission, which is studying it, has not yet had a chance to make recommendations.

Mr du Plessis said: "As much as I would like to deal with this long-standing issue now, it would clearly be inappropriate either to confirm or change the system before the recommendations are at hand."

On estate duty, however, Mr du Plessis made it clear that changes were coming this year.

He said the Government believed estate duty, at least in its present form, was no longer appropriate.

The Margo Commission would formulate recommendations but "as an interim measure, certain amendments will be introduced during this session of Parliament in consequence of the Matrimonial Property Act of 1984".

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The Argus

CAPE TOWN, MONDAY MARCH 18 1985

BUDGET SPECIAL

Living standards drop, defence costs cut, but pensioners, nurses, education get more

GST goes up to 12%

ARGUS 18/3/85 (49) whole page

Separate tax tables for married, unmarried taxpayers

Parliamentary Staff

A COMPREHENSIVE restructuring of the individual taxation structure has been announced by Mr Barend du Plessis.

New tax tables are to be issued with effect from July 1 1985.

Separate tables are now proposed for married and unmarried taxpayers.

In the case of married people a basic rate of 16 percent is proposed for the income segment R0 to R12 000 (compared to the present basic rate of 12 percent for the segment R0 to R8 000).

NEUTRALISED

The increase in the rate will, however, be neutralised by the increase in the primary rebate from the present R460 to R880.

The maximum basic rate of 50 percent is reached at an income of R60 000 (compared to the maximum basic rate of 50 percent at present which is reached at R40 000).

In the case of an unmarried taxpayer the basic rate of 16 percent is proposed for the income segment R0 to R10 000 (compared to the present system of a basic rate equal to that of a married person, but

Political Staff

GENERAL Sales Tax goes up by two percent to 12 percent next week in a mixed-bag Budget which will take an extra R1 737-million from taxpayers this year.

The bad news, and a modicum of good news, was announced before a joint session of Parliament this afternoon by the Minister of Finance, Mr Barend du Plessis.

He spelt out across-the-board spending cuts by the Government, but also a tough year ahead for the man in the street.

In his first Budget speech he called for a record R30 890-million to run the country.

The surcharge on personal income tax is to go up from five percent to seven percent, but because of threshold and margin adjustments most people will pay about the same or slightly less.

Smokers, drinkers

Pensioners and the lower-income groups will, however, benefit quite considerably because of increased rebates.

Top-bracket earners will find themselves paying more.

Smokers and drinkers have been let off the hook, with no increase in tobacco or alcohol excise duties.

But a big shock for businesses is that previously duty-free office machines and computers will be subject to 10 percent excise duty and 10 percent customs duty.

In the same money-raising net are photo-copying machines, vending machines, addressing machines, coin-sorting machines, post office franking machines, cash registerrs, calculators — and even pencil-sharpening machines.

Computer games, videos

Also affected are electronic computer-game machines, and the thriving video market receives a knock, with the present customs duty of 10 percent on video recorders going up to 15 percent.

Mr du Plessis left company tax unchanged at 50 percent, with no surcharge, except for mining companies which face added surcharges.

A special levy of 0,25 percent is to be payable by all banking institutions on the average amount of all deposits held at the end of each quarter of the year.

Mr du Plessis said this was not a levy on depositors but a levy on the banks. However, it might eventually work its way through

19 percent gain in education slice

Parliamentary Staff

THE claim on South Africa's financial resources by the Defence Force is to drop this year while huge new amounts are to be pumped into education.

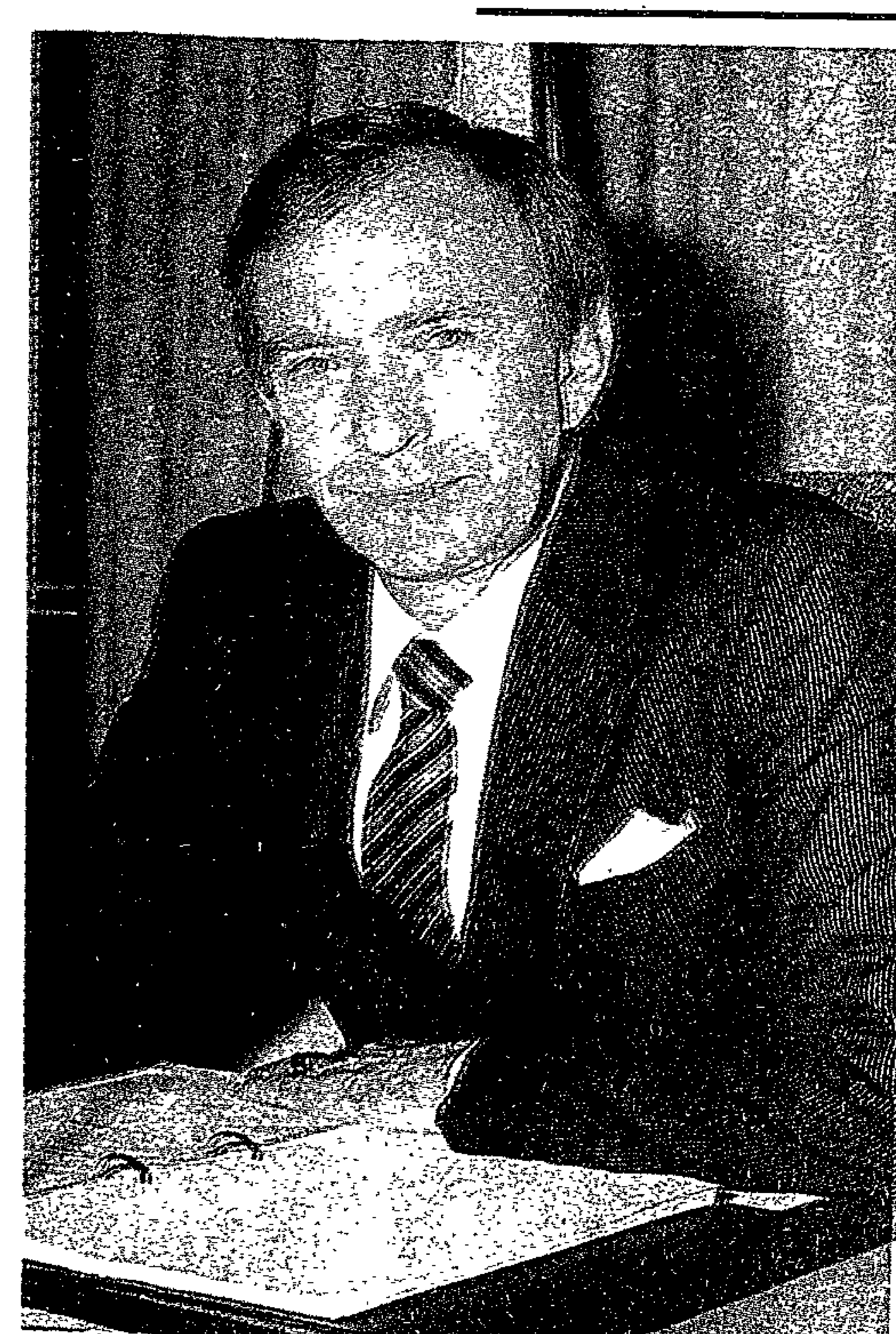
Education spending is to go up by 19 percent — one of the highest increases appropriated to any Government service.

Introducing his Budget, the Minister of Finance, Mr Barend du Plessis, said over the next two to three years the amounts spent on education would be "massive".

Altogether R5 044-million will be spent on education this year and on defence R4 274-million, which is an increase of 8,1 percent. This effectively reduces Defence's slice of the budget from 14 percent last year to 13,8 percent.

This is how the budget cake has been divided this year:

Department of the State President - R11 174 000
Parliament - R3 1772 000
Transport - R503 340 000
Constitutional Development & Planning (including Provinces) - R5 336 502 000
Foreign Affairs - R1 168 316
Home Affairs - R46 174 000
Commission for Administration - R308 702
National Education - R107 336 000
Police R954 709
Public works - R1 1119 001
Health and Welfare - R1 326 538 000
Administration House of Assembly - R2 163 781 000
Co-operation and Development - R2 348 373 000
Education and Training - R917 486 000
Manpower - R102 973 000
Trade and Industry - R949 137
Justice - R177 075 000
Prisons - R358 798 000
Agriculture, Economics and Marketing - R576 959 000
Water Affairs - R248 030
Mineral and Energy Affairs - R627 553 000
Finance - R5 483 645 000
Environment - R121 428
House of Representatives - R1 323 781 000
House of Delegates - R558 463.



Picture: WILLIE DE KLERK, The Argus
Mr Barend du Plessis

MAIN POINTS

THE main points in today's Budget were:

- General sales tax up to 12 percent on March 25.
- Surcharge on income tax up from 5 to 7 percent.
- Income tax reductions for people earning under R80 000.
- Social, civil and military pensioners to get increases.
- No increases in the duties on tobacco and alcohol.
- Tax liability thresholds increased.
- Maximum marginal rate thresholds for unmarried people raised to R42 000.
- Surcharge on gold and diamond companies' income tax up from 20 to 25 percent.
- A surcharge of 15 percent on all other mining companies.
- An increase in the duties on office machinery.
- Customs duty on video casette recorders up from 10 to 15 percent.
- Ad valorem duty on imported cars up from 100 to 125 percent.
- A 1/4 percent levy on banking deposits.
- Pay increases for nurses and under-qualified teachers.
- Big increase in education

PRIMARY REBATE

The maximum basic rate of 50 percent is reached at an income of R42 000 (presently, R28 000). A completely new table of progressive rates is proposed for unmarried taxpayers so as to eliminate the 20 percent surcharge as a separate tax calculation.

The primary rebate for an unmarried taxpayer from R380 to R620.

For people over 65 a special rebate of R380 is proposed which, together with the existing rebate of R120, will result in a total special rebate of R500.

Taxpayers over 60 but under 65 will continue to enjoy the special rebate of R120, while persons over 70, who have hither to enjoyed special rebates totalling R300 will now also get R500.

DEDUCTIBLE

A surcharge of seven percent is to be payable on so much of the basic tax less rebates as exceeds R750 by all married and unmarried taxpayers regardless of age.

Mr du Plessis also announced that the maximum amount deductible annually for medical expenses is to be increased, in the case of married taxpayers, from R1 000 to R1 500, and in the case of unmarried people from R750 to R1 000.

Taxpayers over 60 but under 70 will be allowed R4 000 (married) and R3 000 (unmarried). People older than 70 are already allowed an unlimited deduction for medical expenses.

Another concession announced by Mr du Plessis is an increase from R100 to R250 of a taxypaer's income in the form of interest. Dividend income no longer applies for this concession.

MINING

Company tax remains unchaged at 50 percent, with no surcharge.

However, in the case of gold and diamond mining companies the existing rates and surcharge apply, plus a new additional surcharge of five percent. The total surcharge is now 25 percent.

Other mining companies will pay the standard 50 percent rate plus a special surcharge of 15 percent, raising the effective rate to 57,5 percent.

Mr du Plessis announced that the machinery investment allowance will not be granted in respect of machinery or plant brought into use after June 30 1985.

Life assurance companies are also to pay a special levy, equal to 7,5 percent of their gross income.

Imported cars

Duty on imported cars goes up from 100 percent to a new high of 125 percent.

Rebates for married people, medical expenses and savings have been increased.

Earlier Mr du Plessis said: "A temporary decline in the average standard of living, before it resumes its upward movements, must be accepted as inevitable."

He would meet three basic conditions for the recovery of the economy. These were:

● No increase in real terms in total Government spending this year.

● Current expenditure, such as salaries, must not again be financed by borrowed funds, as had happened to an unacceptable extent during the past two years.

● The "deficit before borrowing", that is the difference between total spending and tax revenue, must be restricted so that it can be financed by minimal borrowing.

Reduce spending

He would achieve this by reducing public and private sector spending, ensuring the maintenance of the surplus in the balance of payments and by reducing excess demand to bring down the rate of inflation.

Despite all this great importance continued to be attached to objectives of growth and employment, with special attention given to relieving the effects of unemployment.

Mr du Plessis told Parliament:

"The tax proposals in today's Budget should be viewed in their proper context, namely as constituting part of our short-term fiscal policy designed to deal with the present abnormal economic situation.

"They stand in contrast to our longer-term financial strategy, which is designed, among other things, to reduce the tax burden in the interest of private sector growth."

Spending power of the South African slashed

Financial Editor

ALTHOUGH Mr Barend du Plessis made some income tax concessions in today's Budget, the overall effects of the exercise will be to cut severely the spending power of the ordinary South African in 1985-86.

The man in the street will have to pay, in general sales and income tax, an extra R3 552-million — a more than 25 percent rise to a total revenue of R17 287-million.

General sales tax collections are expected to increase from R5 895-million to R8 320-million, a rise of 41 percent, while personal income tax payments will rise by R1 110-million, or 14 percent, to about R8 950-million.

Mr du Plessis's intention is to exert a downward pressure on prices and help reduce inflation.

Three months to come forward

Political Correspondent

TAX dodgers have three months to come forward after which they would be dealt with severely, Mr Barend du Plessis warned in his Budget speech.

He said the tax collection efficiency of the International Revenue Department had increased during the latter part of the year due to a special effort.

There were those who have evaded taxation and those who cynically manipulated tax avoidance.

The Margo Commission on tax reform had been asked to look into ways of improving tax collection and to advise on substantially heavier penalties.

The Commissioner of Inland Revenue already had powers and had agreed to treat with leniency those who came forward in the next three months, until the end of June.

Included were those who had, through ignorance, not fully shouldered their tax responsibilities.

From July 1 the commissioner would deal severely with those "who are cadging a tax lift on the shoulders of their fellow South Africans".

Mr du Plessis said he hoped to receive the Margo Commission's recommendations in the next 12 months or so.

Referring to fringe benefits, he said it had come to his attention that "dubious schemes" for avoiding taxation on fringe benefits continued to be devised.

Some of these schemes involved the granting of housing benefits channelled indirectly through pension funds, insurance companies and other parties.

The Minister reiterated what he said earlier in Parliament: He would introduce legislation to counter such schemes, with retrospective effect.

"Employers and their advisers who indulge in such practices would be well advised to take note and to accept that they are now at risk."

● See Pages 3 and 4.

National states to get 27 percent more

Political Correspondent

AN increase of 27 percent for regional development and development in the self-governing and independent national states was announced today by Mr du Plessis.

In the next financial year an amount of R3 610-million, as against R2 839-million in 1984-85, has been provided for.

The Development Bank of Southern Africa receives R20-million for its Development Fund along with the taking up of a further R30-million in shares.

There is also R2-million to compensate for South African income paid by the bank's staff as the staff of international institutions are not subject to local taxation.

The total package for the bank is 47 percent higher than in the current year.

The Minister said more employment opportunities should be provided by the increased aid.

At the same time there would be stricter control over the way the money was spent.

Efforts were afoot to move from a system of blanket aid to one of mutually approved project aid, subject to the necessary control.

Mr du Plessis also announced continued aid for short-term work creation and relief programmes in areas experiencing severe unemployment.

on pensions to rise by R300-m

Parliamentary Staff

THE Government is to raise annual spending on social pensions by R300-million as an "act of meaningful relief justified by the distressing situation many aged persons find themselves in".

Mr Barend du Plessis said the Government had decided to afford relief to all social pensioners.

An amount of R44-million had further been made for achieving parity in the money increases in the white, coloured and Indian administrations. Detailed statements would be made in the three Houses by the ministers concerned later today, Mr du Plessis said.

GENERAL SALES TAX

He added that the overall increase of pension expenditure of R300-million was nearly the equivalent to the revenue generated if general sales tax was raised by half a percent.

There was no doubt that a gesture of this size could only be repeated if the full brunt of the increase was not carried by the Exchequer and therefore the taxpayer alone, but was also shared by the employee in the course of his active working life, especially through contributions to one form or another of retirement benefit, he warned.

Mr du Plessis also announced the following improvements with effect from October 1:

● Military pensions will be increased by 15 percent.

● Civil pensions (paid to retired public servants) will, in the case of persons who became entitled to a pension on or before January 1 1984, be increased by one percent for each completed year of retirement, subject to a minimum increase of 7,5 percent and a maximum of 15 percent.

● Compensation for occupational diseases, where such is payable from the Exchequer, will also be increased.

Financial Editor

THE Government was awaiting the report of the Margo commission on the taxing of no-risk insurance policies, Mr Barend du Plessis said.

The growth in the number and value of these policies was causing concern. These policies, usually referred to as "pure endowment" policies, were simply investments with no life cover.

proportionately.

● Deductions for medical expenses increased.

INSIDE: Weather 2, Community Calendar 9, For Women 10, Finance 11-13, Letters 14, Racing 16, Sport 17-18, TV programmes Page 3 of Tonight.

Spectrum

The Budget

'Price of mismanagement'

ARGUS 19/3/85 (49)

The Argus Parliamentary Staff reports on reaction to the Budget.

THE chief Opposition spokesman on finance in the House of Assembly, **MR HARRY SCHWARZ**, says 1985 will be a year of high inflation, no growth, high unemployment and increasing hardship for the ordinary South African.

This was his summing up of the effects of the budget proposals announced yesterday by the Minister of Finance, Mr Barend du Plessis.

Describing the Budget as "unsatisfactory", Mr Schwarz said the individual taxpayer would continue to carry the heaviest burden, the need to give incentive to work was ignored and so was the need to encourage foreign investment and to deal with the real issues relating to State expenditure.

Mr Schwarz said in a statement that the Budget was the price South Africa was being asked to pay for the Government's mismanagement and misplaced ideology.

The policies of the Government, as the Budget clearly demonstrated, had contributed to the lower value of the rand, the high rate of inflation and the high level of unemployment.

The admitted failure on the part of the Government to take adequate and timeous measures to deal with economic ills had caused the Government now to take much harsher measures than would have been the case had the proper steps been taken at the correct time.

MR CHARLES REDCLIFFE (LP Schauderville), the chief Labour Party spokesman on finance in the House of Representatives, said in a statement that the Budget reflected the serious state in which the South African economy found itself.

Although the Budget painted a picture of gloom, the Labour Party believed this to be only a short-term effect and that in the long term the country's economy would come to its full strength.

MR BRIAN GOODALL (PFP Edenvale), an opposition spokesman on welfare and pensions in the House of Assembly, said an 8,4 percent increase in pensions while inflation was running at 13,9 percent conLdemned many social old-age pensioners to an even faster decline in their standard of living.

Mr J N REDDY, Solidarity leader in the House of Delegates, called on the Minister of Finance to exempt all basic food items from General Sales Tax to assist lower income groups.

Solidarity said it could not accept the two percent increase in GST as it would seriously affect people in the lower income groups already suffering from unemployment and other economic problems.

Mr Reddy said Mr du Plessis had to be "commended" for keeping the increase in Government expenditure below the inflation rate and said he was pleased with the indication that further expenditure would not be financed from borrowings.

The Indian Minister of the Budget, Mr BOETIE ABRAMJEE, said that in the prevailing circumstances the Budget was a fair one.

Although in some quarters the Budget might be perceived as an unfair one, the fact that concessions had been given to certain groups offset this. In real terms, he said, all groups would have to pay an increased two to three percent in tax.

How The Argus covered yesterday's Budget.

WHAT YOU WILL PAY

UNMARRIED

	Under 60			Over 60 but under 65		
income	1985	1986	Difference	1985	1986	Difference
R	R	R	R	R	R	R
4 000	61	-	61	-	-	-
4 500	133	43	90	-	-	-
5 000	205	123	82	61	2	59
5 500	277	203	74	119	67	52
6 000	349	283	66	205	158	47
6 500	421	363	58	263	227	36
7 000	493	443	50	349	318	31
7 500	565	523	42	407	387	20
8 000	637	603	34	493	478	15
9 000	798	764	34	656	638	18
10 000	988	935	53	844	806	38
11 000	1 199	1 124	75	1 055	955	60
12 000	1 434	1 316	118	1 290	1 205	85
14 000	1 976	1 817	159	1 832	1 688	144
16 000	2 615	2 386	229	2 471	2 258	213
18 000	3 330	3 024	306	3 186	2 895	291
20 000	4 093	3 704	389	3 949	3 576	373
25 000	6 215	5 596	619	6 071	5 468	603
30 000	8 622	7 749	873	8 478	7 620	858
40 000	13 622	12 658	964	13 478	12 530	948
50 000	18 622	17 982	640	18 478	17 854	624
60 000	23 622	23 332	290	23 478	23 204	274
80 000	33 622	34 032	+ 410	33 478	33 903	+ 425
100 000	43 622	44 732	+1 110	43 478	44 604	+ 1 126

MARRIED / GETROUD

	NO CHILDREN : UNDER 60 / GEEN KINDERS: ONDER 60			1 CHILD: UNDER 60 / 1 KIND : ONDER 60			2 CHILDREN: UNDER 60 / 2 KINDERS : ONDER 60			3 CHILDREN: UNDER 60 / 3 KINDERS : ONDER 60		
INCOME INKOMSTE	1985	1986	DIFFERENCE VERSKIL	1985	1986	DIFFERENCE VERSKIL	1985	1986	DIFFERENCE VERSKIL	1985	1986	DIFFERENCE VERSKIL
R	R	R	R	R	R	R	R	R	R	R	R	R
4 000	-	-	-	-	-	-	-	-	-	-	-	-
4 500	14	-	14	-	-	-	-	-	-	-	-	-
5 000	74	-	74	-	-	-	-	-	-	-	-	-
5 500	134	-	134	34	-	34	-	-	-	-	-	-
6 000	194	2	192	94	-	94	-	-	-	-	-	-
6 500	254	82	172	154	-	154	54	-	54	-	-	-
7 000	314	162	152	214	62	152	114	-	114	14	-	14
7 500	374	242	134	274	142	132	174	42	132	74	-	74
8 000	424	322	112	334	222	112	234	122	112	134	22	112
9 000	568	462	86	468	382	86	368	282	86	268	182	86
10 000	722	642	80	622	542	80	522	442	80	422	342	80
11 000	896	809	87	796	702	94	696	602	94	596	502	94
12 000	1 090	977	113	990	870	120	890	763	127	796	662	134
14 000	1 538	1 371	167	1 438	1 264	174	1 338	1 157	181	1 238	1 050	188
16 000	2 066	1 850	216	1 966	1 743	223	1 866	1 636	230	1 766	1 529	237
18 000	2 660	2 400	260	2 560	2 293	267	2 460	2 186	274	2 360	2 079	281
20 000	3 294	2 993	301	3 194	2 886	308	3 094	2 779	315	2 990	2 672	318
25 000	5 056	4 665	391	4 956	4 557	399	4 856	4 450	406	4 756	4 343	413
30 000	7 064	6 599	465	6 964	6 492	472	6 864	6 385	479	6 764	6 278	486
40 000	11 723	11 156	567	11 623	11 049	574	11 523	10 942	581	11 423	10 835	588
50 000	16 720	16 075	645	16 620	15 968	652	16 520	15 861	659	16 420	15 754	666
60 000	21 720	21 204	516	21 620	21 096	524	21 520	20 990	530	21 420	20 883	537
80 000	31 720	31 898	+ 178	31 620	31 791	+ 171	31 520	31 684	+ 164	31 420	31 577	+ 157
100 000	41 720	42 598	+ 878	41 630	42 491	+ 871	41 520	42 384	+ 864	41 420	42 277	+ 857

Cape Times

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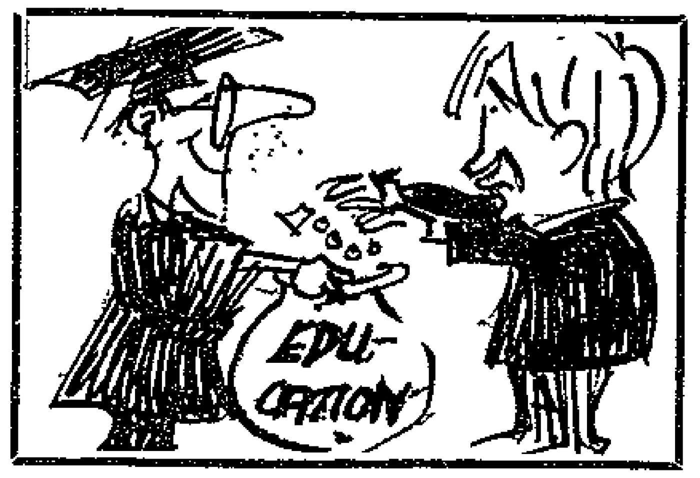
Budget 85



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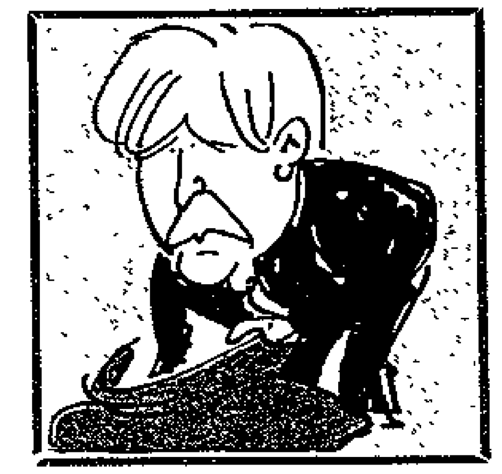

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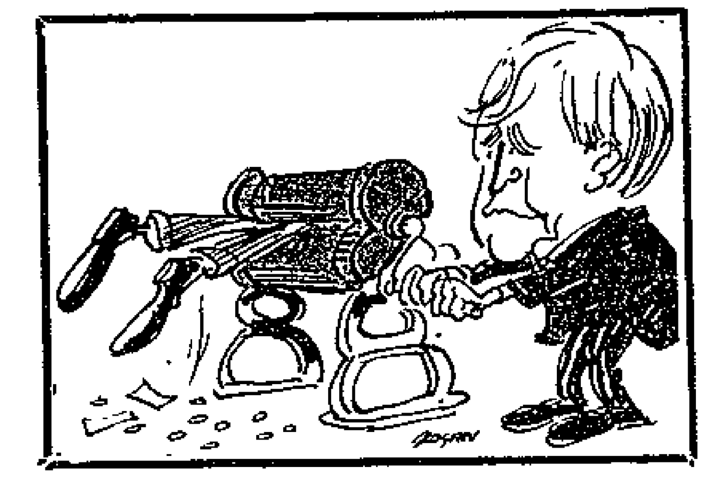

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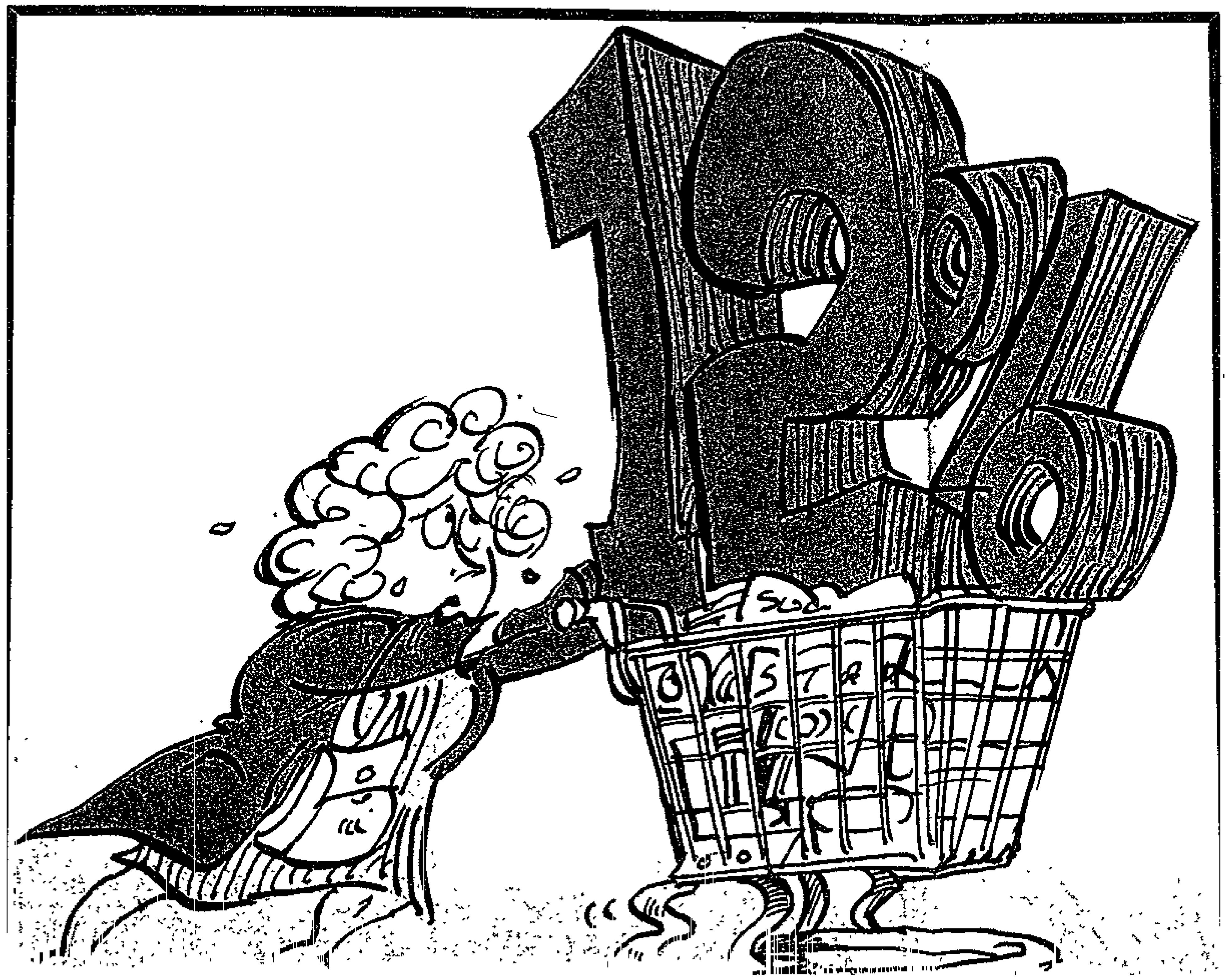
Budget for the future



Own Correspondent

JOHANNESBURG. — General Sales Tax was raised from 10 to 12 percent yesterday in a Budget package which will push the economy deeper into recession this year — but which is intended to lay the foundations for a new business upturn in the late 1980s.

Mr Barend du Plessis, the Minister of Finance, announced a net R1 737-million extra taxation in total.

The key to the Budget lies in the proposal to limit the increase in State spending to 11,4 percent for 1985-86 — a cut in real terms on the current inflation rate of 13,9 percent.

Many economists and spokesmen for industry and commerce said last night that the planned increase in government expenditure was still too high.

'Heavy price'

But there was general agreement that if Mr Du Plessis can get the Cabinet to keep public spending down to the target level — something that his predecessor, Mr

Plessis in his first Budget:

● GST will go up to 12 percent from Monday. This will be double the rate — although basic foodstuffs are now exempted — of 6 percent at the beginning of 1984.

The GST hike is expected to raise R1 220-million for the Treasury.

● The 5 percent surcharge on personal income tax for 1985-86, announced in December last year, is being upped to 7 percent.

Various tax reliefs, however, plus the R310-million relaxation previously announced in the fringe benefit proposals, mean that the middle- and upper-income groups generally will break about even on overall direct tax changes.

Du Plessis shows resolve

By PAUL DOLD
Financial Editor

SOUTH AFRICANS face a bleak year after one of the most austere Budgets in decades which is severely deflationary and will worsen unemployment and liquidations.

The Budget is designed to decisively cut the inflation rate and restore credibility in our monetary and fiscal policies.

The Minister of Finance, Mr Barend Du Plessis, has shown his resolve in cutting the deficit before borrowing (the gap between income and spending which has to be financed) to a minuscule 2,2 percent of Gross Domestic Product after a pruning exercise which run the risk of overkill, but such is the government's determination once and for all to bring inflation down to acceptable levels.

Self restraint

While there will be much debate on the unusual and controversial additional sources of revenue such as the insurance and banking groups, the Budget offers real hope that at long last the government is heeding private sector warnings on overspending.

It is too early to pronounce success. This will hinge on the degree of self restraint shown by the State departments in achieving these spend-

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THE GOOD NEWS:

- Spending on black education is to be increased to R917m — a 29,3% increase.
- Civil, social and military pensions up.
- Ad valorem excise duty and ad valorem customs duty on motor cars with a value for duty purposes exceeding R11 500 is reduced from two percent to one percent.
- Some relief for the individual taxpayer.
- Pay increases for nurses and underqualified teachers.
- Tax liability thresholds increased.
- Deduction for medical expenses increased.

THE BAD NEWS:

- General Sales Tax increase from 10% to 12%.
- Surcharge on income tax up from five to seven percent.
- Surcharge on gold and diamond mining companies tax up from 20 to 25%.
- Customs duty on video cassette recorders up from 10 to 15%.
- Customs duty on built-up car imports increased to 125%.
- One-quarter percent levy on bank

comp etec on.y some three weeks ago. This is a but a shade above the two percent level suggested by the International Monetary Fund.

Hit hard

The central theme of the Budget is to restrict cost push inflationary pressures in the economy. It will hit hard and the severity can be judged by the additional R1,7-billion in taxes at a time when consumer spending is already falling rapidly.

The Budget's impact could be so severe as to ɔeen heavy spenc.ng over-runs too often in the past making Budget figures meaningless.

The new system of monitoring department spending with the cabinet itself and not merely the minister concerned taking co-responsibility for expenditures suggests Mr Barend Du Plessis' first Budget may well turn out to be the landmark South Africa needs.

● **SA interest rates will begin declining soon — Dr Chris van Wyk, page 20**

SADF told: 'Mark time'

Defence Correspondent

MARK TIME! That is the order Mr Barend du Plessis's Budget yesterday barked at the South African Defence Force, in spite of the fact that 8,1 percent more cold cash will flow into General Magnus Malan's coffers than last year.

In spite of Mr Du Plessis's brave words about the importance of maintaining "a strong defence capability . . . in the foreseeable future", there can be no doubt that in some ways the SADF has been pared back till the bone is showing.

A snap analysis of the figures published yesterday indicates an assault on almost every aspect of defence.

It means little or no new arms procurement or manufacture, no new construction except what is absolutely necessary, no large-scale exercises like last year's Exercise Thunder Chariot, and quite probably a hiccup in long-term development that will only be felt in several years' time.

Optimum

It is quite obvious that only the effort to maintain the SADF at optimum operational efficiency remains non-negotiable.

Even here the bite of the Du Plessis axe can be felt, with top-priority programmes like landward defence and area defence — the latter a vast nation-wide plan to protect military and industrial installations against sabotage and at-

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'A year of hardship' predicted by Schwarz

By ANTHONY JOHNSON
Political Correspondent

THE Budget showed that 1985 would be a year of high inflation, unemployment, no growth and increasing hardship for the ordinary South African, the PFP charged last night.

The PFP spokesman on finance, Mr Harry Schwarz, last night described the first Budget from Finance Minister Mr Barend du Plessis as a "serious disappointment" and said it was "the price South Africa was being asked to pay for the government's mismanagement and misplaced ideology".

Overall, the Budget offered no incentive to productivity, would adversely affect confidence and would administer "hard knocks" to to average South African.

Failure

Mr Schwarz said the Budget clearly demonstrated that the policies of the government had contributed to a lower value of the rand, the high rate of inflation and the high level of unemployment.

He said the admitted failure of the government to take timeous measures to deal with economic ills had caused it to now take much harsher action.

"The country is being asked to make sacrifices,

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but we are not satisfied that such sacrifices are being fairly distributed.

"There is great and increasing unemployment and poverty which holds within it threats to the stability of the country, and the measures to alleviate it are hopelessly inadequate," he said.

The Budget, he said, made it clear that bankruptcies and liquidations would increase during 1985 and when an upswing eventually arrived the employment which these businesses had given would be lost forever.

Mr Schwarz said the increases in personal income tax were unnecessary and gave no incentive to work either to the entrepreneur or to employees and workers.

The increase in GST could, on the figures presented by Mr Du Plessis, also be shown to be unnecessary and would once again increase living costs and hardship.

Mr Schwarz contended that the claim by the Minister of Finance that there had been major cut-backs in expenditure compared with last year was misleading.

"His comparison of final figures for 1984/85 with the present Budget indicating an increase in expenditure of only 11,4 percent do not show the correct picture.

"There should be a comparison between the Budget as presented last year at this time with the present Budget and a comparison of those two figures shows that the increase for the 1985/86 budget is more than 21 percent in excess of the figure presented 12 months ago."

Mr Schwarz said that except for the curbing of

To page 2 B

a.ɔ.e to ac.ı.eve .n ... and 1984-85 — the long-term outlook for the economy will improve.

In the short term, however, a heavy price will have to be paid for the financial mismanagement of the past, economists said.

South Africa must expect minimal economic growth this year, falling living standards, rising unemployment and more business failures.

There are also bound to be considerable arguments about the pattern of government spending decided by Mr Du Plessis.

It was clear last night, for example, that his claim that defence spending (R4 274-million) would be held to an 8,1 percent rise in 1985-86, while expenditure on education would rise by 19 percent to R5 044-million, would get wide-spread support.

But there was some concern about the planned 27 percent increase to R3 610-million in the sums earmarked for "regional development, the development of the self-governing national states and of independent states, for further consolidation of states and for SWA/Namibia".

This was seen by some political analysts as a costly extravagance of ideology.

Thousands of black workers will be helped, however, by increases in the minimum levels at which income tax must be paid.

These are the main tax rises imposed by Mr Du raise R100-million from the profits of the banks is being introduced.

● Mr Du Plessis is to raise R77-million from the long-term insurance companies by a 7,5 percent levy on their gross incomes.

● The 20 percent surcharge on gold and diamond mining companies is being raised to 25 percent. Revenue expected is R91-million.

Company tax

● A special 15 percent surcharge on all other companies is being brought in to produce R33-million.

● Producers of oil from coal, essentially Sasol, are going to be hit for R70-million of the profits they are now making.

● R100-million is to be scooped into the Treasury from a 10 percent excise duty and a 10 percent customs duty on office machines and "certain electronic devices".

● Those who can afford to import cars from overseas will now have to pay 125 percent duty instead of 100 percent (R10-million revenue).

Concessions

● The 10 percent duty on video recorders is going up to 15 percent to bring in R5-million.

Mr Du Plessis made few concessions.

● Pensions have been increased.

● Small savers are to get tax relief on interest received up to R250 a year (R100 at present).

● Tax of unmarried people has been eased slightly.

ery.

● **Mr Barend du Plessis's full Budget speech appears in a special Budget 85 supplement to the Cape Times today.**

● **Leading article, page 16**

Bonus for pensioners

Political Staff

ALL social pensioners will receive a "one-off bonus" of R36 during May 1985.

This is in addition to monthly increases in social, civil and military pensions announced separately in the three Houses of Parliament yesterday.

For the first time social pensioners of all races will receive the same increase of R14 a month.

In addition to the R14 a month, the following will also be uniform:

● A maintenance allowance and family allowance increase of R3 a month a child.

● An increase of R14 a month in the maintenance allowance to persons kept in single care or licensed institutions.

● An R8 a month increase in the allowance for foster-parents.

● A R6 increase in attendants' allowances.

The Minister of Finance, Mr Barend du Plessis, announced that military pensions would increase by 15 percent and civil pensions would be restructured so that pensioners would receive R1 for every year of retirement with a minimum increase of 7,5 percent and a maximum of 15 percent.

Black education: Govt to spend 29pc more

Own Correspondent

JOHANNESBURG. — The government is to increase its spending on black education in the coming year to R917-million — a 29,3 percent increase on last year's amount.

And a large slice of the Budget (a total of R5 044-million) is to finance the education of all races — 19 percent more than last year's expenditure.

R4 020-million goes to white, coloured and Indian education (Own Affairs) — run by the three respective Departments of Education and Culture.

Just how this money is to be divided among the different groups will be discussed during the Budget debate on Own Affairs next week.

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Budget to cut back inflation

By ANTHONY JOHNSON
Political Correspondent

PARLIAMENT. — The Budget was designed to play a "full part" in reducing inflation and strengthening the balance of payments, Mr Du Plessis said yesterday.

At the conclusion of his two-hour Budget speech, Mr Du Plessis said: "The Budget I have presented today is not 'neutral' but designed to play its full part in our present short-term strategy of according priority to reducing inflation and strengthening the balance of payments."

As such, the Budget fully met the following basic conditions:

● The comparable rate of increase of government expenditure for 1985-86 had been limited to only 11,4 percent — which is below the current rate of inflation and therfore a decrease in real terms.

● No current expenditure would be financed from loans in the coming year, as the deficit before borrowing — even including the tranfer of R400-million to the Tax Reserve Account — would be some 5,4 percent below the budgeted capital expenditure.

Considerably below

● The deficit before borrowing had been limited to R2 570-million, which was considerably below the 3 percent of the gross domestic product originally set as the government's target. In fact, on the basis of the actual taxation and expenditure proposals, it was no more than 2,2 percent.

"By meeting these various conditions, the Budget should contribute fundamentally towards the declared objectives of curbing spending, improving the balance of payments, strengthening the exchange rate of the rand and the net gold and other foreign reserves, and, most importantly, reversing the rising trend in the rate of inflation," Mr Du Plessis said.

In this manner, the Budget would pave the way for more rapid and sustainable economic growth.

The tax proposals announced in the Budget should be viewed in their proper context, "namely as constituting part of our short-term fiscal policy designed to deal with the present abnormal economic situation.

"They stand in contrast to our longer-term financial strategy, which is designed, among other things, to reduce the tax burden in the interest of private sector growth."

Duty up on imported cars

Political Staff

PARLIAMENT. — The government plans to increase its revenue in the coming year by the following:

● An increase from 100 percent to 125 percent on ad valorem duty on imported cars which will bring in an extra R10-million.

● An increase from 10 percent to 15 percent on the ordinary customs duty paid on video cassette recorders in addition to the ad valorem excise duty of 35 percent applicable at present. This will yield an additional R5-million.

● An ad valorem excise duty and an ad valorem customs duty of 10 percent on office machines and certain electronic devices, which will bring in an extra R100-million.

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● An increase from 9,337 cents per litre to 10,25 cents per litre on the excise duty payable on petrol derived from coal. The additional revenue derived is estimated at R26-million.

● An increase from 5 percent to 7 percent on the surcharge payable on personal income tax. The additional revenue in the 1985-86 year is estimated at R120-million and for a full year at R135-million.

● An increase from 10 percent to 12 percent in GST resulting in additional income of R1 220-million.

● A special, temporary additional surcharge of 5 percent over and above the present 20 percent surcharge on all gold and diamond mining companies will yield R91-million.

● A special surcharge of 15 percent on all other mining companies which will raise their normal tax rate to 57,5 percent, commensurate with the new average rate for the gold mines. An additional R33-million is anticipated.

● A special temporary levy on local producers of oil from coal, details of which will be negotiated with the companies concerned, will generate an extra R70-million.

● A levy on long-term insurers amounting to an effective 7,5 percent of gross income as calculated in terms of section 28(1) of the Income Tax Act. It is expected to produce R77-million.

● A special levy on all banking institutions registered in terms of the Banks Act at a rate of one quarter of one percent on the average amount of all deposits held in the Republic by each institution at the end of each quarter during the calender year 1984. The levy is expected to yield R100-million in 1985-86. The total additional taxation proposals involve R141-million for Customs and Excise and R1 711-million for Inland Revenue.

. . . and now for the good news

Political Staff

PARLIAMENT. — Concessions in the Budget included:

● A reduction from 2% to 1% of the ad valorem duty on locally manufactured motor cars with neutral values exceeding R11 500. The estimated loss in revenue will be R12-million.

● An increase in the maximum marginal tax rate for unmarried persons from R32 000 to to R42 000.

● Increases in the thresholds at which tax liability commences for: Married persons from R4 384 to R5 988; unmarried persons from R3 576 to R4 232. This would be done by increasing the basic rates of tax and increasing the primary rebate from R460 to R880 for a married person and from R380 to R620 for an unmarried person. The loss of revenue was expected to be R49-million in the 1985-86 year and R56-million in a full year.

● Increases in tax rebates for people over 70 from R300 to R500 and for people over 65 from R120 to R500. The loss of revenue is expected to be R20-million in the 1985-86 year and R23-million in a full year.

● Increases in permissible deductions for medical expenses from R1 000 to R1 500 for married persons under 60, from R750 to R1 000 for unmarried persons under 60, from R3 000 to R4 000 for married persons over 60 but under 70, from R2 250 to R3 000 for unmarried persons over 60 but under 70. Persons over 70 have no limit. The loss of revenue is expected to be R1-million in the coming year and R3-million in a full year.

● An increase from R100 to R250 of the income from interests and dividends exempt from tax. The loss of revenue in the current financial year is likely to be R33-million and in a full year, R62-million.

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UDF, CAL attack budget

Staff Reporter

COMMUNITY organizations yesterday slammed the government's apartheid policies for the financial crisis.

The organizations included the United Democratic Front (UDF), the Cape Action League (CAL) and the Azanian People's Organization (Azapo).

The UDF publicity secretary, Mr Jonathan de Vries, said:

"The budget speech attempts to do the impossible. The economic ills which beset our land are rooted in the very structure of apartheid."

An apartheid economy was wastefull, he said. "Only the creation of an economic order which is planned to the needs of South Africa as a whole and not a handful of powerful bosses will solve our problems."

For the three million unemployed people the budget did not offer any promise of employment or security, he added.

The media convener for CAL, Mr Armien Abrahams, said the budget "worsened the struggle of the working masses".

There was no relief from high prices, unemployment and salary cuts.

"The 12 percent GST is a further attack on the living standards of the working clas, he said.

Speaking from Durban the publicity secretary of the Azanian People's Organisation (AZAPO) Mr Imrann Moosa said: "It is Azapo's belief that the exhorbitant cost of preserving the system of apartheid and capitalism in South Africa is always borne by the black working class and that the white rulers are literally living off the shrinking hides of black workers."

Stern warning to tax-dodgers

Political Staff

PARLIAMENT. — The Minister of Finance has issued a stern warning that he will crack down severely on tax-dodgers and has given them three months' grace to come forward and level with the taxman.

He has also warned that he will not hesitate to introduce retroactive legislation to outlaw "dubious" schemes to beat the new perks tax.

Inland Revenue had increased its tax collections and the results were reflected in the growth of revenue figures, he said.

"It is self-evident that Inland Revenue must take enforcement measures and deal strongly with defaulters. One would, however, have preferred taxpayers to meet their obligations voluntarily."

There were people who consciously and wilfully evaded taxation and others who cynically manipulated tax avoidance to such an extent that it could not be construed as anything but evasion of taxation.

He had asked the Margo Commission on taxation to go into every possible way of increasing collection and to advise him on making penalties for evaders substantially heavier.

"The Commissioner for Inland Revenue, however, is by law clothed with a measure of discretion when dealing with various degrees of transgression.

"He has agreed to treat with leniency those who are willing to come forward during the next three months, that is until the end of June 1985, to rectify matters and also those who through ignorance have not fully shouldered their tax responsibilities.

"As from July 1, the commissioner will deal severely with those who are cadging a tax lift on the backs of their fellow South Africans."

Earlier, Mr Du Plessis said he had learnt that dubious schemes for avoiding taxation on fringe benefits continued to be devised.

"Some of these schemes involve the granting of housing benefits channelled indirectly through pension funds, insurance companies and other parties.

"I must reiterate what I said earlier — I shall not hesitate to introduce legislation to counter such schemes, and with retrospective effect.

"Employers and their advisers who indulge in such practices would be well advised to take note and accept that they are now at risk."

Defence spending rises by 8,1 percent

Political Staff

PARLIAMENT. — Defence spending will rise by 8,1 percent in the 1985/6 financial year to a total of R4 274 million.

Mr Du Plessis said the notion that defence expenditure was claiming an ever-growing proportion of the Budget was "simply not true" and that its share of state expenditure had hovered around 15-16 percent for several years.

The 1984/5 financial year actually showed a marginal drop in the total Budget share of Defence from 14 percent in 1984/5 to 13,8 percent in 1985/6.

The Statistic and Economic Review for 1985/6 shows that Defence expenditure, as a share of total expenditure has increased from 13 percent in 1974/5 to 16,8 percent in 1984/5.

Other major increases were:

- Education from 16,7 to 19 percent;
- Financing the public debt from 8,9 percent to 14,8 percent;
- Police and prisons 3,9 to 5,7 percent.

During the same period, budgeted expenditure on welfare services and pensions declined from 6,7 percent to 6,1 percent while public health dropped from 11,6 to 9,7 percent.

R100m to assist jobless

PARLIAMENT. — R100-million had been set aside to combat unemployment during the coming financial year, the Minister of Finance said.

This is likely to benefit the hard-hit Border and Eastern Cape areas where the slump in the motor and other industries has boosted an already high level of unemployment.

Mr Du Plessis said the government was aware of the rise in joblessness caused by the downturn in the economy and it was tackling the problem "on a broad front".

"A package has been devised for short-term ... includin ...

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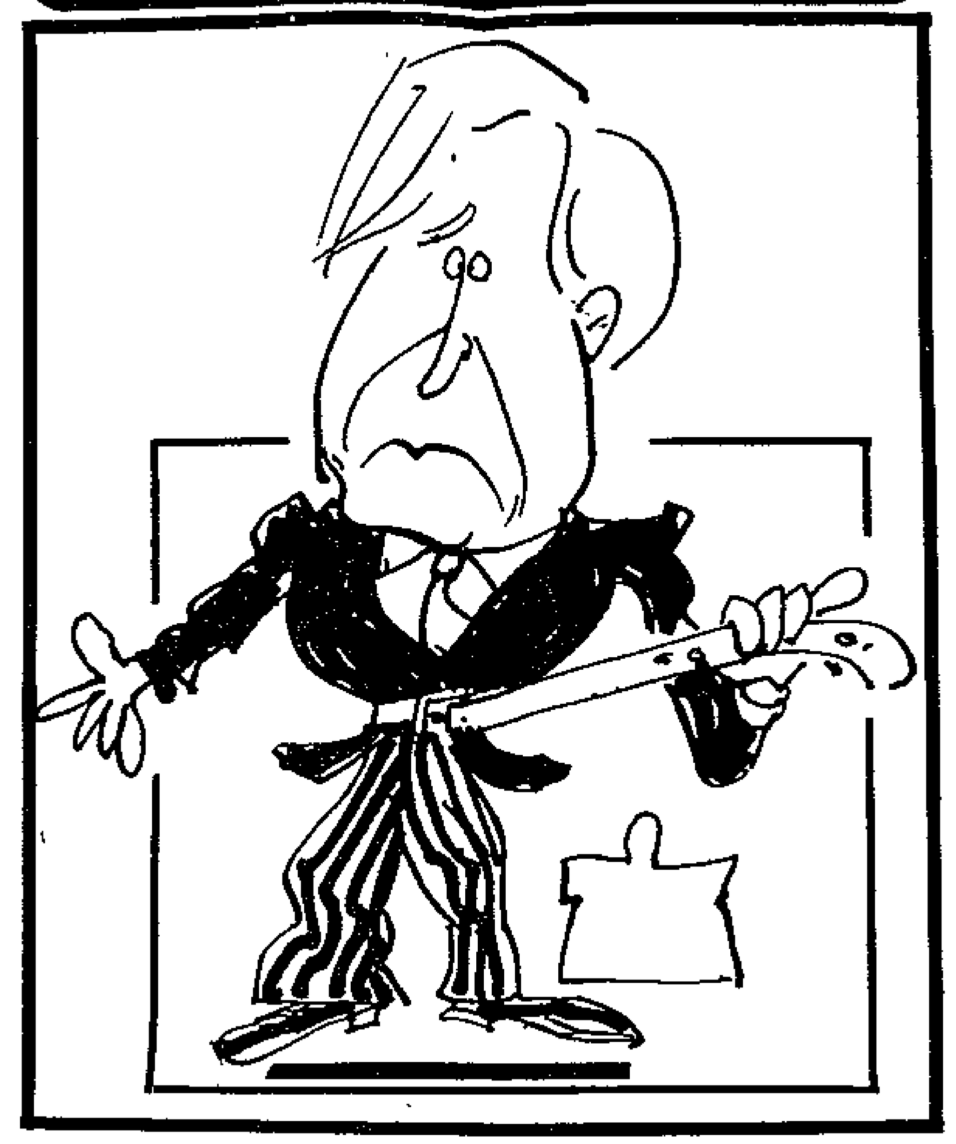


Marginal tax relief to cost govt R103m

Political Staff

PARLIAMENT. — Marginal income tax relief for individuals announced by Mr Barend du Plessis yesterday will cost the government R103-million for the 1985/6 financial year.

The minister said that new tax rates proposed on December 6 raising the threshold for the maximum marginal rate, but with a five percent surcharge, had meant that some unmarried people fared worse than married people.

To overcome this, he said, further relief was being offered to the unmarried in terms of which the maximum rate of tax would apply to them only at R42 000 and not at R32 000 as before.

In addition, he said, thresholds at which tax liability began had been raised with that for married people rising from R4 384 to R5 988 and for unmarried people from R3 576 to R4 232.

This would be achieved, he added, by increasing the basic rates of tax and by increasing the primary rebate from R460 to R880 for married taxpayers and from R380 to R620 for unmarried.

Mr Du Plessis . . . "The results of our decentralization policies have proved their fundamental economic worth and soundness."

Senior citizens — uniform rebate

With regard to "senior citizens", the minister said the present tax rebate of R300 for those over 70 and R120 for those over 65 would be replaced by a uni-...

R3 610m for decentralization

PARLIAMENT. — The government will spend R3 610-million on regional development and aid in the coming financial year, the Minister of Finance said yesterday.

He warned, however, that control of development aid to national states would in future be subject to stricter control.

A total of R2 839-million had been spent in the current financial year and this had been increased by more than 27 percent for the year starting on April 1.

The announcement yesterday takes place against a background of increasing signs that development aid, chiefly in the form of incentives offered to industrialists to establish businesses in decentralized areas, is being "abused".

Claims were recently made by the Official Opposition in Parliament that some companies in the Ciskei were "farming with labour" and lining their pockets at taxpayers' expense.

The R3 610-million would be spent on regional development (decentralization), the development of "self-governing" and "independent" national states, for the further consolidation of states, and for SWA/Namibia.

Mr Du Plessis said the increase should go a long way towards providing more employment opportunities where the need was greatest.

He also said the package of grants to the Development Bank of Southern Africa would rise by 47 percent in the coming financial year.

R250-million would be contributed to the bank's development fund, a further R30-million in shares would be taken up and R2-million would be paid to compensate for South African income tax paid by the staff's bank. "Normally the staff of international institutions are not subject to local taxation."

Departmental spending this year

Political Staff

PARLIAMENT. — The following is a table of departmental spending in this year's budget compared to last year. The government stresses in the proposals that "due to structural changes resulting from the implementation of the Constitution Act, 1983, as at 3 September 1984, figures are not fully comparable". The figures are in thousands of rands. (This year's budget figures are in the first column and last year's in the second.)

State President	11 174	11 782	(−608)
Parliament	31 772	15 739	(+16 033)
Transport	503 340	243 893	(+259 447)
Constitutional Dev. and Plan.	5 336 502	4 597 037	(+739 465)
Foreign Affairs	1 168 316	772 144	(+396 172)
Home Affairs	46 174	522 288	(−476 114)
Commission for Admin.	63 702	46 329	(+17 373)
Improvement of service	235 000	267 000	(−32 000)
National Education	107 336	535 033	(−427 697)
Police	954 709	795 640	(+159 069)
Public Works	1 119 001	1 106 569	(+12 432)
Health and Welfare	1 326 840	1 331 668	(−4 828)
Administration: Assembly	2 163 781	1 007 801	(+1 115 980)
Co-operation and Dev.	2 348 373	1 924 428	(+423 945)
Education and Training	917 486	709 257	(+208 229)
Defence	4 274 108	3 754 667	(+519 441)
Manpower	102 973	92 285	(+10 688)
Trade and Industry	949 137	559 611	(+390 526)
Justice	186 454	146 020	(+40 434)
Prisons	358 798	311 592	(+47 206)
Agricultural Econ. and Mark.	576 959	422 397	(+154 562)
Water Affairs	248 030	239 000	(+9 030)
Mineral and Energy Affairs	627 553	557 637	(+69 916)
Finance	5 471 739	4 332 675	(+1139 064)
Audit	11 986	10 883	(+1 103)
Environment Affairs	121 428	158 248	(−36 820)
Admin: Representatives	1 323 781	623 486	(+700 295)
Admin: Delegates	558 463	262 703	(+295 703)
TOTAL	31 144 915	25 356 812	(+6 766 170)

bodies and for which R27,5-million was made available in previous financial years; payment of unemployment benefits of nearly R105-million in 1984; and free training, at a cost of nearly R4-million, for 9 250 work-seekers.

"For 1985/86, R100-million will be allocated for the continuation and extension of short-term work creation and relief programmes in those regions and areas experiencing severe unemployment."

married person of 65 or older was taxed from R5 384 to R9 113.

The threshold for an unmarried person in this age group was raised from R4 576 to R7 357, he added.

The minister also announced an increase in deductions for medical expenses with increases for

- Married people under 60 of R500 to R1 500
- Unmarried people under 60 of R250 to R1 000
- Married people between 60 and 70 of R1 000 to R4 000, and
- Unmarried people between 60 and 70 of R750 to R2 250.

There are no ceilings on medical deductions for people over 70.

In addition, Mr Du Plessis also announced an additional tax incentive on savings, additional allowances in respect of new or unused plant and machinery used in the process of manufacture and a rise in the initial allowance for buildings, the building of which begins before the end of next year and is completed before the end of 1987.

Chief slams GST increase

Own Correspondent

DURBAN. — The 20 percent increase in GST to 12 percent would "hit every black and hit the poorest of the poor the hardest", Chief Gatsha Buthelezi, Chief Minister of Kwazulu, said last night.

"When 80 percent of South Africans are black and have no access to the fiscus of the country through direct representation in Parliament, they find themselves at a disadvantage," the chief said.

For example, he said, most blacks did not benefit from Mr Du Plessis's announcement that higher income-tax deductible medical expenses would be allowed.

Most blacks were too poor to pay income tax and therefore received no relief from the increased burden of more expensive medical care.

"I find it entirely wrong for a budget to be prepared and to be presented to the country while leaving the majority of the people in the dark about how they will be affected personally," Chief Buthelezi went on.

"We are told, for example, that pensioners will receive aid but the figure is given in global terms and as yet there is no indication as to what this means to a black pensioner in cash terms."

Health projects get a booster

Medical Reporter

THE 1985/86 budget for the Department of Health and Welfare has stayed virtually the same as that for the previous financial year, although some of the department's programmes have been given significant boosts.

The budget allocation for the department is just under R1 327-billion, less than a one percent reduction on last year's figure of R1 331-billion.

Estimated expenditure on the Health Protection and Occupational Diseases in Mines and Works will rise a significant 38 percent from R32 057-million to R44 331-million.

A further R9 661-million will be spent in the coming year on the department's Population Development programme which includes family planning — up from R34 259-million to R42 445-million.

State-aided special schools and training centres receiving government assistance will account for an extra R3 349-million of the new budget, an increase of just on 50 percent over last year's expenditure for this programme of R6 676-million.

Total expenditure on civil pensions and contribution funds is to rise by nearly a quarter from R680 166-million to R846 865-million. Members of the President's Council and their dependants are to receive a 1 081 percent increase in pension payments and "other benefits".

Budget briefs

Immigration promoted

PARLIAMENT. — The government has budgeted R10,8 million to promote immigration during the 1985-6 financial year in spite of sharp criticisms of its immigration policies in the House of Representatives this year. Most of this assistance for immigration will be taken up with financial assistance of the passage of immigrants to South Africa, and R6 million has been budgeted for this.

R494m fare subsidies

PARLIAMENT. — More than R494 million is to be spent on subsidizing bus and railway fares during the 1985-6 financial year. The subsidies, which are being paid through three separate votes, are aimed at subsidizing the fares of black commuters.

R30m more for SBDC

PARLIAMENT. — An additional R30 million had been made available to the Small Business Development Corporation in the current financial year, said Mr Du Plessis. — Political Staff

House business today

HOUSE OF REPRESENTATIVES. — Notice of Motion: Mr P A C Hendrickse: That, as it is the policy of this House always to act in the interest of all South Africans, particularly those who know poverty, hunger and unemployment, and in order to prevent extreme misery, intensified race conflict and harm to all Southern African countries and their people and to assist in the process of reform and the dismantling of apartheid, this House calls for a five-year moratorium on disinvestment and encourages increased overseas investment, provided the following conditions are met:

- Equal pay for equal work.
- Conscious creation of job opportunities.
- Participation in housing projects.
- Provision of recreational facilities.
- Provision of bursaries and participation in educational schemes.

HOUSE OF ASSEMBLY. — Resumption of second reading debates — South African Transport Services Amendment Bill, Advertising on Roads and Ribbon Development Amendment Bill, South African Police Special Account Bill, State Oil Fund Amendment Bill and Coal Resources Bill.

HOUSE OF DELEGATES. — Private member's motion by Mr T Palan (Sol Bayview): "That, having regard to the considerable delay in the construction of the second access road to Chatsworth due to factors beyond the control of the Indian community, this House requests the government to take immediate steps to expropriate the route via Stainbank Nature Reserve without further delay in conformity with an earlier decision which was arrived at after the consideration of all the factors involved." — Sapa

GST puts council in plight

Municipal Reporter

THE two percent GST increase announced in yesterday's Budget is expected to have serious repercussions for the already financially hard-pressed local authorities.

Cape Town City Council, which will announce its budget in May, is faced with the dilemma of increasing rates or making drastic cuts in its capital and operating expenditure for the next financial year.

Limited to a 10 percent increase in expenditure regardless of the inflation rate, the City has been been paring its operation to the bone over the past few years and this additional burden could have an extremely adverse effect on the quality of the services it offers.

The council has repeatedly called for local authorities to be granted exemption from paying sales tax on essential items.

- The opposition spokesman on finance in the Provincial Council, Mr Geoff Everingham, said the GST increase would have a particularly bad effect on the cost of provincial health care.

He said the "shameful" imposition of the increased sales tax on medicines would cost the Province several million rand more next year.

"I can only hope that the Administrator, Mr Gene Louw, will make strong representations to the Minister to to have medicines exempted from GST," he said.

Police budget will help recruitment

Crime Reporter

THE call for a 68 000-strong police force by the Minister of Law and Order, Mr Louis le Grange, gained impetus yesterday with the announcement that the Budget slice for the police was to rise nearly 20 percent.

Last year, Mr Le Grange said he wanted to increase the complement of the force from its present position of nearly 45 000 men and women to 68 000 members or by 51 percent.

At the time it appeared as if this was impossible as statistics showed that at the present rate of recruitment, it would take 20 years to reach that position.

But in terms of yesterday's budget, the slice for the police increased from about R795 million to R954 million or 20 percent.

Part of this was a 22 percent increase in police services from R499 million. This figure involves the maintenance of police stations, the investigation of crime, and salaries.

Figures for the force show that in recent years, it has had great success in combating staff shortages. The present budget increase means that they might be able to beat their staff problem and increase their recruitment to a point where the 68 000 figure might be feasible.

Cape Times 19/3/85 (49)

High priority on education: Up 19pc

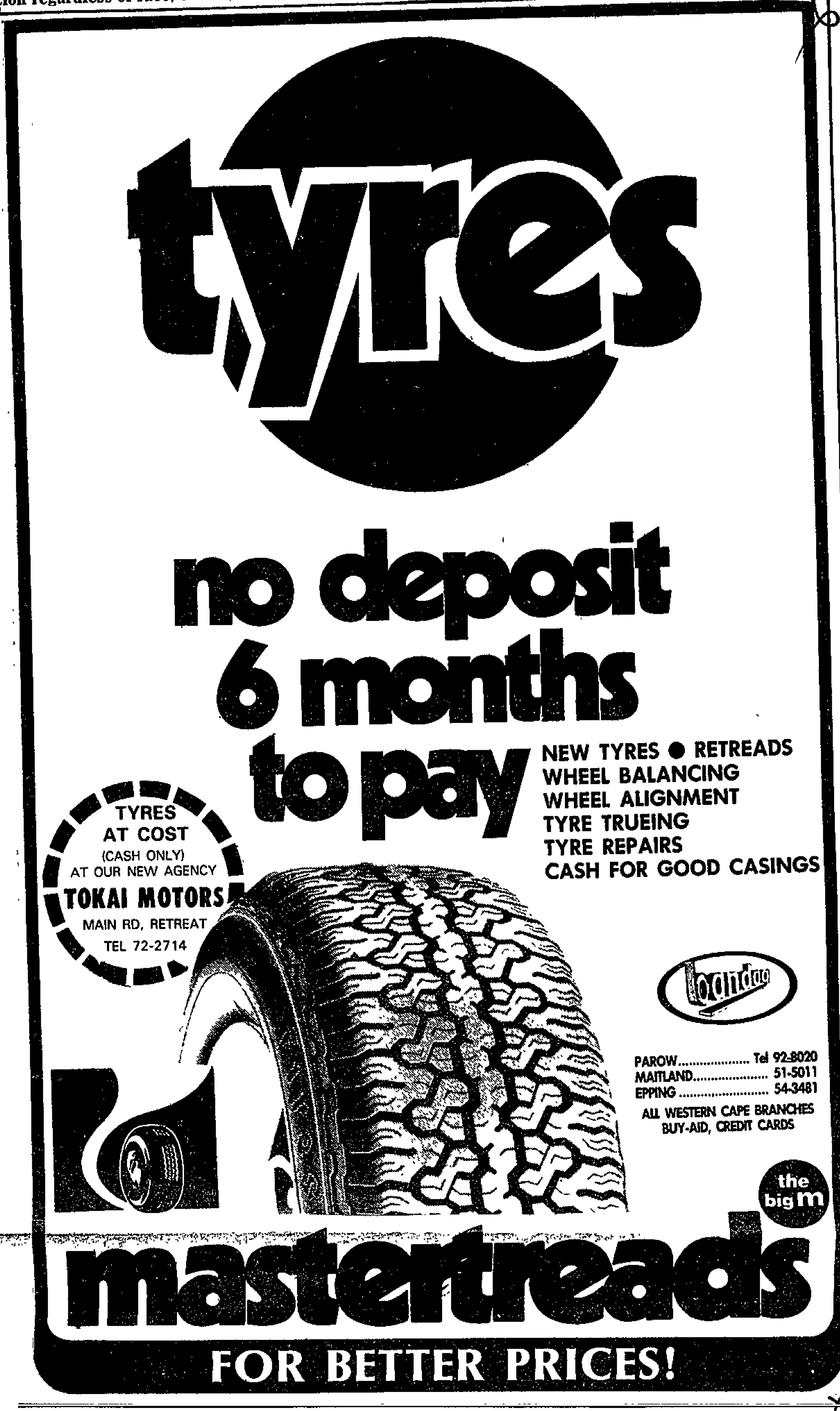
Political Correspondent

PARLIAMENT. — Expenditure on education will jump by 19 percent to R5 044-million next year, the Minister of Finance announced yesterday.

Mr Du Plessis said the large increase was in line the high priority that would be accorded to education in future and reflected the government's "undertaking to pursue the goal of equal opportunity in education regardless of race, colour, creed or sex".

He added that in view of the rapid increase in pupils of all races in the next 25 years, "it is clear that the amounts to be spent on education over the next two to three decades will be massive".

The 6 067 000 pupils at school last year would jump to about 11 600 000 by 2010, while the number of pupils qualifying for university admission would rise from 42 000 in 1984 to about 200 000 by 2010, he said.



Average living standard will drop

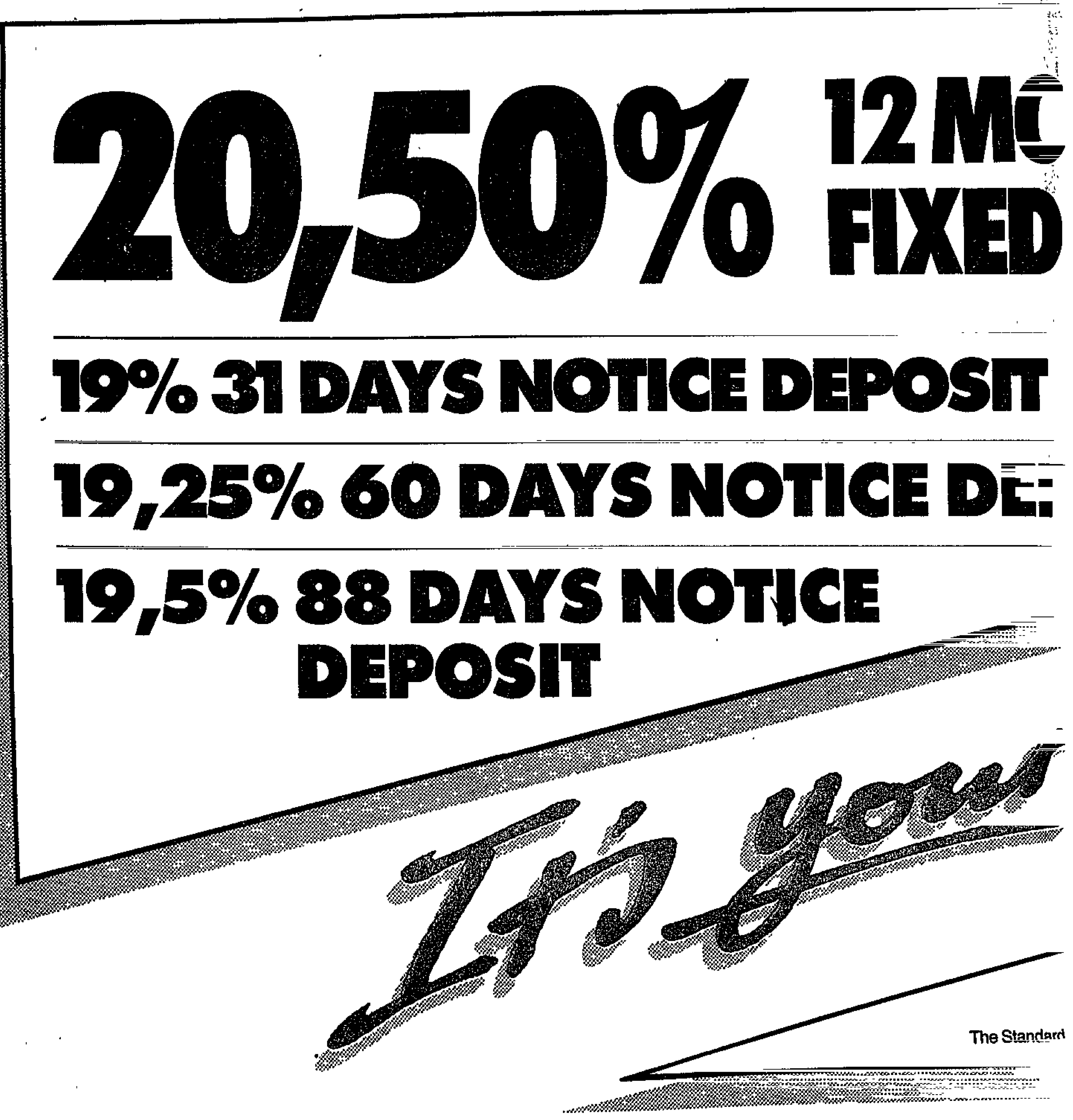
Political Staff

PARLIAMENT. — A temporary drop in the average standard of living was inevitable, Mr Du Plessis said here yesterday.

He said four main points emerged from an analysis of current economic conditions. These were:

- During the past two years the economy had been severely buffeted by an "unprecedented and continuing stream of adverse extraneous developments that has inevitably left us less well-off as a nation than we would otherwise have been". This had necessitated a painful process of belt-tightening and adjustment. The decline in standard of living, before it resumed its upward movement, had to be borne equitably "across the widest possible front".
- Until the middle of last year the response of fiscal (as applies to government spending) and monetary (as applies to consumer and private sector spending) policy to these "external shocks" was too slow and too lenient, which permitted total spending to rise at an excessive rate with adverse consequences for inflation and the balance of payments.
- The more firm application of the government's financial stabilization policy since the middle of last year had succeeded in curbing total spending and changing the deficit on the current account of the balance of payments into a surplus.
- Despite these policy achievements, the "mix" of monetary and fiscal policy had not been ideal. "Throughout the past two years the unduly expansionary results of fiscal policy have meant that monetary policy (curbing consumer and private sector spending) has had to bear too great a share of the burden of stabilization.

"This has resulted in a rise in interest rates to levels that adversely affect many farmers, home-owners and other borrowers. Yet, these high rates have not at all times been high enough to prevent overspending, inflation and substantial currency depreciation."



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...urden of taxation shifts

Political Staff

THE contribution by income tax on individuals to the total revenue increased by more than 33 percent in the last 10 years.

At the same time, income tax on companies declined by more than 37 percent. And, with the introduction of general sales tax, the burden of taxation has moved demonstrably towards the individual.

Figures contained in the Statistical/Economic Review released in Cape Town yesterday show that, in the 1974/5 financial year, income tax on individuals contributed 22,1 percent of total revenue. This had risen to 29,5 by the 1984/5 financial year.

Contributions by companies, on the other hand, declined from 22.9 percent to 15,3 percent. The contribution from General Sales Tax in 1984/5 was 23,3 percent.

Revised estimates of revenue for 1984/5 show that total revenue is expected to be 24,9 percent higher than revenue for 1983/4.

Commitment to privatization

Political Staff

PARLIAMENT. — The Finance Minister, Mr Barend du Plessis, yesterday committed the government to increased privatization of State corporations and government enterprises.

He also announced that the President's Council would investigate the deregulation of government controls over the economy.

Mr Du Plessis said the government was seeking ways promote free enterprise as it affected "all levels of government as well as state corporations".

He said privatization would "allow us to harness the skills and energies of the private sector in major areas of economic activity that are still within the ambit of the public sector".

The attraction of this approach was that:

● Services could be made available at lower cost.

● Unused or underutilized capacity could generate income.

● Current expenditure could be reduced.

● The proceeds from the sale of public assets could be used to lower the public sector debt. This would also reduce the interest burden.

Mr Du Plessis said a case in point was the privatization of certain hospital services.

The government also took a serious view of the regulation, licensing and administrative procedures which acted as a brake on economic development and on the entry of the underdeveloped and informal sectors into the economic mainstream.

Red tape

The cabinet had decided to recommend to the President that the President's Council be requested "to investigate all regulations, standards, licensing requirements and conditions as well as administrative delays and red tape that could hamper economic development in general and the small business sector in particular".

Mr Du Plessis said he believed that these measures would "contribute materially to a climate favourable to future economic development".

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R900 000 for Youth Year

MORE than R900 000 has been budgetted by the government for Youth Year during 1985.

The Department of Constitutional Development has set aside R500 000 to "render limited financial assistance to organizations wishing to present certain projects as part of the youth year" and R410 000 has been set aside in the Co-operation and Development vote.

Last week, journalists covering a Youth Year lunch in Cape Town were refused some courses of the meal on budgetary grounds. It was later estimated that this had saved the government less than R100.

The Minister of Constitutional Development, Mr Chris Heunis, apologized afterwards for this move.

4 main reasons for fall of Rand

Political Staff

PARLIAMENT. — There were four main reasons for what happened to your money and why the rand plummeted to record lows against other currencies, the Minister of Finance, Mr Barend du Plessis, said yesterday.

From a peak of $0,91 in September 1983, the rand fell to $0,42 on January 21 this year — a depreciation of 54 percent against the US dollar and of 44 percent against a "basket" of currencies in which the dollar has a weight of 41 percent.

Against a "basket" of non-dollar currencies, the rand's depreciation was 41 percent. Since then, however, the rand has appreciated by about 14 percent against the dollar, 17 percent against the overall "basket" and 20 percent against the non-dollar currencies.

There were four main reasons for the depreciation, the first of which was the exceptional and unexpected appreciation of the US dollar against virtually all other currencies during this period.

"This alone would have brought about a considerable depreciation of the rand," said Mr Du Plessis.

"The second reason was the adverse impact on the rand of lower foreign exchange earnings or increased payments caused by the falling dollar price of gold, the relatively weak world demand for some of our other principal exports and the drought.

"The third cause was our rate of inflation, which for some time now has been about three times higher than that of our major trading partners."

He said that more recently South Africa had had to grapple with a fourth cause of the depreciation of the rand — the development during the fourth quarter of 1984 and the first three weeks of 1985 of substantial "leads and lags".

These had assumed particularly large proportions when the dollar suddenly surged upwards again in December 1984 and the gold price slumped once again.

This had given rise to expectations of another dollar appreciation and another fall in the gold price — which in fact happened.

Many South African exporters had delayed the repatriation of their foreign earnings, while many import and other foreign payments were accelerated bringing about a short-term capital outflow in the form of "leads and lags".

"The rapid recovery of the rand after January 21 and the relative strength it has recently displayed in the face of both the substantial further appreciation of the dollar against major currencies and the accompanying decline in the gold price, stem largely from the growing realization in the market place that monetary policy is proving effective in curbing spending and changing the balance of payments fundamentals in South Africa's favour," he said.

The rand had been further supported by supplementary measures to alleviate pressure on the spot exchange rate.

Boost for training schemes

Political Staff

PARLIAMENT. — More than R200 million has been allocated in the Budget for manpower training and job creation in areas hard hit by unemployment.

The Finance Minister said R103 million would be for manpower training and the other R100 million for employment programmes.

The government was acutely aware, he said, of the need for an adequate supply of all categories of skilled manpower through higher individual proficiency and thereby an increase in overall productivity.

Therefore, he was increasing the allocation for this matter by 14 percent to R103 million.

"Our system of tax concessions for training purposes disclosed certain deficiencies as a result of which the original concessions were reduced from October 1, 1984," he said.

Mr P T du Plessis, the Minister of Manpower, had asked the National Training Board to investigate the whole question of training incentives.

The Finance Minister said the government was also aware of the increase in unemployment caused by the downturn in the economy.

"A package has been devised for short-term relief, including special employment opportunities provided by public bodies, and for which R27,5 million was made available in previous financial years, payment of unemployment benefits of nearly R105 million in 1984, and free training at a cost of nearly R4 million for 9 250 work-seekers," he said.

"For 1985/86, R100 million will be set aside for the continuation and extension of short-term work creation and relief programmes in those regions and areas experiencing severe unemployment.

"In launching these programmes, the public bodies involved will take due note of regional differences and regional development strategies."

Huge rise in spending on decentralization

Political Staff

PARLIAMENT. — Mr Barend du Plessis, Minister of Finance, strongly defended the government's controversial decentralization policies — and then disclosed a whopping increase in spending on decentralization.

The government has budgeted R627,1-million for decentralization during the 1985/6 financial year compared to R263,3-million last year.

The largest increase has come in the Trade and Industries vote where the full impact of the government's new incentives has been felt for the first time.

In that vote, R546,7-million is to be spent this year compared to R232,2-million last year.

One of the biggest single increases is for the cash grant of up to R110 a worker a month. The government expects to pay out R105,5-million in cash grants during the new financial year compared to R26-million in the 1984/5 financial year.

Other big increases in spending will be:

● The railage rebates on manufactured products and unprocessed steel, which will cost R169,6-million compared to R94,4-million.

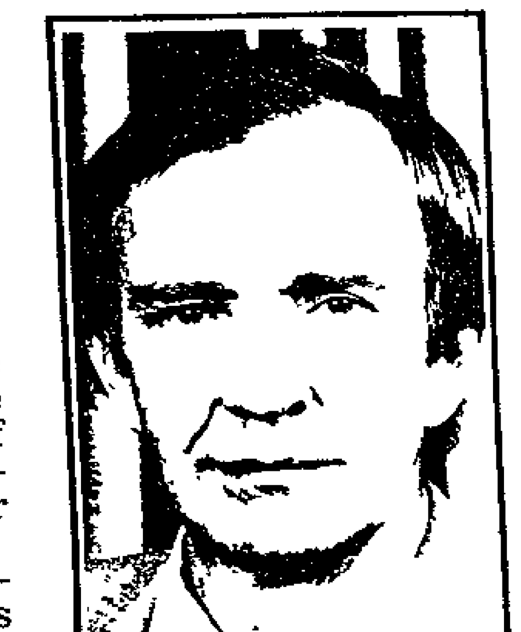
● The rebates on private road transport, which will cost R2... million.

● Compensation for removal of factories and key staff, which will cost R42-million compared to R9,5-million.

● The subsidy on the cost of electricity, which will cost R41,8-million compared to R31,3-million.

● The interest subsidy on loans for industrial development, which will cost R72-million compared to R17-million.

● The interest subsidy on loans for housing of key personnel, which will cost R12-million compared to R5-million.



Mr Du Plessis . . . "I shall not attempt to set precise quantitative targets by year-end for the inflation rate."

...come in the Constitutional Planning vote where assistance to local authorities for the development of industrial areas will go up to R44,4-million from R35-million.

Only six local authorities will be assisted this year, but Bronkhorstspruit is to get R20,3-million (compared to R15,1-million) and Bloemfontein, which received R3-million last year, is to receive R11,3-million.

The other vote providing financial support for decentralization is that of Foreign Affairs, where R36-million has been allocated compared to R19,4-million last year.

The governments of the "independent" homelands, whose budgets are heavily subsidized by South Africa, have to pay a R1 for R1 grant for this amount. This means another R36-million will be spent on decentralization other than what was allocated directly in the South African Budget.

In his speech, Mr Du Plessis said the results of the decentralization and deconcentration policies had proved their fundamental economic worth.

While it was accepted that initial costs might be high and yields modest, the long-term effect of taking development and employment opportunities to resources made...

Foreign debt: 'Well done'

Political Correspondent

SOUTH AFRICA'S massive R40-billion foreign debt at the end of 1984 could be largely ascribed to the poor Rand/Dollar exchange rate, Mr Barend du Plessis, said yesterday in an interview.

Foreign debt during 1983 had averaged "only" R29 billion and the dramatic increase since then could be largely blamed on the unfavourable exchange rate rather than an actual increase in foreign loans, he said.

He also pointed out that the R40 billion figure represented the total debt of both the public and the private sectors.

In his budget speech, Mr Du Plessis said South Africa had done well to avoid joining the long list of countries — "including some quite large and developed countries" — that have in recent years "overborrowed" and have consequently been forced to "reschedule" their foreign interest and loan repayments.

"Our untarnished record in meeting such payments on due date has not gone unnoticed and has contributed greatly to our overseas credit rating," he said.

Individuals to pay 14,2pc more in tax

PARLIAMENT. — Individuals are expected to contribute some R8 950-million in income tax during the 1985/6 financial year Mr Du Plessis announced yesterday.

This is an increase of R1 100-million or 14,2 percent on last year.

Total revenue for the year is estimated at R25 585-million an increase of R2 750-million or 11,5 percent on the revised estimates for 1984/5.

The minister said the increase in income tax from individuals was much lower than for the current financial year but this reflected

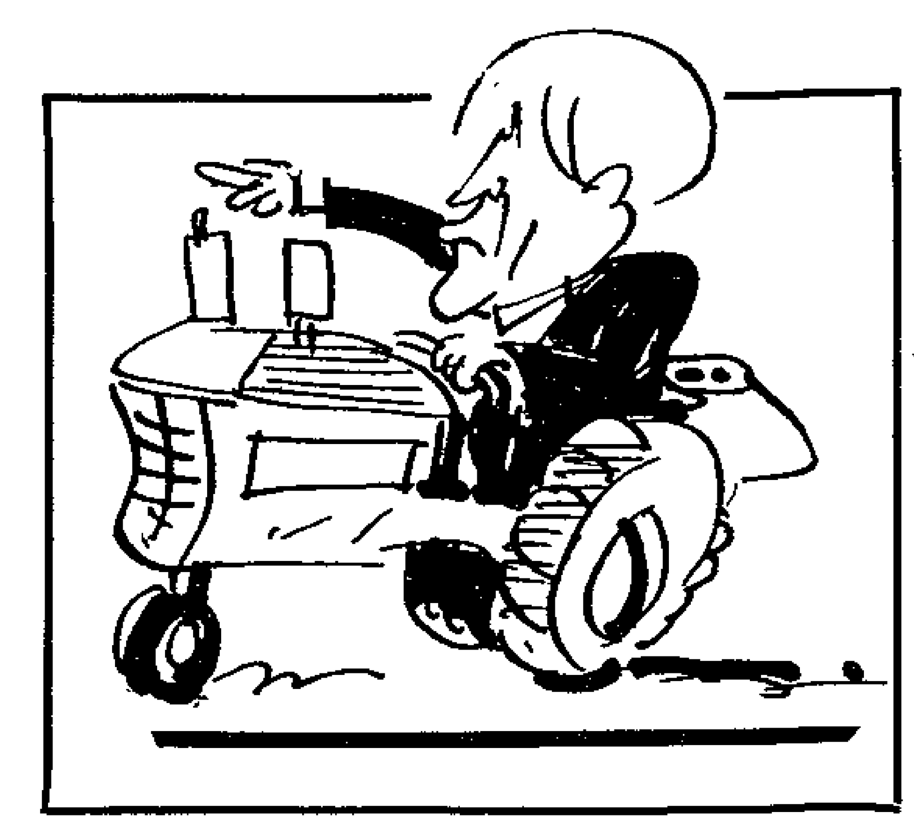
- the new loss of revenue from expected fringe benefit taxation, and
- more moderate increases in taxable emoluments in both the public and private sector.

GST revenue up R1 205m

Mr Du Plessis said revenue from General Sales Tax was expected to produce R7 100-million, or R1 205m more than the current year. This, he explained, was because the current 10 percent GST rate was introduced some way into the 1984/5 financial year.

The minister said:

- Tax and lease revenue from gold mines was expected to rise 16 percent to R2 350-million
- Income tax on non-mining companies by 10 percent to R4 250 million while
- Net customs and excise revenue would drop by 1,8 percent to R1 880 million.



Word of advice for farmers

Political Staff

PARLIAMENT. — A reappraisal of the system of financing agriculture was being undertaken by the Margo Commission of Inquiry into the tax structure, Mr Du Plessis said.

"Its recommendations will receive prompt attention."

The calamitous drought over the past three years necessitated considerable financial aid to farmers by taxpayers.

The aid, by way of grants and numerous subsidies, excluding subsidies on food, amounted to R447-million in 1984-85.

However, State assistance should not be confined to the short term. Agriculture should be helped to help itself in confronting future crises.

Although crop propects in most areas were better this year, farmers should avoid outlays on less pressing capital items, postpone improvements and devote surplus funds to the redemption of debts.

Subsidization of the interest on farmers' debts involved a heavy burden on the Treasury and thus the taxpayer, and could not be maintained indefinitely.

"Suggestions are heard on occasion that the State will ultimately have no choice other than to write off farmers' debts in part or even in full.

"But those holding this view would be well-advised to take note of the fact that the Exchequer does not now have, nor is it likely at any future date to have, sufficient surplus funds to apply in this way.

"Raising taxes on a massive scale for the purposes of such outright grants is equally unlikely," he said.

The lasting solution to farmers' problems was to be found in "the will and energy of every producer to organize his affairs in accordance with the best principles of both farming and finance and in the creation by the authorities of conditions and facilities to this end", Mr Du Plessis said.

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Parties welcome 'fair' budget

Political Reporter

POLITICAL parties in the Houses of Delegates and Representatives yesterday agreed that the Minister of Finance, Mr Barend du Plessis, presented a "fair budget under the economic circumstances" facing the country.

Most parties welcomed the initiative by the minister to narrow the gap in the disparity of social pensions between all races while expressing disappointment at the increase in sales tax to 12 percent.

Mr Boetie Abramjee, Minister of the Budget in the House of Delegates, said the increase in sales tax would have an effect on people and result in the budget being "unpopular" in some circles. "The effect on the average man will be small," he said.

"Under the present economic circumstances the country is facing, the curbing of public sector spending will be some relief," he added.

Mr M A Joosub, NPP finance spokesman, said the exemption of all foodstuffs from GST would have been welcome since it affected the poor man most. Cigarettes and liquor duty should have been increased instead, he added.

Dr J N Reddy, leader of the Solidarity Party, commended the Minister of Finance for keeping the increase in expenditure below inflation level and instituting monetary measures to curb government spending.

He called for the early implementation of measures to bring about parity in social pensions for all race groups.

"The frightening thing about GST is that one does not know where it will stop," Dr Reddy said.

Labour Party finance spokesman Mr Charles Redcliffe said: "The budget reflects the serious state in which the South African economy finds itself. Although the budget paints a gloomy picture, we believe it only to be so in the short term."

The increase in GST though disappointing was "expected", he said, but one consolation was that the minister was addressing the key aspects of the recession-torn economy.

Mr Yusuf Rhoda, Democratic Workers' Party spokesman on finance, welcomed the pensions and welfare benefits for the poor in the budget.

"In all it was a fair budget ... taking from the rich and giving to the poor. We regret the two-percent increase in sales tax which was revenue the minister should have taken from some other source," Mr Rhoda said.

Mr Arthur Booysen, the leader and only representative of the Freedom Party, said the budget was "not so bad that we will not be able to live".

He urged that attempts be made to narrow the gap between black and coloured pensions. The current disparity between these two race groups was "not working towards parity".

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Concern over GST increase

Labour Reporter

REACTION from organized labour was muted yesterday, with spokesmen for a number of unions and co-ordinating bodies declining to comment until the Budget had been studied in detail.

However, Mr Jimmy Zurich, chairman of the Federal Council of Transport Services Unions, warned that the two percent increase in GST would fuel discontent among railway workers.

The council represents 11 railways unions with a total membership of 170 000 and has been at the centre of resistance to government austerity measures among civil servants.

Mr Zurich said the GST increase meant the Budget was "inflationist" and would worsen the position of railwaymen still further.

"Workers are struggling. Our money is being taken away and we are not getting any increases," he said.

The Trade Union Council of South Africa believed that unemployment was the single most crucial problem facing South Africa, according to a statement from the council yesterday.

"This being so, we seriously question the wisdom of raising taxes and further believe that the over-emphasis on managing the deficit is misguided, when the major emphasis should have been on growth," the statement read.

"Of major concern and disappointment is the increase in GST without any further exemptions on locally processed foodstuffs such as those proposed by Tucsa.

"We welcome the concession in the form of the raising of the taxation threshold as this should be of some benefit to the lower-paid workers.

"We note that training incentives are to be investigated by the national training board and we await the report with interest."

The young, the unemployed, the aged and the sick would receive no benefit at all from yesterday's Budget, Mr Piroshaw Camay, general secretary of the Council of Unions of South Africa (Cusa), said yesterday.

Mr Camay said he was horrified at the increase in GST in view of the severe economic climate.

He said, however, that Cusa welcomed the reduction in the defence budget though it would have preferred a further dramatic reduction.

"The estimated increase in justice, police and prisons means the government predicts a period of repression against activists working for a democratic South Africa.

"And the budget for Co-operation and Development is to increase by R600-million at a time when the government has acknowledged the failure of the policy of apartheid.

"The R1,5-billion allocated for Constitutional Development and Planning is a waste of taxpayers' money on a system rejected by all progressive South Africans."

Mr Camay welcomed the R100-million set aside for the unemployed but wanted to remind the government that it was because of the policy of apartheid and mismanagement of the economy that unemployment existed in South Africa.

He said that instead of making life easier for the aged and the sick, the government was increasing their misery by spending less money on health and welfare in 1985.

Dr Bruce Cameron, president of the 50 000-strong Public Servants' Association (PSA), said last night it was "grateful" for the pensions allocation, including the fact that this would be awarded on a differentiated basis with older pensioners getting more than recently retired people.

The minister had also "explicitly" said that the government would not allow the remuneration package of the public service to deteriorate as previously.

"On the other hand, there are no prospects of any significant salary adjustments, which means that public servants would have gone without a general adjustment for 27 months.

"This, the inflation rate, the petrol price increase, the levy on income tax, the bonus cuts and higher interests rates have all collectively led to a situation where the financial position of public servants will deteriorate even further this year."

The PSA would continue "surveillance" of the situation.

Africa relations cost more

Political Staff

PARLIAMENT. — The government has budgeted a substantial increase in spending on its diplomatic activities in Africa.

It has estimated that R4,6 million will be spent on relations with the rest of Africa compared to the R889 000 during the 1984-5 financial year.

R3,2 million is provided for "diplomatic representation", not budgeted previously.

Education increase pleases

Education Reporter

EDUCATIONISTS and Opposition education spokesmen yesterday welcomed the 19 percent increase in South Africa's education spending in the new financial year but called for even greater amounts to be set aside for education.

The education allocation of R5 044-million was described by Finance Minister Mr Barend du Plessis as an effort to pursue the goal of "equal opportunity of education regardless of race, colour, creed or sex".

The increase in education spending was a mark of "the very high priority" the government accorded education, he said.

While spokesmen for several organizations declined to comment because no detailed breakdown of how the money would be spent was available, all indicated they were pleased education had been allocated the greatest single slice of the Budget.

"We feel, however, that the overall expenditure on education is still too low if parity in South Africa's education system is to be attained," said Mr Franklin Sonn, president of both the Cape Teachers Professional Association (CTPA) and the Union of Teachers Associations of South Africa (UTASA).

Mr Sonn said the announcement that special provision had been made to provide increases for the very important sector of low-paid teachers was to be welcomed. Representations on improving the lot of these teachers until such time as they were paid a "respectable salary" would continue to be made, however.

The fact that the government was prepared to make provision for them even in such trying financial times was a recognition of the "dismal treatment" they had received until now, he said.

The PFP spokesman on education, Mr Horace van Rensburg, described the education allocation as "generous". The figure set aside for education represented nearly 17 percent of the total Budget — the biggest single slice of the Budget — which was a "fair" percentage, he said.

The substantial increase on current expenditure for black education — from R354 547 to R553 215 — was "very pleasing".

The smaller increase planned for capital expenditure for black education, of about 17 percent, was also pleasing.

"At this early stage, however, it is not possible to compare the expenditure for white, coloured, Indian and black education," said Mr Van Rensburg.

Subsidies on bread, maize up

Political Staff

PARLIAMENT. — Government subsidies on some basic foodstuffs are to go up in spite of warnings by Mr Barend du Plessis that they would have to be phased out.

The bread subsidy is to go up to R200-million this year, compared to R120-million last year. And the subsidy on the maize price and grain sorghum is to go up to R250-million compared to the R40-million last year.

NB: (1) The above amounts have been calculated on the basis that the taxpayer's wife has no income and that he has no other dependants.

(2) The standard deductions for medical expenses and rebates for insurance premiums have been allowed.

'The Budget will stop the economy in its tracks'

Financial Staff

THE budget tax proposals will stop the economy in its tracks, if it has not stopped already, says **DR CHRIS VAN WYK**, managing director of Trust Bank.

"It will prolong the recession, it will have a negative impact on unemployment and it will certainly increase the hardship now in many sectors of the economy," he told a large audience of businessmen at a budget discussion held by the bank and Sanlam last night.

The cuts in government spending would also exacerbate the depressive forces in the economy.

He questioned whether the government would stick to its guns and keep within its spending limits.

"Only time will tell if the credibility gap has been closed between intention and practice and whether credibility is on the way to being restored."

PROFESSOR JOHN MORRIS, associate professor of accounting at the University of Cape Town, said the Finance Minister was using the bludgeon rather than the rapier in dealing with tax-collecting problems.

An example was his reference to insurance policies which were seen more as investments rather than insurance. His response was to take more money out of the insurance system which now faced a special surcharge of 7,5 percent.

The new surcharge also meant that people in the top income brackets will now pay 53,5 percent instead of 50 percent, bringing substantial tax increases for a few individuals.

Industry faced a marked drop off in investment and wear-and-tear allowances which after June 30 would not exceed 60 percent agasinst the present 75 percent.

'Herald of hard times for man in the street'

THE Budget has generally been greeted by the **PRIVATE SECTOR** as a herald of hard times ahead for the man in the street.

Criticism included fears of rising unemployment, insolvencies and a decrease in productivity.

Tax specialist Mr Costa Divaris said the Budget lacked confidence-building measures needed by the country.

Dr Hans Falkena, chief economist for the United Building Society, said: "Although somewhat bitter medicine, the Budget was what South Africa needed."

● South Africa's long-suffering motorists and the country's ailing **MOTOR CAR INDUSTRY** have been further hit by the two percent rise in general sales tax.

Motorists face an increase of two percent on all fronts because of the GST rise from 10 to 12 percent, effective from March 25.

Automobile industry and motoring experts said the GST increase would affect everything from car sales to service charges to spare parts.

● Mrs Joy Hurwitz, national president of the **HOUSEWIVES' LEAGUE** of South Africa, welcomed that fact that the Minister of Finance, Mr Barend du Plessis, had not done away with existing food subsidies.

● **PENSIONS** organisations said the tax rebates and increases in pensions did not go far enough to meet the needs of pensioners hard-hit by soaring inflation.

A major concern of most people was the negative effect of the increase in general sales tax to 12 percent.

● Prominent educationists and the Progressive Federal Party haave welcomed the 19 percent increase in government spending on national **EDUCATION.**

The Minister announced that R5 044-million had been earmarked for education in the new financial year.

● Tax experts have claimed that nothing has done more to undermine the confidence of taxpayers in the **TAXATION** system than the way in which the taxation of fringe benefits has been introduced.

Benefits including company cars, cheap loans for employees and housing subsidies are to be taxed.

● The Budget would be very hard on all consumers, but particularly on **PUBLIC SERVANTS**, the president of the Public Servants' Association, Dr Colin Cameron, said.

"There is no evidence of any salary adjustment during the next financial year. This will mean public servants will have gone without increases for 27 months."

● The South African **NURSING ASSOCIATION** has welcomed the announcement of better salaries for poorly-paid nurses.

● The Building Industries Federation (Bifsa) says the allocation of R192-million to black **HOUSING** is disappointing.

It would not ease much of the housing crisis, said Bifsa's executive director, Mr Lou Davis.

● The Budget did not make adequate provision for aid to the **AGRICULTURAL SECTOR**, a spokesman for the National Maize Producer's Organisation (Nampo), Dr Kit le Clus, has warned.

He said accumulated agricultural debts were steadily increasing and farmers would need about R2 000 million to plant their 1985/86 crops.

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GFSA chief slams added surcharge

Gold mine taxes hurt industry

By BRENDAN RYAN

TAX levels on gold mines have reached the point where they will discourage new investment, says Mr Robin Plumbridge, the chairman of Gold Fields of South Africa (GFSA).

His view is echoed by Mr Pierre Kriegler, the financial director of Rand Mines.

Reacting to the jumps in mining taxes announced in yesterday's Budget, Mr Plumbridge said the pattern of recurrent increases in tax introduced a new risk factor of future potential tax increases in the evaluation of mining projects.

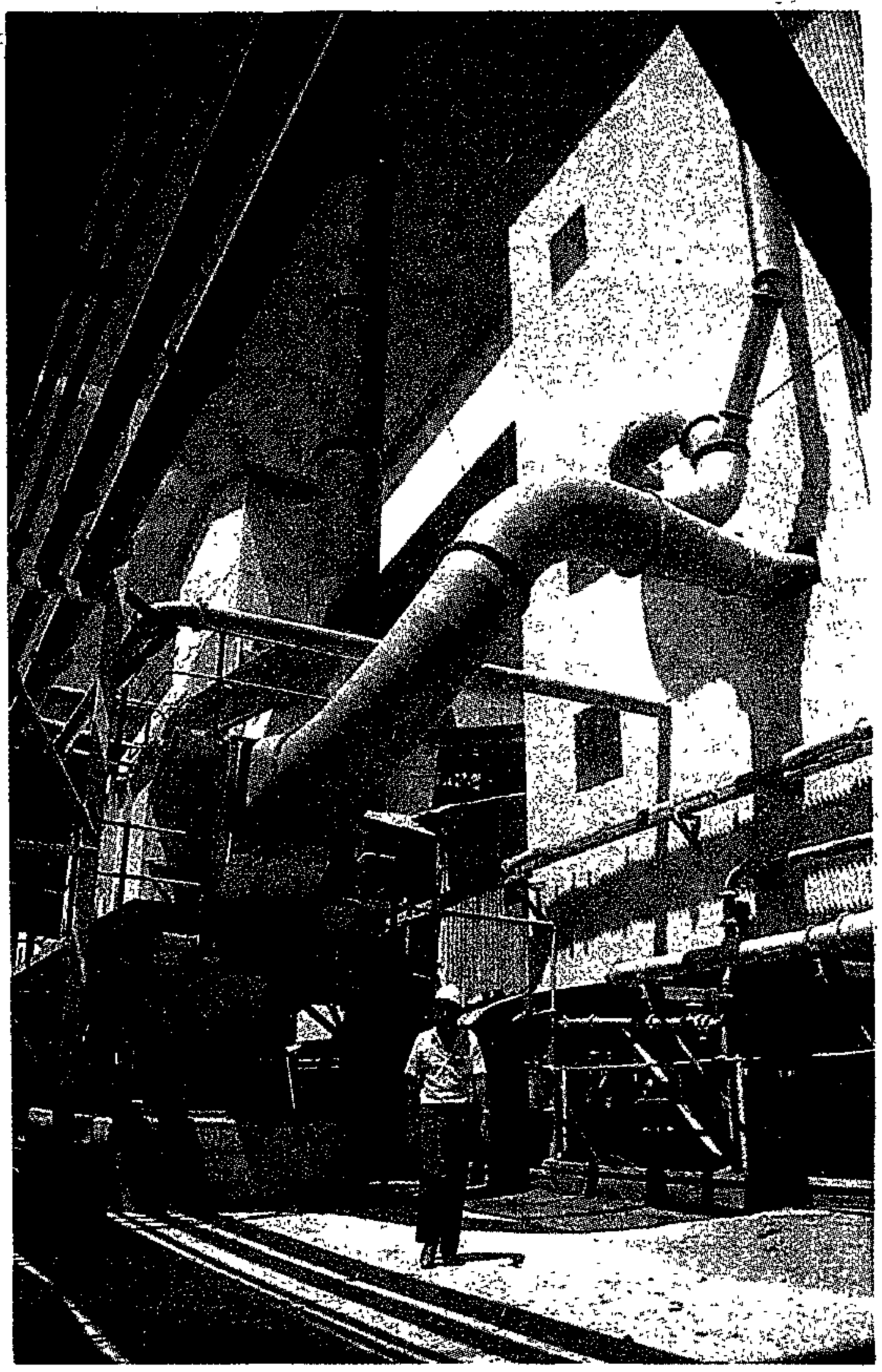
In his Budget, the Finance Minister, Mr Barend du Plessis, added a special temporary surcharge of 5% over and above the present 20% surcharge on tax paid by all gold and diamond mines.

He also introduced a special surcharge of 15% on all other mining companies, thereby raising their normal tax rate to 57,5%. This rate includes the platinum mines, coal mines and base-metal mines.

General reaction from the mining industry was that the 5% increase in the surcharge on gold and diamond mine taxes had been expected, but not the 15% surcharge on other mining companies.

Mr Plumbridge questioned the validity of the current system of gold mining taxes, which taxed profitable gold mines at exceedingly high levels and gave no incentive to the mines to hold down their expenditures and working costs.

He said initial calculations showed the effect on GFSA's Kloof mine would be to push the tax rate to 74,1% of incremental revenue.



Fraser & Chalmers, a company in the engineering division of Mitchell Cotts, recently completed a R1,3m refurbishment programme at the Western Holdings gold reduction plant.

Mining companies are allowed to write off capital expenditure against their profits in the year in which the expenditure is incurred.

Mr Plumbridge said that in the case of Kloof, the mine received a tax rebate of 78,8% on expenditure.

"One must question whether the present gold mining tax system encourages the mines to minimise expenditure and operate as productively as possible.

"This tax system means the Government can pay up to 79% of the costs on gold mine expenditure, which must inevitably have the negative effect of encouraging an easy-going attitude to expenditure.

"At GFSA, we go out of our way to overcome that attitude and hold costs to a minimum, but it is a growing attitude at the operational level."

He said the average tax rate for GFSA's gold division would rise to about 63% with the additional surcharge, compared to the 50% paid by non-mining companies.

"An exceptionally high tax rate is being levied on the industry, which is the backbone of the economy. The gold mines earn about 50% of our foreign exchange earnings, while the mining industry as a whole earns about 70%.

"We have reached a situation where it is a question of killing the goose that lays the golden eggs because the level of tax is at the stage where, if the situation is not redressed, it will kill off new gold mining ventures.

"I can only hope the new tax surcharge will be a very temporary phase."

Mr Du Plessis said in his speech that mining industry profits had benefited from the rand depreciation and that the industry could therefore be looked to for further tax payments.

Mr Plumbridge said that while the mining industry had benefited from the weak rand, this had only offset the low level of world prices for most metals.

The president of the Chamber of Mines, Mr George Nisbet, said yesterday the additional revenues the gold mining industry had received from the depreciation of the rand had been used largely on increased capital expenditure.

Mr Kriegler said the tax increases were the latest in a series of Government body blows to the mining industry.

These had included the changes to State Assistance, the new rules on the merging of gold mines and the requirement that hedging losses or profits be allocated to non-mining income.

"I don't know who will be prepared to take the risk of sinking a deep-level gold mine in the future or where the money for it will come from.

"The Minister says the tax is temporary, but I can't remember when we last saw a reduction in mining taxes.

"The approach used by the Minister of targeting sectors of the economy which can afford to pay higher taxes does not fit in with the free enterprise system and appears to me a communistic approach to taxation.

"I can only hope the new taxes are indeed very temporary measures," he said.

More W...

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lose jobs, forecasts economist

JOHANNESBURG—More unemployment and more insolvencies were expected as a result of the Finance Minister's drive for lower inflation, a stronger balance of payments, a stronger rand and lower interest rates expressed in yesterday's Budget.

Sapa reports that the chief economist of Barclays Bank, Dr Johan Cloete, giving this forecast, described the Budget as strongly deflationary.

'This Budget will have a very severe deflationary impact on the economy because of the considerable amount of additional taxation being imposed,' he said.

It provided for a substantial reduction in the deficit before borrowing from R3 359 million last year to R2 570 million in the new fiscal year. This was equivalent to a 1,5 percent negative growth of real gross domestic product.

'This means the minister is prepared to sacrifice growth to achieve his objectives. Obviously unemployment and insolvencies will increase as a result,' Dr Cloete said.

Policies

Our parliamentary correspondent reported that the Opposition's chief spokesman on finance, Mr Harry Schwarz, said the Budget was the price South Africa was being asked to pay for Government mismanagement and misplaced ideology.

'The policies of the Government, as this Budget clearly demonstrates, have contributed towards the lower value of the rand, the high rate of inflation and the high level of unemployment.'

The country, he said, was being asked to make sacrifices, but he was not satisfied that they were being fairly spread.

Increasing umemployment and poverty throughout the country were a threat to stability, and the measures taken to alleviate it were hopelessly inadequate.

The Budget made it clear that bankruptcies and liquidations would increase during 1985, and when the upswing eventually arrived, the employment which the liquidated businesses had offered, would be gone forever.

In spite of promises of a long-term strategy, the Budget did not lay the foundations for a long-term recovery, but was an ad hoc measure and was disappointing.

'The increases in personal income tax are unnecessary and give no incentive to work, either to the entrepreneur or to employees.'

The increase in GST would again increase living costs and create hardships and the Budget, offering no incentive to productivity, would adversely affect confidence and administer hard knocks to the average South African.

A Mercury Reporter writes that local distributors of imported luxury goods hit by provisions in yesterday's Budget, said while business could be slowed, they had not been surprised although one importer of office ma-

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Effect on jobs

★ FROM PAGE 1

chines, on which a 10 percent customs duty was imposed, asked: 'Why us?'

The distributors' price of video recorders to dealers would rise by at least R50 as a result of the duty increase from 10 percent to 15 percent, said Mr Peter Spreckley, director of a leading distribution company.

'There is a bleak outlook for the industry. We have not only the 5 percent duty increase to contend with, but the 2 percent GST hike and restrictive hire purchase terms.'

It was unclear last night exactly which office machines were referred to in the Budget, and whether the new 10 percent customs duty would have to be paid on computers which, like other office machines, had previously been exempt.

But Mr Dario Bombardieri, Olivetti's Durban branch manager, said: 'It will definitely force prices up. We are perturbed. We didn't expect it, and we don't have the faintest idea why office equipment was chosen.'

Mr Dave Lucas, Durban manager of mainframe computer suppliers Burroughs, said that if the duty applied to computers 'it would hurt the customer'.

The increased expenditure on education was yesterday welcomed by the president of the Natal Teachers' Society, Prof André le Roux, the principal of the University of Natal, Prof Peter de V Booysen, and Natal's director of education, Mr Willie van Rooyen.

However, Mr Brian Beavon, managing director of Spar, said the increase was 'less than I had expected'.

'I had anticipated GST rising to 15 percent, so this is much better,' he said. 'The Government had to make up its deficits somewhere.'

Mr Gordon Utian, managing director of Checkers, said :'It is disappointing that the man in the street is being made to pay.'

Pick 'n Pay chief Raymond Ackerman slammed the 2 percent increase in sales tax, saying it would not only severely affect the low income bracket but would 'seriously dampen the morale of every consumer'.

Mrs Margaret Lessing, director of the Women's Bureau of South Africa, said Mr du Plessis had spread increases 'as best he could'.

'It seems he tried to take a bit from everybody. Consumers, however, must watch out and make sure that the prices of foodstuffs exempted from the increase do not rise.

Trade union leaders and social workers expressed disappointment at the increase in sales tax and said the hike would further erode already depleted pay packets of thousands of workers, but welcomed adjusted tax thresholds which would be of particular benefit to the lower income worker.

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THE BUDGET

Savings tax uproar

Bankers and life assurers are furious about the new taxes they face after Finance Minister Barend du Plessis' Budget last Monday. For both measures are tantamount to a tax on savings at a time when official policy was thought to be aimed at increasing them.

As Chris Cunningham-Moorat, GM sales and marketing at Legal & General Volkskas puts it: "The additional levies are a very peculiar way of encouraging savings and discouraging consumption expenditure."

The country has a pitifully low savings ratio. Bankers are in agreement and also see it as an assault on their capital base. It seems contradictory, they say, to increase gst on the one hand to encourage savings, yet on the other, to tax deposits.

The Minister announced:

- ☐ For bankers, a special levy of 0,25% of the average amount of all deposits held in the RSA at the end of each quarter during the calendar year 1984 — a total of 1% annualised; and,
- ☐ For life assurers, a special levy of 7,5% on gross investment income, derived from life endowment and provident business, for the fiscal year to March 31 1986.

Combined, the measurers are intended to rake in a further R177m for government coffers.

Bankers say, bad though the impost is, it is also wrong to levy taxes retrospectively. According to Standard Bank's Andre Hamersma: "Changing the rules like this is going to frighten off investors." He says it could particularly affect overseas investment. "People will only invest on the basis of certainty," he points out.

In taking a tax knock retrospectively, bankers were being penalised for good years, while currently their profit position was under severe strain. "We are being increasingly hit by bad debts," explained one banker. "How is it, while profits in the banking sector are now lagging, the Minister wants to tax us on past performance?"

He also said the discount houses were nervous, uncertain whether the measures applied to them. If they did, he warned, it could wipe out the discount houses' profits at a stroke.

But as Du Plessis said: "For some years the banking sector has enjoyed a considerable measure of immunity from taxation ..." And it is apparent that the Margo Commission, in contrast to the more specific Van der Walt Commission on the taxation of life assurers, views financial institutions as enjoying preferential tax status.

Liberty's Hilkowitz ... far from relaxed

For example, none of the "big five" banks pay more than 1% of their operating profits to Inland Revenue. In fact, in 1983, Barclays paid less than R500 000 of its R200m profits in taxes, to Inland Revenue — an effective tax rate of under 0,5%.

Hamersma says: "It is wrong to single us out, presumably on the basis that we have done well out of high rates."

Bill Haslam, senior GM pensions at Southern Life says: "It's an enormous burden by any stretch of the imagination for the life assurers to bear. I can only put this down to some quarters believing the life companies are just fat cows waiting to be milked.

"It is a pity the Minister has seen fit to raise the taxes of the life industry, the only industry that is contributing to national savings."

Monty Hilkowitz, MD of Liberty Life, says: "I see this as an *ad hoc* approach, totally unscientific and arbitrary. In view of the fact that the Margo Commission has been specifically requested to look at the taxation of the life industry, this approach is highly pre-emptive."

Both institutions agree that the Minister "jumped the gun." He acted ahead of the report from Van der Walt Committee, appointed by Owen Horwood, following complaints from assurers facing huge increases in tax levels in 1982.

It is also ironic, say bankers, that while the Reserve Bank is trying to build up the capital base of banks the treasury is diminishing it. It could encourage banks to find more profitable but more risky areas of business. This would run counter to the spirit of the Banks Act intended to put the sector onto a more sounder footing.

Banker warned

One banker warned that this could encourage disintermediation — the creation of off-balance credit through more informal sources — distorting the money supply figures.

And the criticism that assurers also received "favourable tax treatment" is rejected. Brian Hewitson, technical marketing executive at Liberty Life, says that in fact every calculation done by the Van der Walt Committee indicates that the existing effective rate of taxation of assurers was far from concessionary.

Life assurers pay tax at the company rate on 40% of their gross income earned on ordinary life endowment and provident fund income. This amounts to 20%, plus the new levy means they are paying 27,5%, adding another R77m to assurers' taxes — a rise of 35% to an estimated R297m.

Pierre Steyn, MD designate for Sanlam, says the Minister's act was counter-productive. "He should rather decrease, not increase life assurer's taxation. This would be a better way of filling the coffers of the state."

Steyn says that if savings were encouraged, this would promote capital formation on the one hand, and produce a positive cash flow into government coffers through the compulsory prescribed asset channels on the other. ■

PRINTING DELAYS

We apologise to readers and subscribers who have experienced delays in receiving their *FM*. Printing and distribution have been affected by factors beyond our control, arising out of technical problems at Keartlands-Nasionale, the *FM*'s printer.

SUGAR PRICE

A bitter pill

With the local price of sugar now rising to a whopping R658/ton, as against a world market price standing at around R209/ton, it is impossible to justify anything about the local industry. The effective rise is 14,6%, up from R574/ton.

Though this is the industrial price, there's nothing sweet in it for consumers or producers either, who will now be paying about another 12,5%. This increase is expected to

MULTINET GOES ON LINE

Multinet, SA's first combined electronic banking system, has already been switched on nationwide. Customers of any of the four participating institutions — Standard Bank, United Building Society, Volkskas and the Post Office — can now use their plastic cards in the automated telling machines (ATMs) in some 750 shared terminals spread countrywide.

At present, only the staff of these institutions have been told of the development, and it is still at an "experimental level," according to Multinet steering committee chairman Dave Masterson.

"It is true that we have switched on virtually all through-the-wall machines in the country.

Anyone can now use them. But we haven't made it public yet because we don't want people to be disappointed by the odd terminal which hasn't yet been adequately converted.

"For example, the UBS machines in the Johannesburg area must still have some software converted. So they haven't been switched on yet."

At present, users will only be able to withdraw cash and make balance enquiries through "foreign" machines which have been linked. Cash withdrawals, however, cover 70% of the volume of all transactions.

The other 30% of transactions is made up of balance enquiries, statement requests and deposits. There are plans in the future, depending on market response, to develop other services for the shared machines. This will include transfers between accounts within each institution, and possibly between institutions themselves.

In the 1983/84 season revenue from local market sales was R557m. Two price increases totalling 24% later, local market proceeds on the 1984/85 season had shot up to R754m — 74% of total revenue.

Questions concerning the viability of the local industry are now more pertinent than ever.

The long-term outlook for the world sugar price is bleak, even if the current sugar mountain can be depleted. But that is doubtful, given that sugar is generally grown in geographical locations found in countries that will sell sugar at almost any price to earn foreign exchange.

In colder countries, where sugar beet is grown, farmers are also paid far more than the world price, with taxpayers footing the bill. In SA, the taxpayer is paying over the odds for sugar and its products.

It can only be hoped that the mooted three-tier system for sugar growers — which will only pay them for that portion of the crop sold to the domestic market — will be instituted. ■

affect about 200 consumer items.

The soft drink manufacturers are the largest industrial users of sugar. Since they will be affected to the tune of R9,5m, it is highly likely even more substitution by artificial sweeteners will take place.

Coming only five months after the last 12,5% price increase in September, consumers probably have every right to feel disgruntled. At the same time there is little in it for the comfort of growers. The increase will contribute a modest R25m to the industry's R200m-odd loss on the current season. That goes nowhere near putting it back into the black.

In following this year's expected record sugar crop of 2,3 Mt, the latest increases leave the market nonplussed, to say the least.

Peter Sale, GM of the SA Sugar Association (Sasa), says the increases are rough estimates as the wholesale and retail price of sugar is no longer price-controlled. He notes that while export prices are depressed, local market sales must at least cover the cost of domestic production to ensure the long-term survival of the industry.

He believes you cannot simply "mothball" the local industry while imports are cheaper and then expect it to go back into production when world prices rise above the cost of SA production. He pointed out that 186 000 jobs were at stake, and another one million in related trades.

The relatively low value of the rand had also to be taken into account. Clearly, if the currency appreciated, this would be another factor making local production cheaper. Yet if local production was curtailed, or its capacity severely reduced, Sale believes that the average R180m export earnings would be replaced by a R500m import bill, assuming current rates of exchange.

But that is hardly heart-warming news for local industrial users who face the immediate prospect of paying a rate that exceeds world market prices by some 315%.

Out of domestic consumption an expected surplus of 1,1 Mt is available for export. However, since the world market is in a depressed state the surplus will have to be stockpiled. The industry will lose R277m on its exports in the 1984/5 season.

Sasa annually negotiates a price on the basis of a formula accounting for production costs plus a 9% return to millers and a 7% return to farmers. Included in the formula is the expected international price — currently at R209/ton.

But unless the world price rises to R270/ton the industry will fail to realise its negotiated return. This price is unlikely to be realised because the international stock is about 40m tons which is 40% of annual consumption.

According to the latest figures supplied by Sasa, growers' and millers' total requirements of the 1984/1985 season, including return on capital, was R1,2 billion. Proceeds, which included proportional benefits from the latest price increase, amounted to R1 billion, leaving a shortfall of R157m. It is estimated that there will also be a R200m shortfall for the 1985/6 season.

Sasa says it won't be increasing its borrowings to cover the shortfall this year, while it has already accumulated loans of R327m against deficits on previous seasons.

Consequently, growers and millers will have to bear the full burden of the loss. For the second consecutive season they will have to forego returns on capital and under-recover on their costs.

Sale points out that since the industry's fortunes took a turn for the worse it has absorbed losses of some R345m, which, he says, discounts the suggestions that it is merely passing on its costs by increasing local market prices.

BONUS BONDS

Tax uncertainty

In spite of Inland Revenue's hesitancy, winnings from "Bop Bonds" are likely to remain non-taxable, at least for the present.

Following the withdrawal of the SA Bonus Bonds scheme, the Bop government has recognised a marketing opportunity to "clean up" the R460m or so left without a home. It is again publicising its own scheme — the "Bophuthatswana Development Bond" — already two years old.

The big question most investors will be asking, of course, is what about the tax implications? Besides this, many people have already been put off such interest-free investments, judging by the SA scheme that offered a gradually reduced chance of winning.

When asked if RSA residents would have their winnings taxed, Jan Massyn, chief director at Inland Revenue in charge of legal interpretation, said: "That's a tricky one. It's not an easy question to answer." Nor did he seem too keen to investigate. As Massyn put it: "The tax authorities would not wish to give publicity to something that they may have to act on in the future."

Another source at Revenue explained: "We can't give any details as far as that is concerned. As far as I know there has been no ruling on the matter, otherwise we'd have heard about it."

The sale of SA bonds was terminated on November 1 1984, following alleged pressure from church groups. The redemption deadline was February 1, after which the certificates became "conversion bonds", attracting a fixed 10%/year tax-free interest payment. Final prize draws took place at the beginning of this month.

Budget proposal from academics

Cape Times 21/3/85

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Staff Reporter

AN alternative budget to that announced by the government on Monday has been drawn up by the Second Carnegie Inquiry into Poverty.

The alternative budget, which projects government spending until 1990, concludes that an average increase of 107 percent on per capita expenditure on African education between 1983 and 1990 would be possible.

A 15 percent increase in spending on health services for Africans and a 52 percent increase in social welfare payments to Africans would also be possible.

The budget proposes allocations that would enable spending on education, housing, health and social welfare to rise from 33 percent to 41 percent of the State's total expenditure.

The proposal, which will be released later this week as an academic paper entitled "Justice, Development and the National Budget", has been written by University of Cape Town economists Mr Charles Simkins, Ms Delia Hendrie and Mr Iraj Abedian and University of the Western Cape researcher Professor Pieter le Roux.

It will be released as part of the Post-Carnegie Conference Series.

A statement released by the Carnegie inquiry says the authors chose education, health and welfare as the focus of their budget because they believed increased government spending in these areas would "go a long way towards achieving the goals of justice and development".

No faltering

The authors say the tremendous increase in government spending on education since 1976 should not be allowed to falter.

Assuming that expenditure on white, coloured and Asian pupils remained constant, a projected increase of as much as 13,2 percent a year on African education could be possible.

In addition, if levies of about 10 or 15 percent were imposed on white pupils, "as a reflection of their privileged position", the authors say it would be possible to make "substantial progress towards equality on per capita expenditure between the races by 1990".

Spending on health services could be increased on average by 4,5 percent a year — which would allow for a 15 percent improvement on spending per person.

Expenditure on social welfare could increase by between 2,4 percent and 7,2 percent each year. As in the case of education, all improvements could be assumed to accrue to Africans.

Serviced sites

The authors say the area of greatest need in the State's housing policy is the provision of serviced sites — of which some 64 000 will have to be provided each year. They calculate the State could finance about 40 percent of the serviced sites required to accommodate South Africa's growing population.

The necessary revenue for this would come from additional taxes including fringe-benefits taxation, a capital-gains tax, a tax on agricultural returns to be levied in such a way that the productive farmer would pay less tax than at present, and a heavier estate tax.

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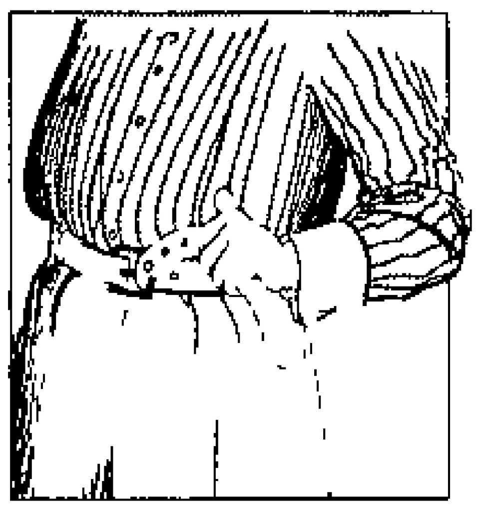
To the words match the deeds



This week's Budget is so much in the image of Owen Horwood, and what he tried to achieve last year, that it leaves a sense of pervading loss and betrayal. Alas! poor Yorick. Having said that, it is also true that Barend du Plessis' maiden offering is a constructive one that is more, rather than less, appropriate to the circumstances.

The conditions under which Horwood framed his 1984-1985 Budget were not all that different from those Du Plessis faces now, although the economic situation has since worsened.

The difference between Barend du Plessis' maiden Budget and the widely discredited one delivered last year by his predecessor, Owen Horwood, is that his has a better chance of achieving its goals. P W Botha's entire court has pledged support now to adhere to spending constraints. If it had done the same for Horwood, we would have been a lot nearer recovery.

Essentially, however, the pressures were the same, and so, too, the principal actors of the piece: from the head of State, his Cabinet with its voracious spending appetite, to the cautious Director General of the Department of Finance and Governor of the Reserve Bank.

It was clear then, as now, that government's share of the economy had to be reduced and that excess demand had to be brought under control. The dollar price of gold was sagging and exports were slack. Inflation had fallen to near 10%, but was rising in inverse proportion to the decline of the rand.

Horwood put a brave face on what he hoped would be a contractionary Budget and

BUDGET IN A NUTSHELL

Revenue: The total revenue for the coming financial year is forecast at R28,32 billion, an increase of 18,8% on the revised Budget estimate of R23,83 billion for the previous financial year.

Expenditure: The total rises to R30,89 billion, an increase of 13,6% on the previous year's revised estimate of R27,19 billion. Several expenditure items, previously financed off-budget, have been brought back onto budget, while Soekor now moves off-budget. The net effect is to increase visible expenditure by R599m, without which total estimated expenditure would be R30,29 billion, an increase of 11,4% on the previous year's figure.

Financing: This leaves an estimated deficit before borrowing of R2,57 billion, or 2,2% of the expected gross domestic product. Adding expected loan redemptions of R1,69 billion, plus a special transfer of R400m to the tax reserve account, brings the total to be financed to R4,67 billion.

Defence: An increase of 8,1% brings proposed spending to R4,27 billion. This represents a fall from 14% of the total Budget last year, to 13,8% this year.

Capital expenditure: This rises by 17,4% to R3,14 billion.

Education: Spending goes up almost 19% to R5,04 billion.

Manpower: An increase of 14% brings the provision to R103m. The question of training incentives is to be investigated and reviewed. Also, R100m is allocated to short-term work creation and relief programmes.

Public Service remuneration: To maintain occupational differentiation, a further R125m is proposed.

Pensions: From 1 October 1985, military pensions increase by 15%, and civil pensions by between 7,5%-15%, depending on years of retirement. Also, R150m is being provided for social pensions.

Regional development: Spending goes up 27% to R3,61 billion for the continued development of the homelands. Development Bank is to receive R282m in various provisions, a 47% increase on the previous year's figure.

Housing: The National Housing Fund receives a total R190,4m under two department Votes.

Customs and excise: *Ad valorem* duty on imported motor vehicles goes up to 125%; customs duty on video cassette recorders increases to 15%; and there is now a 10% *ad valorem* excise duty on office machines and certain electronic devices.

Excise duty on petrol derived from coal goes up from 9,4c/*l* to 10,25c/*l*, although there is no change to the pump price.

Gst: This rises to 12% effective March 25 from 10%. The exemptions remain.

Personal taxes: The surcharge on income tax goes up to 7%, payable only when net tax exceeds R750. Tax thresholds are increased to R880 from R460 for marrieds and R620 from R380 for unmarrieds, while the threshold for maximum marginal rate for unmarrieds is raised to R42 000 from R32 000. As a deduction from income, medical expenses are increased to R1 500 for marrieds and R1 000 for unmarrieds. For people between the ages of 60-70, the allowances are raised to R4 000 and R3 000 respectively. Taxation of married couples is still under review.

Interest and dividends: The exemption from tax is raised to R250, although this concession will apply only to interest earned.

Life assurers: A special levy of 7,5% is imposed on gross taxable investment income, applicable for the current fiscal year only.

Banks: A special levy of 0,25% of the average amount of all deposits held in the RSA is imposed. Payable in instalments, the impost is calculated on quarter-end balances for the calendar year 1984.

Company taxes: To the existing surcharge on gold and diamond mining companies a special temporary additional surcharge of 5% is imposed; a special surcharge of 15% is imposed on other mining companies; a new levy is to be applied to producers of synthetic fuels. The initial allowance for new or unused plant and machinery, as planned, is now raised from 25% to 50% from July 1, compensating for the withdrawal of investment allowances.

Fringe benefits taxes: These are implemented as previously announced from March 1 1985.

STATE OF THE ECONOMY

Finance Minister Barend du Plessis said government's priority was to counter inflation and to strengthen the balance of payments (BoP), the rand and net gold and foreign reserves. Austerity, therefore, would have to continue.

From his analysis of the present economic conditions, Du Plessis outlined four points:

☐ The economy had been buffeted by adverse external developments that had "left us less well-off." He warned that living standards would decline temporarily;

☐ The response of fiscal and monetary policy to these shocks had not been quick or adequate enough allowing total spending to rise excessively with serious consequences for inflation and the balance of payments;

☐ The application of financial stabilisation policy had curbed total spending and swung the deficit on the current account of BoP into a surplus; and,

☐ Because of an expansionary fiscal policy, monetary policy has had to bear too great a share of the burden.

The economy entered a downward phase in mid-1984. The previous upswing in the preceding 15 months stemmed mainly from government and private consumer spending and produced growth of 4,5% in real gdp for 1984 compared with a decline of 3% in 1983.

There was a weakening of the BoP, a substantial depreciation of the rand and increased inflationary pressures largely because of the fall in the gold price. This was aggravated by the drought and the sluggish recovery in world demand for our main non-gold exports.

Du Plessis said real gross domestic expenditure went through two phases in 1984. Initially, it rose at a seasonally adjusted rate of 10% for the first half of the year and then fell by 5,5% in the second. Its main component, private consumption expenditure, rose by 8% in the first half of the year and fell by 9% in the second. Government consumption expenditure rose by 9,5%, while gross domestic fixed investment declined by 2,5% in 1984.

"Present indications are that real gross domestic expenditure will fall further by about 4% in 1985 and that real gross domestic product will show little increase over 1984," Du Plessis added.

The current account of the BoP registered a deficit of just over R1 billion in 1984. However, Du Plessis predicted an overall surplus of at least R1,5 billion for 1985.

There was a substantial net inflow of long-term capital of R2,7 billion in 1984, of which R880m represented purchases by foreigners of securities listed on the JSE. But there was a net outflow of short-term capital of over R3 billion, R2 billion of which occurred in the fourth quarter, largely in the form of "leads and lags" relating to foreign payments and receipts.

"Against the background of these BoP developments, the rand showed a marked further depreciation in 1984. From a peak of $0,91 in September 1983 it fell to $0,41 on January 21 1985," the Minister said.

He said there were four reasons for this decline:

☐ The exceptional and unexpected appreciation of the dollar;

☐ The impact of lower foreign exchange earnings or increased payments;

☐ Inflation; and,

☐ The development in the fourth quarter of 1984 of substantial "leads and lags" which arose because of the expectation that the dollar would continue to appreciate.

"The rapid recovery of the rand after January 21 and the relative strength it has recently displayed, in the face of both the substantial further appreciation of the dollar against major currencies and the accompanying decline in the gold price, stem largely from the growing realisation in the market place that monetary policy is proving effective in curbing spending and changing the balance of payments 'fundamentals' in SA's favour," said Du Plessis.

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prayed silently that real government spending would decline a couple of points in real terms. It was never a realistic expectation, although there were other matters, like the drought and the "total onslaught," to blame if spending overruns were to become blatant.

Mechanisms he set up to monitor month-by-month departmental spending were ignored, and the main estimate of expenditure, reckoned at R25,3 billion, ran to R27,2 billion. Net new issues of government stock soared to R1 600m, and the cost of servicing public debt went to R4 000m — R521m more than the R3 490m he had estimated — as current spending had to be financed by borrowing.

If he had ever enjoyed the support of P W Botha, Horwood had lost it by June last year. His epitaph was written this week by his youthful, well-groomed replacement: "... the response of fiscal and monetary policy to these external shocks was, on balance, too slow and too lenient, thus permitting total spending to rise at an excessive rate, with adverse consequences for inflation and the balance of payments."

So there was a kind of Shakespearean irony about the 1985-1986 Budget Finance Minister Barend du Plessis delivered this week. In technical terms, it bore the stamp of the past. In philosophy, it reiterated the tenets of stern discipline — "strict but fair." The only difference was that, as befits a clean-cut, youthful visionary, his speech contained such earnest statements of *laissez-faire* as to fill all but the most hardened sceptics with hope.

Looking at the long-term effects of this Budget, it is necessary to try to understand its political backdrop. Abject optimists and wishful thinkers will doubtless thrive on its statements of intent. Fiscal reform, they will say, is a natural corollary of political and constitutional reform. And it is all so much easier to implement within the framework of the new constitution — by a reformist executive President at the head of a modernising oligarchy.

Moreover, they have four more years before the next general election in which to broaden the base of support (see *Current affairs*) and reduce the rightwing to a fringe protest group. So, tough corrections may be calculated to beget sweet solutions. If that be so, Du Plessis has got off to a promising start.

According to Treasury chief Joop de Loor, the message that government's credibility is on the line seems at long last to have hit home: "This Budget, and its success and its credibility, will have to be measured by the degree to which government can stick to expenditure as proposed."

For the first time, he says, decisions on spending have been taken at Cabinet level (seven meetings were required to beat down demands from R34 billion to R31 billion). "The Cabinet has taken co-responsibility for total expenditure. The Cabinet also clearly

FM's NEW LOOK

This week the *FM* takes on a new appearance as well as a new size.

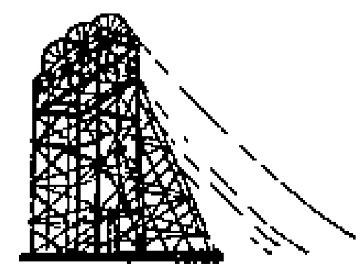
Extensively redesigned, the new-look *FM* is easier to handle, easier to read — and with the new Contents section up front, easier for the reader to find his way around.

Otherwise, the *FM* remains what it has long been: esssential reading for top people.

understands that its credibility is on the line."

Du Plessis' determination to hold the deficit before borrowing to a harsh upper limit of 2,5% of gdp was not plucked out of the blue, he says. The IMF had wanted the margin reduced to less than 2%, "but we have done well to get it down to 2,5%. It is very hard-hitting, but I think it lifts the curtain enough to enable us to look forward to something better. If we had not done it, we would have slid within the next two or three years into being a typical banana republic with huge inflation and debt."

Much can still go wrong, although it seems that one of the more volatile variables — the

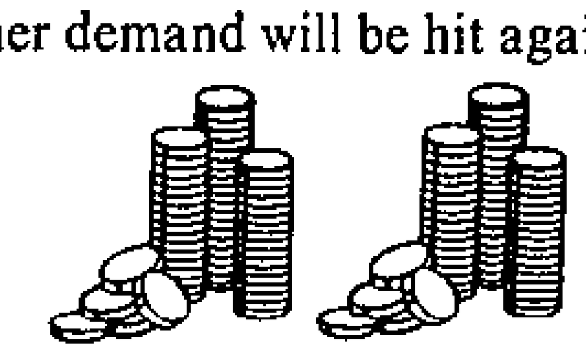


fortunes of maize growers — has been stabilised by good rain. Du Plessis has transferred R400m to the Tax Reserve Account to provide a cushion for either a lower level of revenue or "unavoidable" spending overruns. For the purpose of calculating the deficit before borrowing, this item has been treated as a firm outgoing.

What could throw the deficit before borrowing out of kilter are unrealised, and so far unquantified, forex losses. By the Minister's own admission, these are bound to be substantial, and will, sooner or later, have to be brought to account. The best information among bankers is that these losses will be R1,5 billion to R2 billion. By definition, such risks are not covered.

Major imponderables hang over the mines, too. Presumably on the strength of their higher rand earnings, gold and diamond mines' 20% surcharge on the existing tax rate has been hoisted a further five percentage points. However, if the overall effect of this Budget turns out to be bullish for perceptions of the rand's external value, then both government and the mines will be losers. For both to emerge as winners, the dollar price of the mines' exports would need to rise.

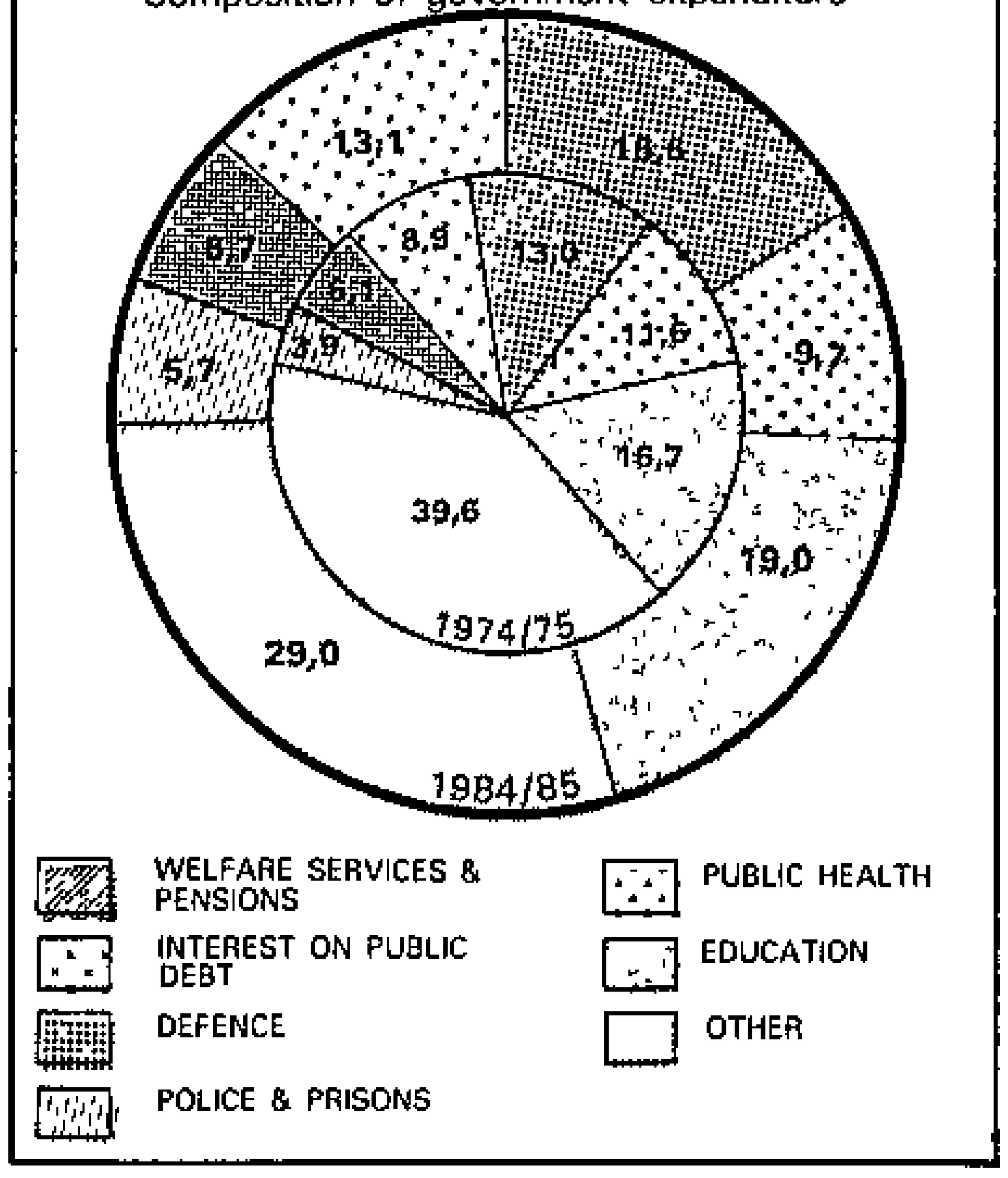
Consumer demand will be hit again by the



higher gst and the increased surcharge on individual income tax, adding to the deflationary effect of the higher oil price, higher Sats and post office tariffs, the higher maize price and a host of other off-budget regi-

CHANGING SLICES

Composition of government expenditure



TAX RATES FOR SPOUSES

For 1984/85:
If taxable income does not exceed R8 000 .. 12%

For 1985/86:
If taxable income does not exceed R12 000 . . . 16%

		1984/85	1985/86
R	R	R	R
8 000 but not			
	9 000	960 + 14%	
9 000	10 000	1 100 + 16%	
10 000	11 000	1 260 + 18%	
11 000	12 000	1 440 + 20%	
12 000	13 000	1 640 + 22%	1 920 + 18%
13 000	14 000	1 860 + 24%	2 100 + 20%
14 000	15 000	2 100 + 26%	2 300 + 22%
15 000	16 000	2 360 + 28%	2 520 + 28%
16 000	18 000	2 640 + 30%	2 760 + 26%
18 000	20 000	3 240 + 32%	3 280 + 32%
20 000	22 000	3 880 + 34%	3 820 + 30%
22 000	24 000	4 560 + 36%	4 440 + 32%
24 000	26 000	5 280 + 38%	5 080 + 34%
26 000	28 000	6 040 + 40%	5 760 + 36%
28 000	30 000	6 840 + 42%	6 480 + 38%
30 000	32 000	7 680 + 44%	7 240 + 40%
32 000	34 000	8 560 + 46%	8 040 + 42%
34 000	36 000	9 480 + 47%	8 880 + 43%
36 000	38 000	10 420 + 48%	9 740 + 44%
38 000	40 000	11 380 + 49%	10 620 + 45%
40 000		12 360 + 50%	
40 000	50 000		11 520 + 46%
50 000	60 000		16 120 + 48%
60 000 +			20 920 + 50%

For the 1985/6 tax year, a surcharge of 7% is to be added if tax (after deduction of rebates) exceeds R750. A departmental source says the surcharge is calculated after deducting R750 as a rebate, and not on the total tax amount if it exceeds R750.

REBATES FOR INDIVIDUALS

	1984/85	1985/86
	R	R
Primary:		
Married	460	880
Unmarried	380	620
Age relief:		
Over 60	N/C	120
65 and over	N/C	500
Children:		
First five — each	100	100
Thereafter	150	150
Dependants:		
Maintenance R200-R350	30	30
Maintenance R350 and over	50	50
Primary:		
10% of premiums paid with maximum of	75	75
Standard minimum		
Married	30	30
Unmarried	25	25

BUDGETED EXPENDITURE (Rm)

	83/84	84/85	85/86
Transfers to Provincial Administrations and Namibia	4 275	4 912	5 632
Defence	3 795	4 279	4 722
Interest	2 658	3 330	4 401
Administration of own affairs			
House of Assembly	—	—	2 166
House of Representatives	—	—	1 337
House of Delegates	—	—	564
National States and SA Development Trust Fund	1 321	1 451	1 761
Police and Prisons	1 124	1 442	1 618
Foreign Affairs	754	799	1 223
General Administration and law courts	751	812	909
Education (other)	1 499	1 835	890
Mining, Manufacturing, Construction and Electricity	965	1 170	819
Health	451	546	566
Other Economic Services	277	439	556
Public Corporations	192	18	550
Agricultural product subsidies	440	160	450
Welfare Services	1 111	1 124	410
Department of Public Works and Land Affairs	—	—	387
SATS and Post and Telecommunications	455	66	287
State Water Schemes	250	253	267
Housing	156	214	265
Roads	174	184	228
General Research	164	213	226
Education (higher)	830	890	199
Agriculture	455	380	194
Department of Environmental Affairs: other Departments	138	156	99
Local Authorities	65	75	95
Welfare Services (other)	76	91	—
Other Social Services	53	67	69
Transport and Communication	237	180	57
Community Services	64	60	28
Department of Community Development	245	286	—
TOTAL	22 992	25 439	30 973

VERDICT FROM THE MARKETPLACE

Sectors which like the Budget least are predictably those that have to pay. The rest, if not exactly happy, are at least prepared to reserve judgment.

Thus Stanbic's Conrad Strauss sees the special levy on banks as "undesirable" and discriminatory because it does not extend to competing institutions. The levy will amount to one quarter of 1% of the average amount of deposits held in SA at the end of each quarter in 1984.

Strauss says the levy will erode the banks' competitive position and favour those which are heaviest into off-balance sheet activity — a strategy which may now increase in anticipation of the measures becoming permanent. The levy, he feels, will lead to distortions in monetary statistics and add to the effective cost of funding.

Although he judges the short-term impact to be "very harsh," Strauss agrees that in the longer term — and *if adhered to* — the Budget will "do much to re-establish the integrity and credibility of the government's budgetary process." And in the meantime, he sees increased bankruptcies and unemployment as inevitable.

Life assurers are similarly unimpressed at the additional 7,5% to be levied on their taxable gross investment income. They say Du Plessis "jumped the gun" by acting ahead of the Van der Walt Committee report.

The levy will add another R77m to assurers' taxes, a rise of 35% to an estimated R297m. Comments Bill Haslam, senior GM pensions at Southern Life: "That's an enormous burden by any stretch of the imagination for the life assurers to bear. I can only put this down to some quarters believing the life companies are just fat cows waiting to be milked.

"It is a pity the Minister has seen fit to raise the taxes of the life industry, the only industry that is contributing to national savings."

Concurs Liberty Life MD Monty Hilkowitz: "This is as an *ad hoc* approach, totally unscientific and arbitrary. In view of the fact that the Margo Commission has been specifically requested to look at the taxation of the life industry this approach is highly pre-emptive."

Meanwhile, the fact that gold and diamond mines were expecting to be hit has not made their increased tax surcharge from 20% to 25% any more palatable. Considering last year's strong advance in profits, the gold mines, like the life assurers, were sitting ducks. But as JD Anderson's Randall Carter puts it, "What does that say about private enterprise in this country? These measures do not build confidence for the next phase of the recovery stage."

Yet the impact on earnings will be relatively slight. Max Pollack's John Stones reckons that the fall in the gold mines' earnings a share this year, at a R600/oz gold price, will be an average 4,5%. And Frankel Kruger's James Picton says "golds can breathe a sigh of relief." But a number of analysts fear that coal and platinum shares could be hurt by the introduction of the 15% tax surcharge on non-gold and diamond mines.

Maize producers are also worried — by omissions. Nampo economist Kit le Clus is concerned because there was no mention of increased food subsidies and no reference to debt subsidies for farmers.

The SAAU, he points out, has already announced its intention to ask for R500m-R700m worth of assistance for debt-ridden farmers and "should government not be in a position to help, many farmers will be staring insolvency in the face." The hope is that the position will be clarified when agriculture's "own affairs" budget is presented.

Good for farmers

SAAU president Kobus Jooste, on the other hand, says the budget is "acceptable from the viewpoint of agriculture," and adds that "the Minister must be congratulated for acquitting himself well in a different task. The Budget lays the foundation for improved economic growth and this will be of great advantage to agriculture in future."

Jooste likes the suggestion of a delayed tax reserve fund (tax-free to farmers until funds are withdrawn) and is relieved that farming inputs like fertiliser, seeds, stockfeed, chemicals and power paraffin remain exempt from gst.

As far as the general public is concerned, of course, the gst hike to 12% (a 20% increase) is the major talking point. And industries which are already facing a brick wall of consumer resistance are understandably concerned.

Naamsa president Colin Adcock, for example, says the effect of the increase in gst will be particularly marked in the motor trade where the cost of cars is already too high.

"However," he adds, "we're grateful for the non-adverse effect of the change in *ad valorem* tax. We had hoped it would be scrapped completely, but the 1% reduction on the tax on higher-priced cars is a little help. Generally, there's a little disappointment, but there were no great surprises for us."

More surprised were the video cassette and the office machinery sectors. Videos face an additional 5% customs duty (now 15%) and office machines an additional 10% increase in both customs and excise duties.

IBM MD Jack Clarke says it will all have a bad impact on the R3 billion computer trade which has already been sorely wounded by the sagging rand. "Under Gatt," he says, "computers are excluded from customs duty. I'm at a loss to understand it."

Trade unions and consumer bodies, however, are also annoyed. The Railways Artisan Staff Association says the additional gst and 7% surcharge on personal tax will further fuel discontent among railway workers who are already upset about the reduction in their annual bonuses.

And the Housewives League, pointing to recent increases in fuel prices and railway and postal tariffs, says the Budget will only make matters worse. The Federation of Transvaal Women agrees. It sees the Budget making "the rich richer, the poor poorer and the destitute more destitute."

The Trade Union Council of SA identifies unemployment as the most crucial problem facing the country. "This being so," asserts Tucsa, "we seriously question the wisdom of raising taxes and further believe that the over-emphasis on managing the deficit is misguided. The major emphasis should have been on growth."

Organised commerce and industry have both brickbats and bouquets. The productive sectors of the economy, says FCI president John Wilson, will carry most of the burden and he feels unemployment is set to rise further. "If ever a Budget called for sacrifice by the public sector this was it."

Nevertheless the FCI welcomes the important commitments to a "supply side" strategy for long-term growth. The package includes lower taxes, more privatisation, meaningful constraint over the size and growth of the government sector and the removal of rigidities currently depressing labour productivity and informal sector growth.

Assocom says the Budget has to be seen as a holding operation until the results of various investigations are known. Efforts to curtail government expenditure do not go far enough, it says, and the need to finance additional expenditure through increased taxation "cannot be welcome."

The Afrikaanse Handelsinstituut is more supportive. It says the Budget has finally succeeded in reaching the long-awaited balance between monetary and fiscal policies. Also, it feels Du Plessis has succeeded in complying with his three basic premises: no real rise in State expenditure, no loans to finance current State expenditure and a Budget shortfall before loans of not more than 3%.

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LAGGING ON TAX REFORM

Small but significant tax reforms that could have been made by Finance Minister Barend du Plessis in the Budget have been delayed, pending reports from the Margo Commission on tax. Du Plessis noted that the international trend in tax reform seems to be "one of reduction of taxes in order to create and expand wealth."

In the same speech, he increased the surcharge on gold mines and leases, slapped a levy on life offices and banks, raised a 7% surcharge on individuals, and announced several other tax increases and new taxes. This, referring to the Minister's speech, would be in line with the "more 'orthodox' approach of increasing taxes to redistribute wealth."

The tax rate changes announced in the Budget, were, says Du Plessis, of an *ad hoc* nature and would be evaluated by the Commission's inquiry. The Minister let it be known that a delegation from the International Monetary Fund has been asked to advise on indirect taxes, with a report expected before mid-1985.

The Margo Commission advised the Minister that it was not yet in a position to advise on the taxation of working married couples. So, for the time being at least, it will pay to live in sin until a family is raised, when marriage is contracted while the woman stays at home to tend the children, and then a secret divorce should be contracted when the "wife" goes back to work. This strategy saves thousands of rand under the present tax system.

Estate duty, the second tax death (*FM* March 15) "can no longer be regarded as appropriate to the needs of our time," says the Minister. As an interim measure, certain amendments to the impost will be introduced in this parliamentary session, in consequence of the new Matrimonial Property Act.

At long last, the Minister has explicitly acknowledged that life policies with no cover, known as pure endowment policies, are in the firing range. This investment, because of the tax breaks available, offers perhaps the most profitable returns to the high income earner.

Fringe benefits loopholes are also under close scrutiny. The Minister referred schemes, similar to one recently launched by a life office, which grants housing benefits channelled indirectly through pension funds, insurance companies and other parties.

The Minister jawboned innovative companies by suggesting that any perks tax schemes that are uncovered and are contrary to the spirit of the legislation will be outlawed — with retrospective effect.

Inland Revenue has beefed up its collection measures (see *Economy*) and the Margo Commission is looking specifically at how to nail tax dodgers.

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mens. These far outweigh the modest concessions of the Budget itself.

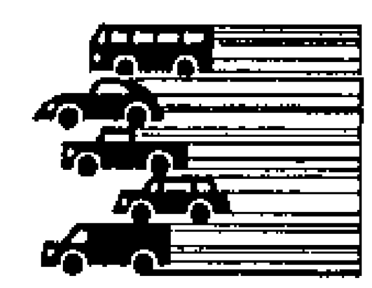
Du Plessis himself is anxious to point out that the Budget does have hidden palliatives. If net new issues of government stock can be reduced by R900m compared with last year, the implications for interest rates are clear, the bond market was quick to note.

Of course, the chances are good that the dominant borrowing spot that government seems set to vacate may be filled by a welter of local authority borrowers which had been pushed into the short end of the market. Another theoretical spin-off from a softening of the longer end of the market is that institutions will seek higher yields in equity scrip, which may be good for the stock market. But that remains to be seen.

STATE REVENUE ACCOUNT

	Sub-totals	1985/86 Budget	Revised 1984/85 Budget	Change %
		Rm		
EXPENDITURE				
Estimate		31 145	—	—
Less: Savings on personal-related costs	417	—	—	—
Plus: Supplementary expenditure proposals	164	—	—	—
Total expenditure		30 892	27 194	+13,6
REVENUE				
Inland revenue (existing rates)		24 705	21 920	+12,0
Customs and excise (existing rates)		1 880	1 915	−1,8
Plus: Tax increases inland revenue	1 711			
Tax increases customs and excise	141			
Less: Tax concessions	115			
Total revenue		28 322	23 835	+18,8
Deficit before borrowing		2 570	3 359	
Plus: Loan redemptions		1 695	2 538	
Plus: Special transfer to tax reserve account		400	—	
Plus: Transfer to gold and foreign exchange contingency account		—	654	
TOTAL FINANCING		**4 665**	**6 551**	**−28,8**
Supplied by:				
Surplus from 1984/85	5			
Public investment commissioners	2 500			
Reinvestment of maturing stock	809			
New stock issues	716			
Non-marketable debt	200			
Foreign loans	350			
Tax reserve account	85	4 665	6 556	
SURPLUS		**Nil**	**5**	

If interest rates come off on a broad front, but slowly, there is a chance that by the year's end the economy may begin to stir, provided, of course, that the balance of pay-

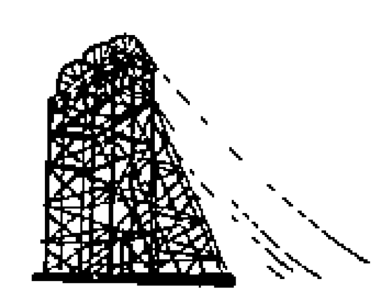


ments continues to improve. That is the Minister's ace-in-the-hole.

But make no mistake, the immediate outcome of the Budget will be harsh. To restrictive government expenditure, an important prop to last year's growth, has been added a sharp dose of tax increases. There was little chance of tax increases being avoided in this Budget, and the route chosen by the Minister is a defensible one.

The *FM* would have preferred an even higher gst and lower direct taxes, but given the political circumstances, the outcome cannot be said to be unreasonable.

The Minister avoided increasing company tax, which would undoubtedly have increased company failures and unemployment. Instead, he taxed selectively those industries that have enjoyed relative prosperity and are unlikely in the circumstances to lay off staff.



There was the added political advantage in doing this of appearing to tax the fat cats sitting in the towering heights of the economy.

It is the manner, rather than the principle, that was wrong. These taxes, too, demonstrate that government is really scraping the

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CAPITAL MARKET RATES TO FALL

One of the most noticeable features of the 1985-86 budget is the massive proposed reduction in total financing requirements by R2 billion.

If one adds R650m forex losses to the previous fiscal requirement of R5,9 billion then this year's R4,6 billion figure represents no less than a 30,3% financing cut.

Market comments on the Budget ranged from, "can it all hang together?" to "will a tight monetary policy be able to be exercised this time round?" For the capital markets the outlook for long-term interest rates is bullish.

Says Senbank economist Peet Strydom: "The fact that the deficit before borrowing is 2,2% of estimated gdp, against an anticipated 3%, should depress long-term rates. Whether this trend will be sustained depends on the success of the authorities in combating inflation and their ability to contain expenditure."

The short-run prospects for inflation are not good. A two percentage point rise in gst as well as other administered price hikes could see inflation rising before it falls, say sources. "One cannot expect to see the institutions back in the market before their expected return on bonds substantially exceeds the inflation rate," said a broker. He sees short-term rates falling gradually but not immediately.

Martin's Nick Fredericksz says that monetary policy will have to remain strict if rising inflationary pressure is to be subdued. "But it will be interesting to see how this predicament will be solved. Capital market rates will be bid down due to reduced stock financing but tight monetary policy *per se* implies high interest rates," he says.

Markets view the Budget with a measure of scepticism. If Church Square can implement what it plans to do, then this Budget will be setting the right tone.

However, say analysts, much importance must be afforded to potential pitfalls like a crack in the gold price, which just happens to be looking good at the moment, refuelling of inflationary expectations when the February cpi figures are published and the fact that R500m stock redemptions fall due in April.

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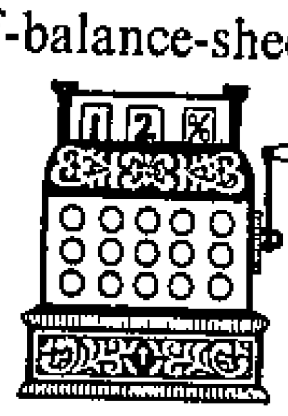
barrel. It is, moreover, a tax on savings, a widows and orphans' tax, that does Pretoria no good.

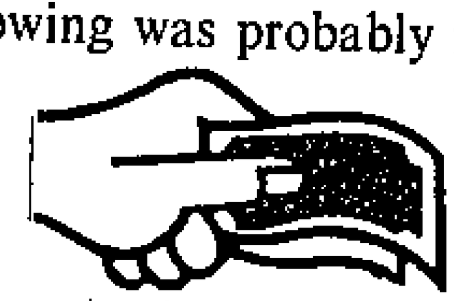
Technically, the tax on bank deposits will encourage off-balance-sheet financing in the



grey market: what bankers call disintermediation. That means money supply figures will be distorted and the good work done in this respect by the Reserve Bank will once again be inhibited.

It would have been far better to have announced a once-off tax on the profits of these institutions to meet urgent revenue needs. And to have been frank about what was being done.

The absence of increased subsidies, especially to farmers, was a positive aspect of the Budget. Although the desire to conform to IMF strictures on the size of the deficit before borrowing was probably not short of



influence from the farming lobby and those politicians who find the high mortgage rate inconvenient.

By keeping government borrowings down to a minimum, the heat should be taken off the present historically high interest rates. Coupled with the improvement in the balance of payments, this should set the seal on

the significant reduction in some rates before the year is out.

The priority now must be to make it all work. The pity is that it was not done last year. If it had worked then, interest rates would not have needed to be so high, the rand would probably not have plunged so low, and consequent price increases would not have been so steep.

A whole year has been wasted during which the groundwork for recovery could have been laid. ■

PANAFAX SPEED

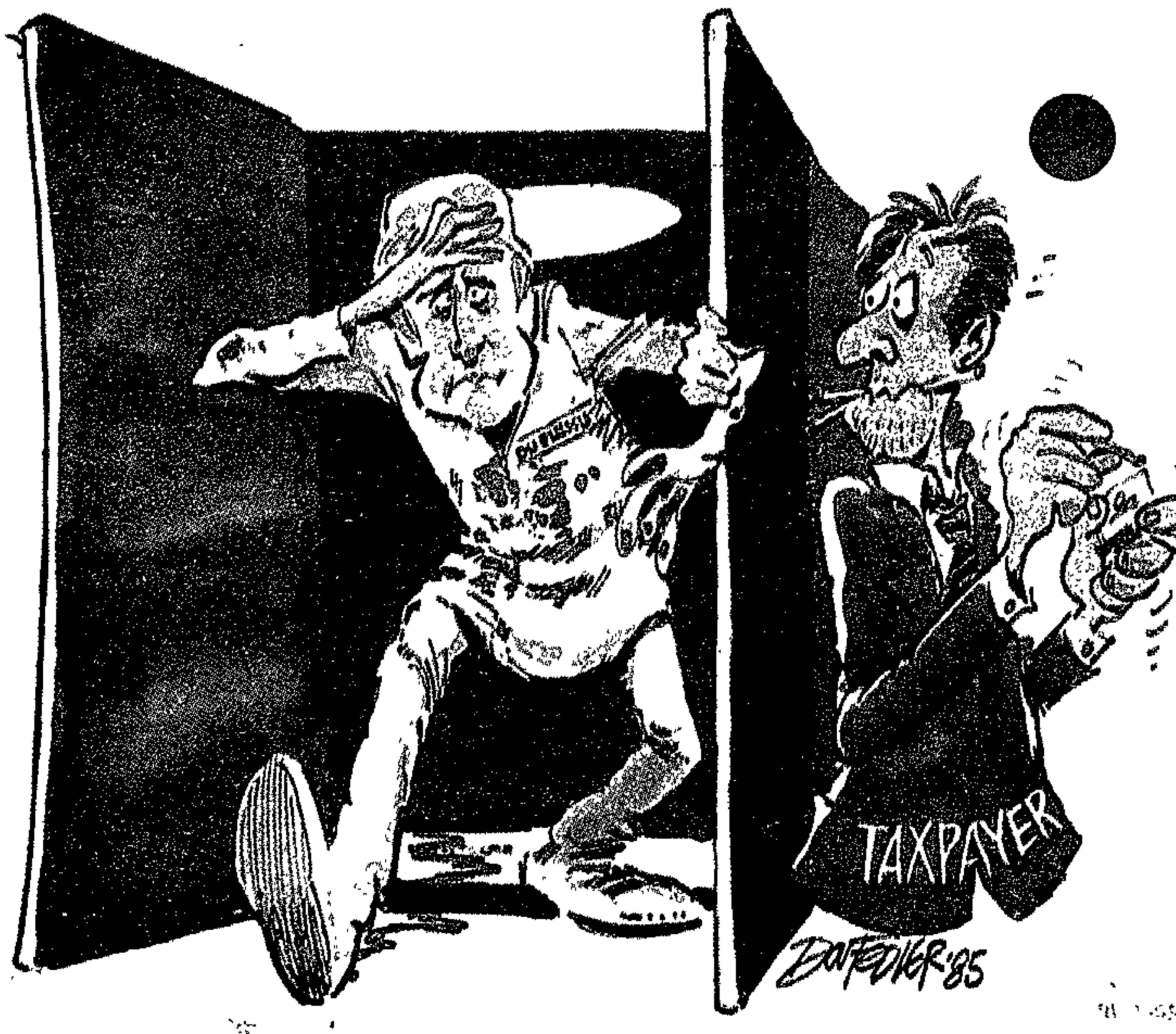
In order to secure swift and efficient coverage of the 1985 Budget, the Minister's speech was sent by facsimile to the *FM* on one of Telerama-Rediffusion's Panafax machines. Each page took a maximum of 30 seconds to be transmitted to our Johannesburg office from Cape Town. Our thanks to the company for their courtesy and efficiency.

ISSUE OF THE WEEK: THE BUDGET

SA's SOS TO Du PLESSIS

By Duncan Collings,
Deputy Financial Editor

(49) Star 23/3/85



A MAJOR criticism of an otherwise not-too-bad maiden budget from finance minister Mr Barend du Plessis is the complete lack, once again, of any incentive to the public to save.

In fact, if anything, the budget discourages savings.

According to the latest quarterly bulletin of the SA Reserve Bank South Africans' personal savings as a percentage of their disposable income has languished at extremely low levels since the end of 1980 and is currently around 3 percent.

To build a strong economy and, particularly, if its citizens are to provide for their old age in a non-state welfare economy, it is accepted that personal saving should run at 10 percent of disposable income.

This was the case in South Africa up until the end of 1980.

But it is incumbent on the authorities to provide the incentives to save in the form of tax relief on end-benefits or interest. This is particularly so in times of economic hardship when the personal incentive to save is at its lowest as families battle to survive in the face of inflation and the temptation to "spend now" before inflation itself forces prices to rise.

Save Our Savings

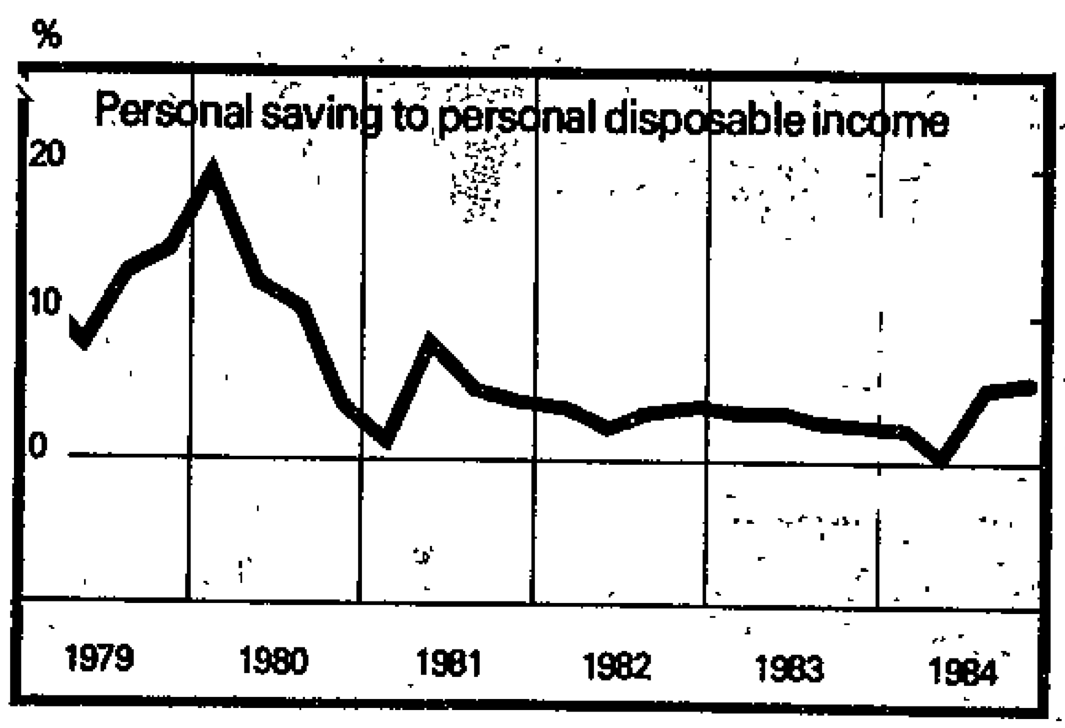
But South Africa appears to be singularly backward in providing the necessary incentives.

And in his budget this week, the minister imposed a further 7,5 percent tax on insurance companies — one of the major avenues of the country's savings — and hinted at a tax to come on pure endowment policies.

True, he did raise the limit from R100 to R250 a year of interest which may be earned tax free, but this is hardly likely to send the populace running to the building societies, banks and other savings institutions.

On the basis of current interest rates this effectively means that the interest on any amount of savings over about R1 300 will attract tax at the individual's marginal tax rate.

Further, the terms of the new Building Societies legislation which looms ever nearer, will result in these institutions finding it increasingly difficult to attract savings.



Sanlam's chairman this week called for the elimination or modification of the factors inhibiting saving.

He pointed out that "even at the present high rates of interest which could be earned on savings the returns after inflation and tax are very unattractive".

"If someone was saving money at an interest rate of 20 percent per annum but paid tax at a rate in excess of 52,5 percent on his interest income, his net return of less than 9,5 percent per annum compared rather unfavourably with the current inflation rate of more than 13 percent."

Mr Chris Cunningham-Moorat, general manager of the insurance company, Legal and General Volkskas, said it makes no sense in the present economic climate to discourage saving.

He said of both the increased tax on insurance companies, which he estimates will cost policyholders one percent a year in returns on their policies, and the likelihood of tax on pure endowments, that these will discourage contractual long-term savings.

He said in the present climate the objective of government policy should be to discourage spending and encourage savings. "The only thing that will happen if savings are halted is that the funds will swing to expenditure."

The budget measures as they apply to the insurance industry are simply a tax on savings, he added.

He pointed out that the limit on the amount which may be contributed to a retirement annuity policy tax-free each year has remained unchanged at R3 500 for four years.

Effectively this is now worth only half of what it was when it was implemented, he said. Retirement annuities, he pointed out, provide a very good medium for providing for old-age, while at the same time are a long-term contractual form of saving

● To Page 2

SA needs long-term savings

(49) Star 23/3/85

● From Page 1

which injects a lot of money into the economy for infrastructural development.

A joint statement from various bodies representing the life insurance industry joins Mr Moorat's voice of critiscism.

The Life Officers Association, Life Underwriters Association, The Insurance Institute and the Insurance Brokers Council statement said of the budget that there should not be an increase in the taxation of savings and greater attention should be directed to the curbing of expenditure.

"What South Africa desparately needs is long-term savings which should be stimulated and not potentially discouraged. Life insurers are the custodians of savings of millions of policyholders," the statement said

Thus, while economists and businessmen have generally welcomed the budget as realistic in the current economic climate, those keepers of the nation's savings feel that the man-in-the-street has had a raw deal insofar as his savings are concerned.

Not only do the authorities need to have a committment to drag the country out of the present economic morass, they should also be looking to the longer term and encouraging the common man's savings efforts in the interest of maintaining long-term economic growth and a happy elderly population.

If the conerstone of South African thinking is that the nation's peoples should provide for their own retirement then not only should the authorities protect the value of their rands by chasing and overcoming the inflation bogey, but they should also provide the encouragement for people to look after themselves. □

...proach is of course the secret of Transvaal's

S. Tribune 24/3/85 B 3 49

What we needed . . . and didn't get

KEN HOBSON
Chief executive of Durban Metropolitan Chamber of Commerce looks at the Budget

I HAVE no difficulty in going along with the Minister of Finance's interpretation of the present state of the economy, and agree with his economic objectives of creating a climate for growth by curbing inflation, reducing interest rates and creating job opportunities.

I have serious doubts, however, as to whether this Budget will take the country any great distance along the road towards achieving these objectives, particularly in so far as curbing inflation and creating job opportunities are concerned.

In these areas the Budget contains little by way of innovative thinking and even less by way of positive action.

It is generally accepted that what is needed to get the country back on the road to economic recovery is a severe cutback in Government spending.

The Budget, however, projects an increase in Government spending of more than 11 percent, not on what was budgeted last year, but on what was budgeted *plus the very serious overruns* on expenditure which were allowed to take place during the 19[illegible]5 fiscal year.

Closer to 20 percent

The increase in Government spending in fiscal 1985/6 compared with the expenditure originally budgeted for in fiscal 1984/5 is around 20 percent — in other words almost double the increase which the minister admits to having sanctioned.

The country simply cannot afford total expenditure in excess of R31 billion if there is to be any hope of making a meaningful reduction in the country's unacceptably high rate of inflation.

Many commentators, including those of Assocom and my chamber, have called on the Government to set targets for economic policy, particularly in so far as the rate of inflation and money supply aggregates are concerned.

The failure of the minister to do this is to be regretted, because unless and until such targets are set and a determined effort is made to achieve them, little will be done to restore business confidence in the Government's ability to manage the economy.

As far as Government expenditure is concerned, I am extremely concerned regarding the massive increase of 27 percent in proposed expenditure on "regional development".

My chamber has criticised repeatedly the Government's decentralisation policies — particularly that they are open ended and therefore likely to be extremely costly.

Horrific proportions

The Budget confirms our worst fears that the cost of devolution of political power and the spreading of economic development in South Africa is going to reach horrific proportions, particularly when one bears in mind that the massive expenditure by central government in this field is to be supplemented by further off Budget expenditure at regional and local level.

If one accepts, which I certainly do not, that it was not possible to curb Government expenditure to any greater extent and that the minister has to raise additional revenue, then one cannot seriously criticise his proposals for raising the additional taxation.

The acid test, however, as far as Mr Barend du Plessis's Budget is concerned, will be the controlling mechanisms which he has introduced to discipline departmental expenditure.

If these are effective, and there is no repetition of the overrun in Government expenditure which occurred during recent financial years, then the credibility of the Budget will be restored.

If, however, he is no more successful in this respect than his predecessor, then the outlook for South Africa is indeed bleak.

BUDGET ISSUES 49

Behind the figures

Government's commitment to improving the quality of education has survived the financial stringency imposed on the budgetary process. Overall education expenditure is one of the few areas to show real growth, and has been raised 19% to R5,044 billion. In fact, it will rise slightly more through the contribution of white parents via the recently announced introduction of fees at white schools.

The major part of the increase will be for black education. It was foreshadowed by the fact that the number of black schoolteachers in government service has continued to rise rapidly despite attempts to hold down staff growth in the public service as a whole.

In effect, government has little choice but to increase education spending. Its own figures show an exponentially growing demand for school services — and a matching increase in demand for university places.

Thus Finance Minister Barend du Plessis quoted figures showing that the schoolgoing population will increase from just over 6m at present to more than 11m by the year 2010 — just 25 years away.

Contrary to some forecasts, the increase in military spending is being held to below the inflation rate — increasing by 8,1% to R4,274 billion. To a degree, this is a deceptive figure, since other departments have military-related spending that is difficult to quantify.

It seems it was possible to hold the line on defence because the SADF was not called upon to launch any major operations last year — these having been foresworn in the effort to reach an agreement with Angola. Major operations tend to lead to large escalations in personnel and equipment costs. Again, the relative restraint in defence spending may indicate that government does not expect any large-scale military clashes this year.

One area where government judged additional expenditure worthwhile was in the development field — particularly on the SA Development Bank, which will receive extra support to the extent of R250m. The bank was originally conceived as an instrument of the proposed "Constellation of States," and although its activities are now largely confined to SA and the independent homelands, government has not given up hope of extending its scope.

There remains the possibility of the bank becoming involved in Mozambique, Swaziland and, possibly, Botswana and Lesotho. Government is obviously intent on seeing to it that a potentially powerful instrument of regional policy has a sound financial base.

There are conflicting views on Du Plessis' announcement that there must be a more equitable sharing of the cost of training between government and the private sector, as well as within the private sector. He also announced that the National Training Board (NTB) is investigating training incentives.

Manpower and Management Foundation (MMF) director John Burns was concerned that the Minister had not given an indication of the NTB's thinking on the issue. He says the MMF hopes that the earnings ceiling imposed last year — which means companies can only claim incentive payments for training people earning less than R15 000/year — will be raised. "The skills shortage makes it imperative that there is a better incentive scheme for the private sector," he says.

Steel and Engineering Industries Federation of SA (Seifsa) director Sam van Coller welcomed the provision for increased educational expenditure. He also welcomed Du Plessis' announcement that more equitable sharing of the cost burden will have to be achieved within industries. "Seifsa believes that certain industries in SA are shouldering the burden on training," he says.

But he voiced doubts about Du Plessis' reference to sharing between government and the private sector, saying it implied that government will reduce its liability. ■

RDM 19/3/85 49

otor industry heaves sigh of relief

VID FURLONGER
ndustrial Editor

TH Budget proposals are ikely to be generally welcomed by the motor industry.

ile there will be disappoint that GST has risen again the *ad valorem* tax on is to remain, there will hs of relief that the tered industry is not to to suffer further.

ufacturers are grateful the Government has given only week's notice of next Monday's rise in GST to 12%.

When it gave six week's notice of last July's increase to 10%, it launched a sustained period of pre-emptive buying that caught makers on the hop and led to serious production imbalances.

It was this unexpected demand, in which sales leapt to near-record levels, that led to a dramatic fall-off in demand later in the year and consequent serious problems for the industry.

Although welcoming the decision to impose an across-the-board 1% *ad valorem* tax, instead of 1% up to R11 000 and 2% above, manufacturers would have liked to see it disappear altogether.

The National Association of Automobile Manufacturers (Naamsa) has frequently petitioned the Government to remove the tax.

Toyota's managing director, Mr Colin Adcock, who is also head of Naamsa, said last night: "We are disappointed it was not completely removed."

He said the reduction would help cushion the GST increase, but added that the 12% tax was expected to cause pre-emptive buying before next Monday.

BMW welcomed the Budget's general outlines, saying they would instil confidence into the business community and favour long-term economic growth.

A spokesman said: "This, however, will come about only if the Government succeeds in keeping expenditure to the proposed limit of R30,7bn."

The GST increase was expected, "even if not particularly welcome in the current economic climate".

He said BMW welcomed the Budget proposals on four main points:

- It shifted the spending emphasis into areas with long-term benefits to SA;
- The marginal shift in the tax burden from industry to service industries;
- The likely drop in interest rates resulting from a reduced level of Government borrowing;
- The motor industry, while faced with a GST increase, received a marginal release with the decrease in *ad valorem* tax.

The spokesman welcomed the increased duty on imported cars, saying it would reduce import sales.

To what extent this happens remains to be seen, however. The biggest impact will probably be on medium-priced imports.

Luxury imports at the very top of the market will be relatively unaffected because motorists prepared to pay up to R80 000 are unlikely to be put off by a higher price tag.

Mr Brian McCarthy, the chairman of the McCarthy Group, said: "No less than 60% of our vehicle sales are accounted for by companies and fleet owners and we expect this sector of the market to be reasonably active in the next week, although the extent of that activity will be limited by available stocks.

"The individual, of course, has ended up with less disposable income and obviously this affects the private buyer."

South Africa is not saving enough — Fred du Plessis

49 Star 20/3/85

By Duncan Collings

Concern over the weakening of South Africa's total savings effort was expressed today by the chairman of Sanlam, Dr Fred du Plessis, at the company's annual general meeting in Cape Town.

In the period 1982-84 gross domestic saving as a percentage of gross domestic product had declined to almost 23,6 percent, compared with an average of 28,3 percent in the previous 10 years, he said.

The weaker savings effort was partly due to a decline in company saving as a result of the marked levelling-off of general economic activities, exceptionally high interest rates and ever-increasing taxes. These factors had adversely affected the self-financing ability of companies — a situation fraught with serious problems, all the more so in the light of the disinvestment campaign.

Dr Du Plessis said there was a sharp drop in government saving too. General government saving had actually been negative in 1983, and this trend continued in 1984.

South Africa's personal savings effort had weakened from a long-term average of more than 10 percent to only 3 percent in 1983. This slump, which was largely the result of consumer overspending, had persisted during most of 1984.

"As a result, the contribution of personal saving to our total savings effort decreased from an average of 22,4 percent in the period 1972-1981 to only 7,7 percent in 1982-1984. The recent slight improvement in personal saving should be welcomed, but the situation is nevertheless still totally unacceptable," Dr Du Plessis said. He called for the elimination or modification of the factors inhibiting saving.

Dr du Plessis said stricter control of government spending was of the utmost importance to curb inflation and it was essential to suppress the public's inflationary expectations.

HIGH INFLATION

"I believe that the government can achieve a great deal by seeing to it that increases in administered prices are kept as low as possible and are not accompanied by sporadic shocks. The authorities should also ensure that the public is not exploited by exorbitant price increases in respect of other goods and services."

Dr du Plessis said the possibility of single-figure inflation would remain slight unless the structural causes of inflation were successfully dealt with.

"Even at the present high rates of interest which could be earned on savings the returns after inflation and tax were very unattractive for people in the higher income brackets.

If someone was saving money at an interest rate of 20 percent per annum but paid tax at a rate in excess of 52,5 percent on his interest income, his net return of less than 9,5 percent per annum compared rather unfavourably with the current inflation rate of more than 13 percent."

During the past financial year Sanlam paid out R545 million in policy benefits, 38 percent more than in the previous year. Premium income rose by 21 percent to R1 297 million, while investment income increased by 27 percent to R684 million. Total assets stood at R6 258 million as at September 1984, double the figure of 1981.

SA records 4,5% economic growth

CAPE TIMES 20/3/85 (49)

JOHANNESBURG. — Real government consumption expenditure increased by 9½ percent last year against an increase of one percent in 1983, the March issue of the South African Reserve Bank's quarterly bulletin states.

It also notes that although there was a decline in the gross domestic expenditure in the second half of last year, on balance it still increased by six percent in 1984 as against a decline of six percent in 1983.

It states a real economic growth rate of 4½ percent was recorded last year. In 1983 there was a negative growth rate of three percent.

The accelerated rate of inflation in the second half of 1984 was mainly the result of the substantial depreciation of the rand since October 1983 and, "this effect is likely to continue for some time and will probably contribute to a further acceleration of the inflation rate in the short run," the bulletin states.

The ratio of gross domestic saving to gross domestic product declined to a low of 20½ percent in the second quarter of last year, but increased to 25½ percent in the fourth quarter.

The increase in nominal remuneration per worker in the private sector slowed down slightly from 13,9 percent in 1983 to 13,5 percent in the first nine months of last year.

"In contrast, the increase in public authorities nominal remuneration per worker accelerated from 8,7 percent in 1983 to 21 percent in the first nine months of 1984," the bulletin states.

Consumer prices accelerated from 10 percent in February last year to 13,9 percent in January this year.

The increase in production prices accelerated from a low of 6,6 percent in May last year to 11,4 percent in December.

"The increase over a 12-month period in the prices of imported goods accelerated only moderately from a low of 3,5 percent in May 1984 to 6,4 percent in July.

"Subsequently, however, it accelerated to 15,7 percent in December in accordance with the more rapid depreciation of the rand." — Sapa

FREE ENTERPRISE (49)

Selling the system

FM 22/3/83

SA businessmen need to "sell" the free market to their black workers. This is evident from an investigation by Unisa's School of Business Leadership (SBL) into black perceptions of the free enterprise system.

Says SBL management professor Martin Nasser "Blacks earning less than R400/month see government and big business as being in bed together and government financing as part of the secret of getting ahead in business. Their perception is that financing, and not entrepreneurial skill or improved productivity, is the major requirement for improved profits and personal advancement in business."

Nasser runs a programme called "Project Free Enterprise." It involves 87 private-sector organisations, with a stratified sample of 3 723 employees (representing more than 3m workers), of whom about 25% are white and 75% other-than-white.

The investigation shows that employees do not see increased sales or output as a major factor in improving productivity, unless they are at a stage where their own involvement in business becomes a vested interest. "For the vast majority of blacks, this is not the case," he notes.

Nasser says most workers in the lower-paid categories see requests for increased productivity as attempts by the "bosses" to increase "exploitation." A fascinating finding is that workers with a sub-Standard 9 education think that 76% of after-tax profits go into management bonuses and salary increases, while only 3% goes into workers' pockets. The same category of workers have *no* perception of any shareholder benefit from improved profits.

"It is therefore clear that worker perception of the free enterprise system and of its benefits to them individually is decidedly dim and that most would see a socialist economic system as a better option than the *status quo*. Proponents of the free-market system have to take note of this massive worker credibility gap."

The perception of the workers' role in the private-sector pyramid improves as educational levels increase, the SBL tests show. At post-matric stage the perception is that workers will receive 30% of the benefit, while shareholders and bosses receive 19% each.

"The general view among predominantly black workers is, therefore, that if they should work harder, their managers will cream it and not themselves. The natural result of this perception is: why work harder?" Nasser comments.

Nasser says management sees upward mobility of workers as inevitable, while worker reaction is cynical and abusive: "Workers don't buy management's perception and feel they are being taken for a ride by the free enterprise system. The result is stronger support for trade unions as the best avenue to resolve workers' frustrations and the possibility of increased conflict."

Nasser says the SBL is working towards a possible solution. "Regional think tanks" have been formed in various parts of SA where business decision-makers can investigate and discuss the problem. Some 92 chief executives, representing organisations employing about 6m of SA's economically active population of 11,5m, are involved in these talks. ■

No, the worker is not to blame!

S. Tribune 24/3/85

(49)

By BILL ROBB, an independent management consultant

WOULD a reputable medical practitioner, confronted by a patient who is coughing blood, hand him a swab to wipe his mouth and send him on his way with a prescription for aspirin?

No. In the back of the doctor's mind are all sorts of possible causes for the blood — not the least of which might be cancer.

Yet everyday I see ample evidence of our governmental and business leaders doing exactly this in relation to that over-used and misunderstood word — productivity.

They blame the rand/dollar price, the price of gold, the racial situation, and most of all, they blame the worker.

No pay rises, they say; tighten your belts; grit your teeth; weather the storm; in time we will emerge triumphant from this current economic downswing.

In the meantime we will train you ignoramuses in the art of how to do your meagre jobs better. The Government hasn't stopped their tax relief to you, the ignorant, of our society.

We, the knowledgeable managers, abused our tax relief and we are being "punished" — there is no more tax relief for those being trained who earn more than R15 000 a year — but then, we, the highly educated, can forego further training for the meantime.

What utter tripe and nonsense! I sometimes wonder whether the majority of our illustrious managers even read trade and business journals to bring themselves up to date with current affairs world-wide.

No doubt it will come as a great surprise to them that extensive research over the last 40 years, much more intensive in the last 10 years, has shown those who will see that productivity problems are but a symptom of a deep-rooted cancer.

Extensive research

For those who do not, or will not, read what is available. Let me try to explain.

In the Forties, the Harwood Manufacturing Corporation, in Marion, Virginia, in the United States, underwent change — the result of some scientific intervention by several eminent behavioural scientists.

The late Al Marrow was president of the business and he was assisted by, among others, Dr Kurt Lewin and Dr John French, jnr.

For anyone versed in the great names who have led the change in business in the last few decades, those names will, at least, ring a bell.

John A Shtogren, management development specialist and author, has this to say about the experiment at Harwood: "Given the complexity of the problem and the industrial context within which it occured, the use of such a simple and uncontrolling method as participation seems, in retrospect, as somewhat of a managerial miracle."

Harwood pioneered the concept of participative management. Much work was done as a result of those studies and Harwood's "miraculous" upturn in productivity — most of the work needing to be learned came over the decades — participative management is not enough.

Still managers were looking on productivity as the source of evil and they continued to attack it head on.

It was only in the 1970s that the next major breakthrough came. Dr Jay Hall of Houston, Texas, started to dig into the dirty washing called productivity and came up with some astonishing results.

Astonishing because, after hearing them, we start to wonder why they have remained hidden for so long.

In extensive research, his sample totalled 9 600 people from more than 30 different organisations, he found that the root of productivity failures was the lack of competence in the work place.

Matter of expectations

Hall found that certain things were happening in high performance organisations that were not happening in low performance organisations, and the differences portrayed are so great as to be expected by chance alone fewer than one out of 10 000 times.

High performing organisation managers expected competence from their employees and managed accordingly. Low performing organisation managers expected incompetence from their employees and managed accordingly.

They had low opinions of their workforce — training their stupidity was an ongoing problem. They had instituted extensive top level planning; top management organised everything; leading was, by and large, directive; control measures abounded with punitive and/or rewarding consequences.

Robert Katz, an eminent behavioural scientist, has this to say: "The organisation receives only minimal effort and minimal creativity from its members. Much of the managerial activity which occurs is only an expression of the attempts of managers to sustain their feelings of competence (which they are supposed to have) by shifting their anxieties about their own inadequacies — blaming others, doing 'busy-work', playing it safe, 'covering up' — rather than dealing directly with the problems at hand."

Chris Argyris has said: "We have designed organisations which have ignored individual potential for competence, responsibility, constructive intent, and productivity. We have created structures and jobs that at the lower levels alienate and frustrate the workers; lead them to reject responsible behaviour, not only with impunity, but with a sense of justice; and tempt them to fight the organisation by lowering the quality of what they produce. Products and services thus become the tangible expression of the low quality of life within organisations."

We talk blithely and at length about how short the time is for reaching racial harmony. You had better realise, businessmen of South Africa, time is even shorter for organisational efficiency.

The message is loud and clear: You had better get yourself up to date with what is happening in the world around us. The answers are there.

R911,9m surplus in February

Trade surplus soars as imports slump

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By PAUL DOLD
FINANCIAL EDITOR

CAPE TIMES 27/3/85

THE continuing high prime rate coupled with falling consumer demand has led to a slump in imports in February while exports have continued to boom.

The trade surplus soared to R911,9m — more than double the January figure — bringing the overall surplus for the two months to more than R1,3 billion.

Although exports fell back from R2,78 billion in January to R2,42 billion there was a sharp drop in imports from R2,36 billion to R1,51 billion.

The February 1984 surplus was a mere R97m and the R1,33 billion surplus for the two months is well ahead of the year-ago figure of R284,3m.

Total exports for the first two months were R5,2 billion — far above the year-ago figure of R3,7 billion, while imports were R3,87 billion — still slightly higher than the previous R3,41 billion.

A breakdown of trading in world zones showed that Europe remained the largest importer of South African goods, with sales standing at R1274,1m (R948m). Imports from Europe totalled R1 690,4m (R1 409m).

While exports to Asia almost doubled, from R442,7m last year to R830,7m, imports fell to R549,3m (R584,7m) in January and February.

Imports from America reached R727,8m (R614,1m) and exports R479,2m (R329,5m).

The preliminary figures indicated that exports to Africa had risen to R196,5m (R121m) and imports to R69,4m (R57,4m).

Exports to Oceania stood at R28,6m (R26,2m) and imports at R51,6m (R23,3m).

Other unclassified goods and balance of payments adjustments totalled R2 383,8m (R1 825m) for exports and R782,3m (R724,5m) for imports.

The Natal Mercury, Monday, April 1, 1985

(49)

Tough budget medicine begins to work

Finance Editor

THIS month's tough Budget medicine is starting to work, with forecasts from Johannesburg of a cut in the bank's prime overdraft rate within three weeks, unless there is a catastrophic drop in the gold price.

Such a move will be signalled by the Reserve Bank lowering its re-discount rate by one percent.

Prime, now at 25 percent, is forecast to hit 20 percent by the year-end and such a move will bring all other rates — including house bonds — tumbling down.

But the Reserve Bank will act cautiously in lifting the interest rate lid.

The gold price has been performing well, interest rates have been falling and the rand has climbed upwards against the dollar since the Budget.

Gold is roughly $30 an ounce up but this has nothing to do with the Minister of Finance's actions.

Ohio

International money markets were badly frightened by the Ohio bank collapses and started to think again about the poor American financial situation.

The U S is buying more goods from overseas than it is exporting and the American Government is spending more than it is getting in from taxes.

On Thursday, Dr Gerhard de Kock, the governor of the Reserve Bank, called bankers in for a 'major meeting' to tell them that he was changing the rules so that they, and the building societies, could keep less cash with the Reserve Bank.

An estimated R510m will be freed for bank lending.

At the same time the Reserve Bank has lent R500m to the banks until next Thursday — but at a tough 23,92 percent interest — to tide them over the March month-end which promised to show that the banks had borrowed almost R2 500m from the Reserve Bank.

April will see a natural easing of conditions, with money flowing into the economy seasonally from Government spending.

The banks asked for R980m of this cash, showing what their current needs must be.

Interest rates have been falling since before the Budget.

The rand keeps bouncing upwards from the low of 42 cents a few weeks ago — it is now hanging around the 53 U S cents level, partly as a response to the South Africa's improved trading situation but also the falling dollar.

Assets

The Reserve Bank cut banks' liquid asset requirements on Thursday, Dr de Kock said. They will now be required to hold 22 percent, rather than 25 percent, of their short-term liabilities to the public as liquid assets, and 16 percent rather than 18 percent of their medium-term liabilities.

Dr de Kock said the changes are a further step towards implementing the recommendations of the monetary commission he headed and are not meant as a relaxation of monetary policy.

NGK: 'Political' clergy should resign

Cape Times 4/4/85 (48

CLERGYMEN who openly involved themselves in politics should remove their robes, resign and enter politics, according to the Rev Tappies Möller, editor of the Kerkbode, the official newspaper of the Nederduitse Gereformeerde Kerk (NGK).

In an editorial responding to last week's march on Parliament led by Dr Allan Boesak, Dr Beyers Naude and the Rev Abel Hendricks, Mr Möller said there had been marches in the City before and police had stopped them because they were not permitted for security reasons.

Clergymen should not convey the decisions of like-minded people to the authorities through political demonstrations. Adequate channels existed, he said.

"Clergy who openly involve themselves in politics should remove their robes, resign from office and enter politics," Mr Möller said.

The Kerbode editorial said it too was shocked by the violence and loss of life in the Eastern Cape and expressed its condolences with the bereaved.

● Dr Naude, general secretary of the South African Council of Churches, said from Johannesburg yesterday that the Kerkbode displayed a lack of understanding of the real motivation and concern of the people involved.

The Christians who took part were "urged to undertake this act of witness with the suffering people of Uitenhage in order to draw the attention of the State President and Parliament" to the crisis in Uitenhage."

Dr Boesak could not be contacted for comment yesterday.

Cape Times

49

dnesday, April 10, 1985

Recession and suicides

By CHRIS BATEMAN

THE economic recession is accelerating the divorce rate, causing a 70 percent increase in suicide attempts and ousting poorly-educated whites from jobs in favour of blacks prepared to work for lower salaries.

This was said yesterday by Mr Sam Bloomberg, head of the Johannesburg-based Suicides Anonymous.

Mr Bloomberg, founder of the 25-year-old organization and widely regarded as one of the leading experts on suicide in South Africa, said that over the past 18 months there had been a dramatic leap in the number of calls to his organization from women, "desperate" about the imminent retrenchment of their husbands or from women whose husbands could no longer find another job.

"The men are too proud to phone in and discuss their situation, so their wives do it for them when they have become totally desperate. The wives know that they are not sufficiently trained to become breadwinners," Mr Bloomberg said.

Mr Bloomberg said many of the latest calls were from women whose husbands had threatened to "do themselves in" so that their next-of-kin could claim on their life insurance policies.

"Others have begun some criminal fiddle at work and find they can no longer live with themselves in spite of their desperate financial situation," Mr Bloomberg said.

Five years ago the main source of suicide threats was the breakdown of relationships between couples.

"Now the bottom line is almost always finance — the wife can't go out and get a job because she has no professional training and the couple end up quarrelling endlessly," Mr Bloomberg said.

Although he had no figures available, Mr Bloomberg said the divorce rate was "inevitably" increasing.

Another aspect was that middle-class blacks were rapidly snatching traditionally "white" jobs for lower salaries, resulting in a greater loss of jobs for poorly-educated whites.

However, his counselling service had also experienced a "tremendous increase" in black suicides and suicide threats, mainly from the middle classes.

Another little-understood means of suicide was that of "wilful and deliberate" road accidents by motorists.

Mr Bloomberg claimed that one third of all "so-called accidents" were caused by people who "no longer care about life and take out their aggression on the road".

A spokeswoman for Life Line in Cape Town reported no "dramatic" increase in suicide attempts locally, but said the recession was "definitely an aggravating factor".

, Friday, April 12, 1985

Business Mercury

NM 12/4/85 (49)

Receiver scores heavily from GFSA earnings

Mercury Correspondent

JOHANNESBURG— The Receiver of Revenue scored heavily in the March quarter from the earnings of the gold mines managed by Gold Fields of South Africa (GFSA).

Overall the results were largely unchanged from those of the December quarter; but while total taxed profits for GFSA's mines rose by R4,6m to R218,982m the Receiver's slice increased by R12,5m to R262,6m.

The group has restated the tax and earnings figures of its mines for the December quarter.

GFSA's mines have a June year-end and are therefore affected retrospectively by the tax changes announced in the Budget.

Record

The average price received by the group's mines for their gold sales rose to set yet another record of R19 796/kg compared with the December quarter's R19 439/kg.

This is the result of the slide in the value of the rand to an average of R1/$0,49 in the March quarter from R1/$0,55, which more than compensated for the continued slide of the dollar gold price during the March quarter.

The group dropped grades at nearly all the mines to take advantage of the rising rand gold price and its favourable effect on the mines' pay limits.

Net sundry revenue (mainly interest received) for the group's mines rose to R59m in the March quarter from R42,2m in the December quarter.

Kloof turned in an excellent set of results for the quarter, increasing net profits to R57,579m (R56,786m) and distributable earnings after capex to 113,5c (103,8c).

The increase in Kloof's milled tonnage to 540 000 from the December quarter's 525 000 is in spite of a fire in an electrical substation during January which led to a five-day suspension of milling.

The mine also managed to reduce its total working costs to R42,293m (R43,091m).

Tonnage

Venterspost had a clear quarter with no disruption to operations by fires and as a result tonnage milled rose to 390 000 from the March quarter's 358 000 tons.

Vlakfontein, at the end of the March quarter, was sitting with retained distributable earnings of R1,531m (25,5c a share) after making a stingy capital repayment of 15c at the interim stage.

This amount of retained cash seems excessive and unless GFSA has something in mind for the funds there should a very healthy final dividend to come from the company.

Prime overdraft rate cut not imminent

NM 12/4/85 (49)

Finance Editor

ECONOMIC factors continue to move in a favourable direction for a cut in the prime overdraft rate — but contrary to rumours emerging after the Reserve Bank meeting with bankers a fortnight ago the move is not imminent.

Yesterday, Dr Gerhard de Kock, Reserve Bank governor, squashed the market talk: 'I have no intention of doing it (cutting rates) today or tomorrow or this week.'

The last drop in re-discount rate coincided with the November Primrose by-election but the market is strong in its condemnation of that move which 'was too soon and too much' — there just happens to be a by-election in Newton Park next month.

This might have given some market observers the thought that lightning strikes twice!

Budget

Dr de Kock said the Reserve Bank intended in future to make more frequent adjustments in re-discount rate than in the past.

He noted that the fiscal 1986 Budget has set as one of its objectives an improved mix between fiscal and monetary policy and had prepared the way for a decline in interest rates.

He said that barring unforseen developments, he expected a decline in both short and long-term rates this year. Unforseen developments would include a slump in the gold price or a sudden rise in the dollar to say 3,45 marks.

De Kock said a decline would be for sound reasons, including a reduced budget deficit before borrowing, a current account surplus and an expected decline in credit demand.

He added:'The Reserve Bank would welcome that kind of decline It would bring relief to farmers and small businesses, home owners and the economy generally and will in due course stimulate fixed investment.'

Shortage

Money market rates have slid by over one percentage point in the past fortnight and are now 21 percent — indicating that prime should be about 23 percent.

The money market shortage has fallen below R2 billion but there must be a trend here before the Reserve Bank will touch its crucial rediscount rate.

Dr de Kock said this cut depended on such factors as the outcome of a special R200m special Tax Treasury Bill tender (it drew applications for R384m at 19,85 percent. The bills mature on August 30) and a Treasury Loan repayment on Monday and the bullion price.

The gold price has held up above \$300 since the Budget and moved up again to near \$330 yesterday.

But here again the hidden factor disclosed yesterday by the state of the foreign exchange reserves — the gold bullion component — is the amount of short-term loans which the Reserve Bank has raised and will have to repay soon either through gold bullion swops or cash.

Rediscount rates were raised by one point from January 8, taking the Treasury Bill rate to 21,75 percent from 20,75 percent, after being cut by one point last November.

Commercial banks immediately raised prime to 25 percent from 24 percent.

Meanwhile, the public sector is expected to raise around R3,8 billion in fiscal 1986 which began on April 1, including R716m of new money for the central government, a domestic loans programme issued by the Finance Department shows.

Tap issues

It gave no comparisons.

Included in the total are tap issues totalling about R900m which Escom, SATS, the Posts and Telecommunications department and Durban Corporation may offer, it said.

RSA issue's will raise a total of R1,53 billion, of which R716m is new money. The department said included in the total was R125m which universities and technical colleges would be seeking.

It said not all borrowers listed had obtained borrowing powers and their names could be withdrawn.

The South African Government made net repayments of R178m on short-term domestic loans between April 1 and December 31 last year, Finance Minister Barend du Plessis said in reply to a parliamentary question.

Net short-term foreign loans obtained by the Government amounted to R16m in the same period, he said. Net issues of Treasury bills by the Government were R753m but net repayments of short-term Government stock totalled R931m.

Loans

In the same period the Reserve Bank obtained no short-term domestic loans but its net short-term foreign loans amounted to R90m.

The total amounts borrowed by the Government, including non-marketable debt, totalled R4,1 billion domestically and R506m abroad in between April 1 and December 31, 1984, Mr du Plessis said.

Long-term domestic stock issued totalled R3,89 billion, of which R1,9 billion was from the 13 percent 2005 stock, R600m from 15 percent 1988 stock and R1,39 billion from 14,5 percent 2006 stock.

Business Mercury

12/4/85 (49)

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This amount of retained cash seems excessive and unless GFSA has something in mind for the funds there should a very healthy final dividend to come from the company.

'New policy for resources allocation needed'

NM 12/4/85 (49)

CAPE TOWN— A new policy for the allocation of resources in South Africa is needed, says Mr L H Wilking, head of General Motors. He claims that money is being spent on projects which the country can ill afford.

He told the Cape region of the Institute of Directors yesterday that the Government appeared to be listening to some extent to the business sector but the recent 3 percent cut in the Government payroll was more a token than a meaningful saving.

The question arose: How many people were employed in business and Government to monitor the local content programme? Complying with local content measures imposed a cost-penalty greater than importing the components from an overseas parent which had the advantage of volume production?

Trucks

'To add salt to the wound of this single segment of the total industrial spectrum, there is now even talk about local content programmes for medium and heavy trucks. All this administrative undertaking fuels a bureaucratic giant.'

The time had come to take a long, hard look at the situation, Mr Wilking said.

'What does South Africa ultimately want to be? Do we have an ultimate blueprint?' he asked.

The overriding aim should be to develop and share the resources to the best advantages of all peoples. A new policy for the allocation of resources was needed. South Africa tended to follow the First World policies of the West whereas 80 percent of the population was underdeveloped.

Mr Wilking questioned whether the Koeberg project with a budget overrun of R567-million was really necessary when South Africa had huge coal resources.

The South African economy had been under severe pressure during the past year with the combined impact of the drought, high inflation, the rampant dollar and a decline in the dollar price of gold.

'There is no question that South Africa should have Sasol. But should we have Sasol 3 and possibly even Sasol 4? This is the only country in the world which in the short term shows a 45 percent petrol price increase.'

Package

The Government had introduced a strong restrictive monetary and fiscal package which had led to a drastic fall-off in economic activity, particularly in the motor industry.

The austerity package had severely cut demand for vehicles. The growth rate in the last six months of 1984 was 28,3 percent down on the first half.

The decline had continued in the first two months of this year with sales falling a further 6,6 percent on the last six months of 1984 and a massive 25,2 percent down on the same months in 1984.

'So the actions taken have been effective but at what cost to the country? One for sure is massive unemployment and underemployment,' Mr Wilking said. — (Sapa)

Inflation fears fuel market rally

W/E ARGUS 13/4/85
49

Financial Editor

IN SPITE of the recession, the drying up of consumer demand, the record high taxes and the record high interest rates — all factors which should depress investors — the industrial share market has started to move up strongly.

The industrial share price index jumped more than 20 points or 2,4 percent yesterday, which was more than it had risen in the previous three trading days. This rise was a continuation of the trend that has lifted the index more than 90 points, or 12 percent, since its March low.

The increased business this upsurge has brought stockbrokers has been most welcome as they have been going through a lean time recently, with clients as scarce as grapes in spring.

But not all brokers are happy about this turn of events.

It meant that people have taken the view that the country's high rate of inflation will be around a long time, one said.

"The share market rally is actually a vote of no-confidence in the Government's anti-inflation measures," he added. "It shows that people have again started seeking inflation hedges."

It seemed that a repeat of the 1983-84 industrial share rally was about to take place, he continued.

He was referring to the situation in late 1983 when investors sensed that a renewal of inflationary pressure was imminent. They invested heavily in industrial shares and were rewarded by seeing share prices rise by about 25 percent on average by early 1984.

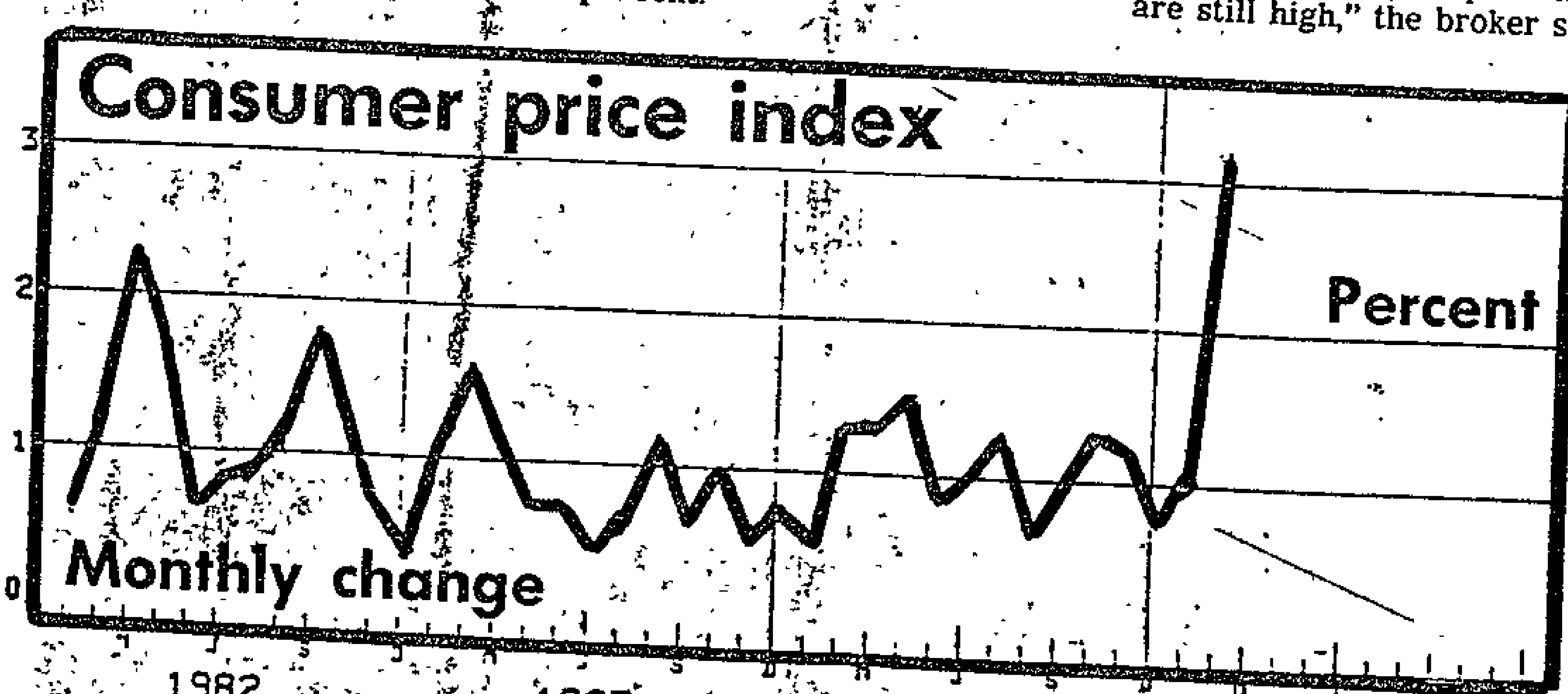
Their action in fleeing to an inflation hedge proved to be justified. The monthly inflation rate in the six-month period increased by about 50 percent from around 10 percent to 15 percent.

In recent weeks there has been plenty of evidence that South Africa is again riding the tidal wave of inflation. In the first two months of this year the consumer price index rose more than 4 percent, to give an annual inflation rate of more than 24 percent.

Since then a host of other prices, including postal and telephone tariffs and railway freight rates have been increased.

Motor manufacturers have been forecasting further sharp increases in car prices, even though the cost of running a car has risen 36 percent in the past 12 months, official figures show. And brick prices have also risen substantially in some parts of the country.

"If businessmen and Government departments see nothing wrong in increasing prices by up to 30 percent in today's business climate, then it is clear that inflationary expectations are still high," the broker said.



Sharp rises in the price of petrol and many other goods and commodities, including rail fares, caused the consumer price index to soar in February by more than 3 percent. This was the largest monthly rise for several years as this graph from Central Statistical Services shows.

Cape Times 19/4/85 (49)

New-look EAC established

Political Staff

THE State President, Mr P W Botha, yesterday announced the establishment of a new-look Economic Advisory Council aimed at giving the private sector a greater role in ensuring "the general well-being of the country and its people".

Speaking in the House of Assembly, Mr Botha said the new council was necessary because it had become evident that earlier moves by the government, such as the Carlton and Good Hope conferences, had not led, in practice, to a sufficiently satisfactory workable relationship between the government and the private sector.

He said objections to the current EAC included that the government's viewpoint carried more weight than should be the case and that decisions by the council made no real contribution to "achieving the results aimed at the management of the South African economy on such a basis that all parties are involved and that results are acceptable".

Representation on the new EAC would be based on the contributions of the government and private sectors in terms of Gross Domestic Product.

"In terms of GDP, the government sector contributes approximately 24% and the private sector 76% to economic activity in the country and the partnership has therefore been structured to reflect that fact," he said.

The new EAC will comprise: A chairman, 5 members from Industry, 3 each from mining, the trading industry, the financial world, the government sector and the agricultural sector, 2 each from the construction industry, the motor industry and the combined field of public transport, electricity and communication, and 10 members appointed by the State President.

The names of the new members have not yet been disclosed.

The secretariat of the new EAC will be attached to the State President's office "to ensure the necessary co-ordination and communication".

Meetings will be held quarterly, unless "contentious" points are raised in which case special meetings will be held.

The council will also be able to establish committees to deal with various issues and co-opt specialists.

"I trust that this step will bring us closer to a formula in terms of which the private sector and the government sector assume joint responsibility for the way the South African economy is managed.

"I am looking forward to the practical contribution that will be forthcoming from the EAC in future," Mr Botha said.

(4a) FM 26/4/85

ECONOMIC POLICY (4a)

New look council

The restructuring by President P W Botha of his Economic Advisory Council (EAC) has received a less than enthusiastic welcome. While the principle of greater private sector input has predictably been welcomed, business leaders are seeking urgent clarification on a number of questions raised by the restructuring.

In his announcement last week, Botha told the House of Assembly that the current EAC had been criticised for giving too much weight to government's viewpoint.

The new council will be substantially smaller than at present, dropping from around 65 members to a maximum of 37. Representation, said Botha, is based on contribution to gdp with government, at 24%, having three direct members. The private sector, at 76%, will have at least 23 members and possibly more.

Membership consists of a chairman (to be appointed by the President); five members representing industry; three each representing mining, the trading industry, the financial world, government and the agricultural sector; two each representing construction, the motor industry and public transport, electricity and communication; and a further 10 members whose presence is deemed indispensable by the President. No names have yet been announced.

Present chairman is Dr Simon Brand, who is widely respected and trusted by most members.

But speculation is strong that Brand, increasingly pressured by his role in the Development Bank, will step down. With the chairmanship carrying both political and prestigious clout, certain prominent Afrikaans businessmen are believed to be jockeying for position.

Botha also appears to have made a tactical error — unless intentional — in ignoring organised labour. Labour leaders may well be included among the 10 members chosen by the President, but no mention of organised labour is made in his statement.

Says one EAC member: "Without input from organised labour, whatever policy is formulated will be seen as collusion between government and capitalist business interests. As the new council stands, it is more a *business* council than an *economic* council."

Says another: "Organised business is trying very hard right now to establish an umbrella body to speak with a single voice. Without input from other sectors, such as labour, there is a risk the EAC will simply duplicate these private sector efforts."

Ironically, some members also believe Botha has gone too far in cutting down on government representation on the EAC. "The direct contact with the various directors-general was very valuable and I'm sorry to see that go," says one.

One positive change is that meetings will be held more frequently — at least quarterly — and more often if required. Also, the appointment of specific committees with the power of co-option is to be welcomed, although the old EAC did appoint various *ad hoc* committees. Both these changes have

EAC chairman Brand . . . stepping down?

been publicly urged by various council members — among them Parsons.

Members were somewhat surprised that Botha had announced the changes without consulting the EAC itself.

"The difficulty is that we have only half the information. We have discussed restructuring the council in very broad terms, but the precise formula is new," says Federated Chamber of Industries (FCI) chief Johan van Zyl.

Leon Bartell, president of the Afrikaanse Handelsinstituut (AHI), says the EAC has played an important role in the past and he welcomes the prospect of greater private sector participation. But like other sectors, the AHI was early this week seeking clarification on Botha's announcement, in particular as to the role to be played by representative bodies such as the AHI, FCI and Assocom.

In the final analysis, the effectiveness of the EAC, which is after all an *advisory* body, is measured not so much in terms of its recommendations but on whether or not these are accepted and implemented by government. In this regard, Botha says the EAC's secretariat will be attached to the President's office, that recommendations will be considered directly by Cabinet and the various cabinet committees, and thereafter "will eventually be implemented by government departments in the execution of government policy."

Only time will tell whether this means government will really start listening to business. ■

SA ECONOMY FM (40)

26/4/85

Year-end trough?

There is little doubt that the economy will remain in the downward phase of the business cycle for most — if not all — of this year. This is according to the revised estimates of the Bureau for Economic Research (BER) in its latest report.

Admitting that it got the figures wrong in its Prospects for 1985 report last October, the BER lists a number of developments that had a negative and unforeseen impact on the economy. These included the hardening of the US dollar; a lower average gold price; a lower than expected harvest; and the increasing pressure on disinvestment.

Other negative factors were the adverse international economic conditions and the local political unrest. BER also adds its voice to the criticism of government for its excessive expenditure. This has delayed the adjustment process, while too much emphasis was placed on monetary policy.

The BER says that for the rest of 1985, the rand will average around US$0,50. Adverse factors will be the continued repayment of short-term offshore loans, and the need to protect non-gold exporters. On the positive side, the BoP surplus is likely to rise during the year to around R3 billion.

Imports will fall further. Disposable income is expected to decline by 2,5% this year, implying a 5% drop in real terms in per capita income. This, together with debt, the lack of consumer confidence, and high interest rates points to "a fairly sharp downward adjustment in consumer demand." This will especially affect the demand for durables, while consumers will change preferences toward cheaper items.

BER warns that the unrest "will have a negative impact on consumer and business confidence" and that disinvestment pressure "cannot be ignored." Fixed investment declined by 2,4% in 1984 and the BER expect it to decline further this year by about 9,5% in the private sector and by 6% in the public sector.

BER expects short-term interest rates to decline sharply as a result of improvements in the current account and the likely decline in local demand for funds. The prime rate is expected to be 18% by the end of the year.

Net personal savings by individuals, as a percentage of net disposable income, recovered in the second-half of last year to 5,4%, after having become negative for the first time ever in the second quarter.

The bureau says the reasons for this turnaround include the increases in gst, and the introduction of the August austerity package. ■

The Secretary of Parliament informs the *FM* that a comment appearing in the *Financial Mail* (*Did You Hear*, March 29), referring to the purchase of new curtains, was not correct. We apologise for any embarrassment caused.

Prime overdraft rate cut not imminent

NM 12/4/85 (49) (88)

Finance Editor

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Business Day

RDM 24/4/85

Academics pessimistic

(49)

By MERVYN HARRIS
Property Editor

ECONOMIC prospects for the next 12 months, outlined at the estate agents' Cape Town convention, gave the delegates little to be optimistic about.

A request to professors of economics at South African universities to give a positive forecast for the next 12 months produced no glimmer of optimism.

They were asked for their views by Mr Norman Nel, president-elect of the Institute of Estate Agents, so that delegates could leave the convention "fired with good hope."

Mr Nel said he had hoped for more encouraging replies, but they had nevertheless revealed the reality of the economic situation.

The reality, according to Professor C L McCarthy, of the University of Stellenbosch, "is that it is impossible to be optimistic about the next 12 months.

"One should be careful not to create a feeling of false optimism, because the result may cause a lack of optimism for an even longer period. Painful adjustments will have to be made in the interest of greater prosperity in the future."

Professor D P Erasmus, of Potchefstroom University, said he was not pessimistic about long term expectations in the economy but "for the next 12 months, I certainly cannot be optimistic either."

Professor A J Arkin, of the University of Durban-Westville, said that provided tight monetary and fiscal policies were maintained, it was possible that the economy would be set for growth in mid-1986.

"The property market, especially housing, might still decline a further 15% over this period. After mid-1986, house prices are likely to accelerate and increase at least at the level of inflation."

Professor J A Dockel, of the University of South Africa, said he doubted whether any optimists would be found at present among economists.

Professor D J Botha, of the University of the Witwatersrand, said the Reserve Bank's policy of high interest rates was absolutely wrong.

The austerity measures announced in August last year came at a time when the economy was already slowing down appreciably, and were therefore unnecessary.

However, hope was contained in replies from top businessmen whom Mr Nel asked to give a message that would inspire delegates to carry on regardless.

Dr F Cronje, former chairman of Nedbank, said that to achieve economic goals one should not be too influenced by media reports, because "the gloom of today could be the boom of next week or next month — and vice versa.

"The long-term economic trend in South Africa must, of necessity be upward," he said.

Dr F J du Plessis, chairman of Sanlam, said current times demanded a strong dose of driving force and endurance.

Economy improves

By DEREK TOMMEY
Financial Editor

THE battered and bruised South African economy, benefiting from stern medication by the Reserve Bank and the Treasury, has turned the corner and is at last on the road back to health.

This is the good news signalled by the Governor of the Reserve Bank, Dr Gerhard de Kock, in a statement last night setting in motion a reduction in the cost of commercial bank credit.

Dr de Kock's statement indicated that while conditions would still remain difficult and full recovery was some time away, the end was probably in sight to the locust days of high interest rates, high inflation and a falling rand.

Favourable

In his statement he announced several major favourable developments in the economy. These included:

● A one percentage point reduction in the Reserve Bank's rediscount rate. This is a signal to the banks to cut their prime rates from the present record 25 percent to 24 percent and to lower the cost of credit to the hard-pressed businessman. So far two banks, Standard Bank and Nedbank, have done so.

● A dramatic improvement in the balance of payments. Dr de Kock reported that South Africa had a current account surplus of about R4 000-million in the first quarter of 1985 against a deficit of R2 800-million last year.

This was a swing around of R7 000-million and indicated that the earlier estimates of a current account surplus of between R1 000-million and R2 000-million for 1985 will be greatly exceeded.

Reserves up

● An increase in the Reserve Bank's gross gold and other foreign reserves last month of R399-million. As this came after the repayment or certain short-term credits the net improvement in the reserves last month was about R675-million.

● The sale of R1 260-million of "tap" Government stock for the 1985-86 financial year, as well as special tax anticipation Treasury bills of R400-million. This means that the Government has already done most of its borrowing for the year.

Dr de Kock said the inflation rate should start to fall later this year. Real gross domestic expenditure declined by 5,5 percent in the second half of last year and real private consumption expenditure fell by 9 percent. It appeared that this trend continued in the first quarter of this year, indicating that over-spending has been almost eliminated.

This did not mean that the rate of inflation would decline immediately as some further increases in the consumer price index were likely. But the reduced demand for goods and services should bring about a marked lowering of the inflation rate.

Dr de Kock said that, taken together, these various favourable developments fully justified a moderate relaxation of monetary policy at this stage.

Bleepers at cricket matches could decide those 'howzats'

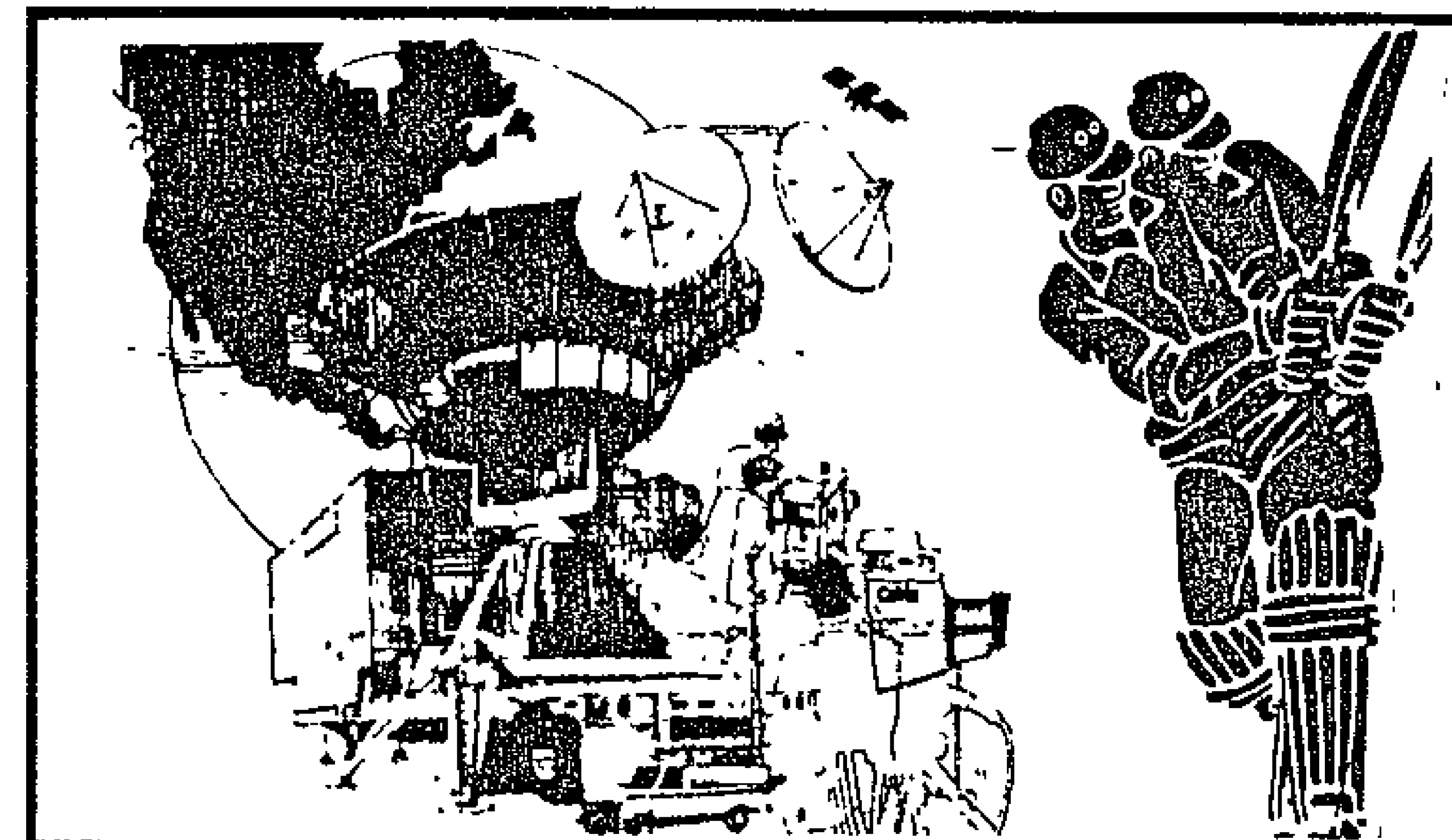
By JOHN HUXLEY

LONDON. — It hardly seems cricket, but the traditional thud of leather on willow and the throaty cry of "Howzat?" could one day be followed by the bleep-bleep of a high frequency radio signal and the flicker of lights across a miniature display terminal.

Cricket authorities are experimenting with micro-electronics, ballistics and high-speed camera technology to find ways of making the umpire's life easier.

The sport's ruling body in Britain, the Test and County Cricket Board, has enlisted the help of a team headed by Sir Bernard Lovell, director of the Jodrell Bank experimental station and one of Britain's leading astronomers.

At Lord's in London and Old Trafford, Manchester, the team is already conducting tests of a thumbnail-size bugging device, basically a sensitive microphone, which is inserted into a cricket bat and emits a radio signal when the bat is struck by a ball. This could be used to confirm bat-ball contact if there is a disputed catch.



The board has also asked specialists to see if high technology can take some of the controversy out of lbw (leg before wicket) decisions — when an umpire has to rule whether a ball would have hit the wicket if the batsman's leg had not been in the way.

A company which carries out ballistics work for the Defence Ministry has been asked to find out whether multi-angle photography, using camera techniques developed originally for astronomy, can determine a ball's trajectory in sufficient detail to permit its path after it has bounced off the pitch to be predicted accurately. Filming is due to begin at county cricket matches this summer.

Lovell, 71, a former fast bowler who once considered a career in county cricket while he was at Bristol University and who played for his local village team up to 10 years

Weather at a glance Weather at a g

Economic upswing 'by Easter 1986'

By Michael Chester

Star 6/5/85 (49)

South Africa was today urged to snap out of despair about the recession and start planning for an economic upswing within the next 12 months.

The advice came at a national business conference in Sandton from internationally respected economist Mr Alan Mankoff, managing director of the Southern Africa branch of Dun and Bradstreet, which monitors international business trends.

Mr Mankoff predicted that by Easter 1986:

- The inflation rate will have been slashed from a 1985 peak of 16 to 18 percent to between 11 and 13 percent.
- Rand exchange rates, which have been below 50 US cents, will be back to around 60 to 65 cents.
- Gold, on which the SA economy depends heavily, will have recovered to 350 or 400 dollars an ounce.

The forecast came as the banks announced moves to cut their prime interest rate from 25 percent to 24 percent and talked about a slide to 20 percent by the end of the year.

Mr Mankoff, also a director of the American Chamber of Commerce in South Africa, was delivering a key address at the conference which was called by the Institute of Credit Managers to study new strategies for reversing the tide of bad debts.

BLINKERED ATTITUDE

He reminded optimists that a blinkered attitude of wanting the media to carry only the good news would not cause the bad news to disappear.

But, equally, he stressed to pessimists how the Chinese used two specific characters in writing the word "crisis" — one meaning "danger" but the second meaning "opportunity".

"The key is to begin now to start the foundation for a strong and sustained upturn," he said.

"It will mean the risk of spending more on improved technology to increase productivity and provide better services.

"It will also require more money to be spent on marketing and advertising to begin to attack markets now, in the bleak times, so that the fruits of prosperity can be enjoyed when they ripen in 1986."

(17) worker produces in the same way as the value of the machine was added to the ~~the~~ number of articles which it produces.

1985

Staggering increase in debts in S A

NM 7/5/85 (49)

Finance Reporter

SHOCKING figures showing soaring debt among South African businesses and consumers, spiralling liquidations and a staggering 60 percent increase in the value of debt judgements to R357m last year, were released at the institute of credit management's national conference in Sandton yesterday.

Mr Alan Mankoff, managing director of Dun & Bradstreet, the world's largest marketer of business information and related services, said South Africa faced its most important challenges in recent history.

Faced with soaring bad debts in the country's worst economic crisis since 1929, credit and financial management professionals had to ensure the installation of tight credit control systems to keep dangers to their companies to a minimum.

The financial difficulties that businessmen and the consumer had experienced could be easily traced through civil court records.

Producing comparative figures for the last three years Mr Mankoff said the number of civil summonses issued for debt by businesses had more than doubled from 71 000 in 1982 to 159 000 last year.

Summonses

Summonses issued to consumers jumped from 648 000 in 1982 to 720 000 in 1984.

'In aggregate, we see that the civil summonses for debt have soared to 815 000 in 1984, an increase of 13 percent in three years.

'If we assume there are 20 business days in a month, then 3 400 summonses have been issued each business day in 1984. 'With money costing businesses about 25 percent during last year, this heavy additional cost to business goes a long way to shrinking profits in the best of economic times.'

Mr Mankoff said the number of judgements for bad debt in the business world had increased by 75 percent in the last three years.

Consumer judgments too, had set new records in 1984. Judgments against businesses had risen from 20 000 in 1982 to 35 000 in 1984, and against consumers from 300 000 in 1982 to 353 000 in 1984.

The value of judgments recorded in 1982 against businesses had leaped from R15m to R50m in 1984. Consumer figures had increased from R148m in 1982 to R307m in 1984.

The combined figures showed a total rand value of R357m in 1984 against R223m in 1983 — a massive 60 percent increase in 12 months.

The number of liquidations in 1984 was 2 675 against 1 957 in 1982. Fewer companies were formed in 1984 (11 300) than in 1982 (11 700).

South Africa's situation looked bleak when compared with its major trading partners with regard to prime overdraft rates and the consumer price index.

Overdraft

While the South African prime overdraft rate had been cut from 25 percent yesterday the United Kingdom figure was 15 percent, France 11,5 percent, the United States 10,5 percent, West Germany 8 percent and Japan 5,5 percent.

South Africa's consumer price index was twice that of the next highest on the scale: South Africa 13,9 percent, France 6,4 percent, the United Kingdom 5,4 percent.

NM9 10/5/85

Economic downswing to end in December, says economist

49

JOHANNESBURG — The Property Economist says the economic downswing will end in December this year and that calculations taken over the last 25 years show that the property cycle will begin its upward move in January next year.

The editor of Property Economist, Neville Berkowitz, says in the latest edition: 'The economic cycle and the sensitivity of only an average 27-month upswing and a 15-month downswing makes timing in property absolutely critical.

'Therefore correct identification of forthcoming upswings and downswings is essential in planning time scales of development projects, home buying and selling and the negotiation of leases.'

Apart from the technical analysis of property cycles, Mr Berkowitz says there are several reasons for his belief about the upswing. They include:

- While interest rates are still at record levels, it does appear that the tide is about to turn and there could be an easing of overall liquidity within the next six months;
- The current account of the balance of payments has finally gone into surplus and indications are that this will be sustained;
- The gold price has risen above 300 dollars and the rand above R1=0,50c, which is a psychological boost for business;
- Government spending= has been drastically curbed and in the recent budget, the Minister of Finance, Mr Barend du Plessis, made no allowances for increases in the real level of Government spending.

Mr Berkowitz says that net lending by building societies fell by nearly 40 percent last year while mortgage interest and therefore monthly repayments, have risen to record levels.

In line with an easing in liquidity, the decline in net liquidity levels of building societies has bottomed out. However, the level of advances granted but not yet paid, is still three times the level of advances paid.

He says that while planned construction activity began to feel the effects of the economic slowdown in the last six months, the same cannot be said for actual construction.

Last year the total value of buildings completed was more than 22 percent higher than in 1983 but by the beginning of this year the value of plans passed had slumped from the August 1984 high.

'Therefore present downturn in planned construction is still to have an effect on the value of buildings completed.

'Last year, the number of houses planned had fallen by 27 percent and the number of apartment and townhouse plans had fallen by 4 percent, indicating a future market shortage. — (Sapa)

WEEKEND FOCUS

Good times in '85

W/t Argus 11/5/85 (49)

By DAVID REES
Associate Professor of Economics at the University of Cape Town.

GOOD times will arrive in 1985. This may be overstating the case but the clouds of doom and gloom which characterised the latter half of 1984 seem to be dispersing slowly.

It is interesting this should be so because objectively there is little to be cheerful about.

The situation on the labour front remains volatile. Unemployment is high. Township unrest continues. Overseas the threat of disinvestment increases. The gold price drifts along as does the rand. House prices have slipped (but by surprisingly little in the circumstances) and the measured inflation rate is as high as ever.

True the trade account of the balance of payments is in hefty surplus but this is characteristic of the South African economy in a depression and is not necessarily a signal of good times ahead.

The balance of payments surplus is the outcome of a weak rand and low domestic consumer spending. The surplus has had little effect on the value of the rand which continues to falter against the dollar with consequent gloomy effects on the expected inflation rate over the next 12 months.

Why therefore expect things to improve? Perhaps the sense of optimism can be traced to the March Budget.

Taxes were raised and Government expenditure sharply constrained. Far from being a stimulatory Budget the tax proposals were both unpopular and tough — perhaps unnecessarily tough.

The Budget was however a hopeful sign because it was believed to mark the end of the vacillations and hit-and-run policies practised by the authorities over the previous year.

We were shaken to the core in 1984. The policy package of August 1984 was disastrous and was unfairly and unreasonably discriminatory against certain sectors already deeply concerned by Government vacillations over the new perks tax.

There is only one thing worse than introducing a new tax and that is to allow 12 months of confusion before introducing it.

In the August package interest rates were raised. This was rightly perceived as a tough gesture. It was particularly harmful to those sectors of the market which rely on hire purchase sales.

Only justification

But high interest rates can be consistent with either a tight or relaxed monetary policy. The only justification of raising interest rates at that time was in order to control money supply growth and the market waited with interest to see whether the August package was indeed followed by slower money supply growth. It wasn't.

After about three months of this, when it was clear the authorities were unwilling or unable to control monetary growth, the exchange rate fell away rapidly.

Nothing in the August package — not high interest rates, stringent hire puchase requirements nor tough statements by Government spokesmen — were sufficient to counteract the effect of rapid money supply growth.

The March '85 Budget may in retrospect turn out to have been a watershed because it showed the Government was prepared to do unpopular things, even to its own supporters.

This impression has of course been futher emphasised during the maize dispute of recent weeks. Further, the 1985 budget contained the germ of a more restrictive monetary policy and a carefully thought out taxation strategy.

This is a prospect for the future but markets look to the future and thus the future is what counts.

Given the adverse world environment, the low gold price and the drought, 1984 would probably have been depressing.

It was exacerbated by ill-advised official policies. In 1985 the world environment continues to be hostile but one source of uncertainty seems to have been removed.

It is a reasonable bet we can look forward to a more cohesive monetary and fiscal policy with lower interest rates, lower inflation, less uncertainty, greater business confidence and more growth as possible payoffs.

The job of the monetary and fiscal authorities and what they are good at is defining the broad directions of long-term Government policies.

Nothing can be more destructive of business confidence and ultimately economic growth than unforeseen and unforeseeable changes of official policy in midstream.

These ad hoc policies are particularly destructive when targeted to particular industries or sectors of the economy.

The suggestion in the 1985 Budget is that we can expect more stable monetary policies, simpler taxation arrangements and greater predictability in Government economic policy generally. Let us hope so. We want no quick fix in '86.

First signs that economy is slowly regaining kilter

(49) Star 11/5/85

by
Duncan Collings,
Deputy Financial Editor

The most visible sign yet that the economy is slowly regaining its kilter has been the first small reduction in the country's interest rate structure over the past week.

Since August last year commerce, industry and the man in the street have had to contend with historically high interest rates following an austerity package introduced by the authorities in that month.

Prime rate — the overdraft rate that banks charge their best customers — has been at 25 percent and HP and lease rates at up to 32 percent since then except for a falsely-based and short-lived reduction in October last year. On the other hand the homeowner has had to contend with a bond rate of anything up to 25 percent.

These rates of interest more than anything else have brought home to the public just how precarious a state the economy has been in and while they remained high, no matter that other economic fundamentals were beginning to improve, the psychological attitude of the average South African to the economy remained depressed.

For this reason the past week's first, albeit very small, reductions in interest rates have had a psychological impact out of all proportion to their actual effect.

The decline had been signalled for some weeks by rates on the commercial money markets but the banks had been awaiting a signal from the Reserve Bank before reducing their prime rate — which automatically has the effect of reducing the whole borrowing interest rate structure.

Such a signal was given by the Reserve Bank last Friday when it cut its rediscount rate — the rate it charges banks for their borrowings from the Reserve Bank — by one percentage point.

Within two days all commercial banks had reduced their prime overdraft rates to 24 percent.

Also this past week the first minute cracks appeared in the bond-rate structure when the UBS reduced its top lending rate by one percent. Although this was largely a technical correction to bring the UBS' rates more into line with other societies and in fact its rates for smaller bonds were raised, it is the first time for many months that there has been any sign of bond rates even looking like they might come lower.

And the prognostications for the balance of the year are good.

In fact the next decline is already being indicated by the markets. On the money market this week the key indicator rate — the 90-day bankers' acceptance rate — has fallen by over a percentage point, but the authorities and the banks are determined to take things very carefully.

Although demand for credit has plummetted and the money supply situation gets easier every day, experts all agree that a too rapid decline in interest rates would immediately stoke up the fires of demand in the economy and put further upward pressure on the inflation rate.

The extremely tough stance the government has taken against the maize farmers — hitherto considered political dynamite and therefore an unacceptable route to take by the authorities — is an indication of just how seriously the fight against inflation is being taken.

Provided this is continued it is now acknowledged that inflation should start to come off its peak of around 18 percent expected in the next couple of months and the official aim is to see it hitting single digit figures in 1986.

But a too precipitous revival of demand in the economy, partially created by reducing the interest rate structure too fast, would rapidly undo all the good.

However, a steady decline in interest rates are expected through the rest of the year and well into 1986. Most economists expect the prime rate to be around 20 percent by the end of the year.

But on the mortgage rate front their is little hope for homeowners this year. Although there may be minor, mainly technical, adjustments as was seen this week a general decline in bond rates are not expected until at the earliest the last quarter of this year.

Bond rates, even at their existing very onerous levels, are still in the main below the country's general interest rate pattern and in fact are being subsidised.

But with the imminent advent of new legislation on building societies which will have the effect of making them compete for deposits on a par with other financial institutions by withdrawing a number of their tax concessions on investments, but at the same time giving them the power to compete in areas in which they have traditionally not operated, will mean that they will no longer be able to offer bond rates below market rates.

For this reason any decline in bond rates will have to wait firstly for commercial bank rates to come down to their level and then to drop further before the societies can start contemplating reducing their rates.

Monday, May 13, 1985

Barclays pessimistic about economy's prospects in next few years

81 NM 13/5/85 49

Mercury Correspopndent

JOHANNESBURG— Barclays Bank takes a pessimistic view of prospects for the South African economy over the next year or so.

In their latest Business Briefs, Barclays says: 'The mistimed and consequently unsustainable recovery of 1984 makes it very probable that the next year or, for that matter, the next few years, will not yield a great degree of growth, or any real success in reducing inflation.'

They point out, however, that the volatility of international financial markets, or a dramatic shift in domestic economic policy, could change the likely course of development in the South African economy 'literally overnight.'

Barclays says: 'The economy, which is now out of kilter with the US business cycle in particular, is rather likely to experience a succession of upswings and downswings of relatively short duration, in combination with a relatively high level of inflation — an economic malady known as stagflation.'

Dollar

'The two most important external factors that will determine economic destiny to a not insubstantial degree are the rate of growth in the industrialised West — especially the US — and the behaviour of the US dollar.

Because of the large dependence of South Africa on imported inputs of capital goods in particular, export earnings and accumulated foreign exchange reserves are vital in order to pay for the level of imports necessary for growth without precipitating an exchange rate crisis.

Exports are, in essence, one of the means by which growth overseas is transmitted to growth in our economy and there is some cause for hope as far as export earnings are concerned.

Barclays says that the growth of economies in US and Europe should grow satisfactorily, with the result that demand for South African merchandise exports should continue although possibly at a lower level than last year.

The rand

'We expect merchandise exports to grow by about 20 percent this year which, after adjustment for inflation, translates into a real increase of around five to six percent.'

Barclays sees 'little hope' for any significant appreciation of the rand this year and says a dollar/rand rate of around 0,55 cents is probably the 'most optimistic rate that can be hoped for during 1985.'

Barclays expects foreign earnings from gold exports to grow by around 15 percent, or no increase in real terms.

BUSINESS TODAY

ARGUS 15/5/85

(49)

Economy's ills rapidly being put right, De Kock, De Loor say

By TREVOR WALKER

JOHANNESBURG. — The bulls have been gathering in the money and stock markets in recent days, and these harbingers of good times base their bets solely on fundamentals.

The "real economy" — the unemployment figures, the motor car sales, engineering and building sector downturn and inflation etc, have their own sorry tale to tell, but where the levers of economic power and direction lie, the outlook has begun to brighten.

One of South Africa's most difficult economic adjustments appears to be coming to a conclusion.

In an interview, Director-General of Finance Dr Joop de Loor, and Reserve Bank Governor Dr Gerhard de Kock both indicated they were convinced that many of the fundamental ills of the economy have been or are rapidly being put right.

Dr Gerhard de Kock, Governor of the Reserve Bank.

SWING TO SURPLUS

The R6,8-billion swing from deficit to surplus in the current account of the balance of payments over the past 12 months has been the quickest yet.

For the first time in at least three years, the monetary and fiscal policies of the Reserve Bank and the Treasury are working in full agreement.

President P W Botha has come down heavily on profligate ministries, and the targets set in this year's Budget begin to look feasible.

The decision not to raise the producer price of maize was made days before an important series of by-elections.

DICTATORIAL

Finance Minister Barend du Plessis has adopted a style of operating within the Cabinet most unlike that of his predecessor.

Political sources comment that where Mr Owen Horwood tended to be dictatorial, Mr du Plessis is careful to lobby Cabinet colleagues fully before putting important proposals to the Cabinet.

Financial decisions are now really joint decisions and more likely to be stuck to and not circumvented by individual ministers.

It is no coincidence that the maize price decision or bread price subsidy amount is now announced by the Minister of Agriculture and not the Minister of Finance.

WORST OF BOTH WORLDS

Dr de Kock said in his annual Governor's address last August, he had laid it on the line and spelt out the difficulties the economy would still have to go through.

The economy was then expriencing the worst of both worlds — rising inflation and falling economic growth.

It was perhaps unfortunate towards the end of last year, that the gold price began to move up and the dollar began to look vulnerable.

The downturn in interest rates in this country was short-lived and not based on sound fundamentals.

INTEREST RATES

Over-spending was still rampant and, when bullion and foreign exchange markets turned, local interest rates began to rise once again.

If the authorities lose credibility with the public, it is very difficult to build this up again. Both De Loor and De Kock feel this credibility has now been restored and that the economy is begining to swing around.

The massive boom in 1979 and 1980 when economic growth doubled and then doubled again was followed by a sharp fall off in growth and then an exceptionally difficult period of adjustment.

At $300-plus an ounce the gold price slump has now been fully accommodated and the rest of the economy is now based firmly on market prices, demand and export expectations.

GOLD PRICE

A gold price falling to $250 would again place pressure on current economic policies and lead to a further fall in the rand, but in the meanwhile the country's exports have really begun to take off.

The maize situation was much healthier this year, while the unfavourable political scenario was tending to run its course abroad.

Dr de Kock said South Africa had been paying back foreign debt at a phenomenal rate. In addition the Reserve Bank had been able recently to begin reducing its forward commitments.

The Bank had been able to buy millions of surplus spot dollars in recent weeks because of the strong balance of payments surplus and thus reduce forward commitments. These could well be cleared by the end of the year, and this in turn would reduce pressure on the rand.

DISINVESTMENT

Dr de Kock said disinvestment in the sense of actual selling was not being encountered. In fact, net purchases by foreigners of gold shares on the stock market had been of the order of R100-million a month recently.

"One must not get too pleased too soon, there is a long slog ahead," he cautioned.

"But this year in August it is just possible that I will be able to point to a rosier future of rising growth and slackening inflation."

Dr de Kock said inflation was still rising, and the last increase in GST had still to be shown in the statistics. But many of the economic pointers were begining to look favourable, and it was largely a question of seeing it through, before capital investment began its inevitable recovery.

Dr de Loor, commenting on this year's Budgetary targets, said: "I am much happier than ever before that the numbers will work.

"In addition we have built in for the first time R400-million for unforeseen expenditures."

Although the additional R100-million aid for farmers and probably some additional Defence spending would reduce this, the exchequer could still count on some R300-million spare cash.

In addition it was unlikely the Treasury would be in the market for some months ahead as R1,3-billion had already been taken up.

Overdraft rate 18pc at year-end, says BER

NM 16/5/85

49

CAPE TOWN — The prime overdraft rate will drop to 18 percent by the year-end from today's 24 percent, says Prof Attie de Vries, director of the Stellenbosch Bureau for Economic Research.

'Some people say this is optimistic but I believe it will go down further next year to between 15 and 16 percent by mid-year.'

After that, interest rates could harden again with prime reaching 20 percent in 1988.

Professor de Vries, giving a five-year economic forecast yesterday at a seminar held by the Retco property group in Cape Town, said as far as could be foreseen, interest rates would remain positive — higher than the rate of inflation — and were unlikely to return to the levels of around nine percent of 1980-81.

The mortgage rate would also come down this year but building societies did not have much room to move. It could drop to between 16,5 and 17 percent from 22,5 per cent but not much below that because of various factors.

Building societies were expected to lose their tax-free advantages and when they were allowed to act as banks under new legislation they would charge more on their bond rates.

Societies would probably return to a unitary bond rate instead of several rates according to the value of the loan and they might base the rate on the creditworthiness of the borrower.

Over the next five years the cost of money would basically remain high and discourage the use of credit. However, it would not be an incentive to save because of tax on interest.

Thirty percent of spending last year was financed by credit compared with only 11 percent in 1974, indicating that people had lost confidence in saving.

In the next five years consumers would continue to use credit but the bureau did not see the percentage increasing very much.

In fact, the 1990 level of spending on consumer durables, especially the 'Big ticket' items, would be below the 1981 spending in real terms.

Looking at inflation, Prof de Vries said the bureau believed the increase in the consumer price index would average 12,5 percent over the next six years.

Wages

There would be a distribution of money with lower income groups getting increases of more than 13 percent. But real wages would rise only one percent over the next six years in spite of greater trade union militancy. The salaries and wages of white workers would decline in real terms as would their ability to save and spend.

The value of the rand, he forecast, would average 50 U S cents this year, rising to 57 cents next year and 64 cents in 1987.

Looking at the country's reserves, he says: 'We have reserves of about R4bn and foreign debt of R17bn — we are in the red.

'If we were a company on the JSE we would be at least under judicial management if not provisional liquidation.' — (Sapa)

Financial Mail

(49)

INTEREST RATES

Beware the false dawn

Bullish sentiment about interest rates is gathering momentum — not, of course, without some reason. Fundamentals in the economy are beginning to improve. Business activity has plunged to even lower levels than in the depths of 1976-1977; and aggregate demand has at last fallen into line with SA's foreign earnings position.

At the same time, pressure is growing on Reserve Bank Governor Gerhard de Kock to adopt a more accommodating interest rate policy.

Nonetheless, so far as it is possible to do so, De Kock should resist such pressure. If there are bullish perceptions about an early recovery they are as premature as they are misplaced. Major hurdles have yet to be cleared before the present glacial drift of rates can be permitted to quicken to a slide.

As we have said before, the palliative of the quick fix should be avoided, almost at any cost. It will not do to permit a repeat of the conditions which led to the mini-boom, or false dawn, of 1983. In other words, tight monetary policy must be held in place.

Whatever is occurring with interest rates at present should not be seen as part of a move towards reflation, but rather as an adjustment of policy instruments. To reflate now would be "sheer madness," as Standard Bank's André Hamersma bluntly puts it. "We might give the wrong signals to people that we're out of the woods. This is in no way compatible with the inflation rate and money supply growth. It is still early days and we have a long way to go."

He adds: "We are only in the second month of the financial year, and although Finance Minister Barend du Plessis has made some encouraging sounds, we cannot as yet make a clear assessment of where things are going."

The inflation rate, which since 1975 has been, on average, three times higher than that of SA's main trading partners, shows little prospect of improvement in the short run. If the appropriate mix of stern policies is maintained, it could fall rapidly to a reasonably acceptable level by early next year. That would then be an appropriate trigger for realistically lower interest rates.

Latest indications of monetary growth, for March, continue to disappoint. While the growth in the various money supply aggregates suggests a marginal slowing, they do not indicate that the authorities have succeeded in bringing money supply growth under control. Specifically, the numbers do not make welcome reading:

- The narrowly defined M1 — coins, banknotes and demand deposits of the non-bank private sector — increased by 30,8% to R25,9 billion, compared with a growth of 33,1% in February;
- The more significant M2 — M1 plus short-term and medium-term deposits of the non-bank private sector — rose 25,1% to R38,78 billion, compared with 25,4% in February; and
- M3, which is M2 plus all other deposits of the non-bank sector, rose 22,1% to R43,28 billion, compared with 22,6% in the previous month.

It can be noted, however, that the velocity of money (the rate at which money circulates in the economy) is down — and this, according to Governor De Kock, provides a more accurate measure of the long-term prospects for inflation. In itself, while welcome, that is not enough of a money market indicator.

The fact remains that a non-negotiable of the present economic environment is that there can be no move towards cheaper money until the growth of monetary aggregates is manifestly under control.

No one should be fooled by the rapid improvement in the current account of the balance of payments to a surplus of R1,2 billion in the first quarter.

The better payments position is partly attributable to declining imports and improved exports. But there is a countervailing outflow of short-term capital which is primarily the result of offshore debt being switched to the domestic banking sector by companies which burnt their fingers in uncovered offshore transactions last year.

At bottom this means that the corporate sector has little confidence in medium-term prospects for the economy. Instead of rolling over their debt, corporate debtors seize upon even the most modest upturns in the fortunes of the rand to repay foreign loans.

Disconcertingly, this is what is contributing to the high money supply growth, by increasing the banking sector's total advances.

Repayments of foreign loans during the first quarter were over R2 billion, and further repayments are expected to absorb much of the anticipated current account surplus for the year of around R3 billion.

A significantly lower interest rate structure, however, would result in even larger sums leaving the country. If SA debtors are willing to borrow at 25% to repay foreign loans in the first quarter, then they will certainly be willing to do it at lower rates.

However, faith in the ability of the monetary authorities to restructure the ailing economy *is* slowly picking up. On the one hand, there is growing evidence that a tight fiscal policy is being maintained. Tough treatment of the maize growers restored a good deal of confidence that the Budget will be adhered to, and that the fight against inflation is in earnest. This policy clearly has the backing of the State President and his Cabinet.

But movements in the financial markets suggest there is terrific pressure on the Reserve Bank to let rates fall. The money market closed lower for the sixth successive day last Friday, with the key 90-day liquid BA rate breaking through the 20% barrier to 19,85%, after a sharp fall in the average weekly T-bill rate to 19,65%.

Can Church Square hold back the tide? Manifestly, it is in the national interest that it does so. ■

Govt spending in April up to R2 907bn

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NM 18/5/85

Mercury Correspondent

GOVERNMENT spending in April, the first month of the current fiscal year, amounted to R2 907bn after deducting R108 883m for the discount on the sale of RSA bonds.

Accounting for the discount is a welcome innovation and will eliminate some of the distortions of the past.

The R2 905bn outlay by the Treasury must be compared with R2 450bn spent in April last year and R2 574bn, which is the monthly average of the R30 982bn which the Minister of Finance, Mr Barend du Plessis, proposes to spend this year.

Hopefully April's bloated expenditure is not an indication of possible Treasury performance this year.

Budget

When he presented his Budget, Mr du Plessis said that expenditure would not flow evenly throughout the fiscal year.

Expenditure patterns will thus have to be judged, possibly quarterly or even half-yearly, to ascertain whether the Minister has managed to get control of the outflow form the Exchequer.

Revenue in April amounted to R1 606bn compared with R1 163bn for the first fiscal month of last year. This left a deficit of R1,3bn, which has been financed apparently without recourse to bank borrowing.

The Reserve Bank tapped R1 491bn gross (R1 383bn) from the bond market and possibly from the Public Investment Commissioners by issuing RSA bonds 15,5 percent 1990, 16 percent 1986, 15 percent 1988 and 14,5 percent 2006. The Treasury redeemed R500m of the retired 15 percent 1985 stock.

This brought net income to R883m. In addition, after repaying foreign borrowing amounting to R90m, there was a net inflow of R130m from foreign loans.

Inflows

The major inflow to the Treasury was R1,01bn. Other receipts by the Treasury was minor. Among inflows were R13m to the World Bank and R34,5m on redeemed defence bonus bonds.

The shortfall was covered by running down the Treasury balance from R533,2m to R82,78m.

This suggests that because the Treasury does not have much cash in hand for the financing of the May deficit further tapping of the markets, long and short-term, can be expected this month.

Curb on spending this year vital, says Volkskas

NM 20/5/85

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Finance Reporter

THIS year must be regarded as a period of consolidation for the South African economy, in which it will be essential to reinforce the general economic infrastructure by curbing real domestic spending.

This is the view expressed in Volkskas' May edition of Economic Spotlight, ~~which~~ believes that although there is no shortcut to improve the generally depressed economic conditions, 'the present progress made does provide a spark of hope for an improvement later this year.'

It says that 'matters are now moving in the right direction and a decline in the current relatively high interest rates can be anticapted in the near future.'

Realism

Such a development will help much to give a healthier dimension of realism to the pessimism currently perceived in so many sectors of the economy and a tangible proof that things are moving in the right direction will bring new hope and confidence.'

It points out that one unfortunate phase of economic adjustment is the inevitability of further unemployment and says that workers will have to accept they cannot demand more than their actual contribution to production is worth.

'The only sound basis for higher remuneration without unemployment is higher productivity. However, in South Africa, real wages are rising despite a poor productivity performance.'

'This is a sure recipe for a rise in unemployment, regardless of the other economic consequences of such a state of affairs.'

The review says the inflation rate over the past few months has been risen to more than previously anticipated, largely because the rand exchange rate has weakened more than expected.

Inflation

Moreover, the money supply is still increasing at a rapid rate and these two factors will cause a high inflation rate this year.

Volskas believes the consumer price index could rise by as much as 16 to 17 percent in April and May compared with a year previously.

Weaker rand possible in future, says bank

(49) NM 23/5/85

JOHANNESBURG — A relatively vulnerable and even weaker rand cannot be excluded in the near future, Trust Bank says in their latest issue of Forex Monitor.

Despite the anticipated firm dollar the rand could, however, strengthen later in the year, particularly in view of the strong current account position, the bank says.

'Such an appreciating turn may be jeopardised later by the adverse effect of South Africa's inflation differentials.'

Reviewing the rand's performance in April, Trust Bank says it depreciated by 2,7 percent against the U S dollar, declining as well on a trade weighted basis by 2,9 percent.

Gold

Notwithstanding the easier pattern, the rand remained fairly stable throughout the month compared with the sharp fluctuations recorded in major currencies in the international financial markets. A fairly firm gold price has in all probability contributed to the relatively stable performance of the currency.

Trust Bank says the currency was influenced largely by domestic market conditions rather than by the residual effect of the prevailing international financial events and circumstances relating to other currencies' fluctuations.

The bank singles out the following factors as having played a key role in affecting the currency:

- The Reserve Bank has been a regular purchaser of U S dollars, an action taken largely to meet commitments;
- The trade balance recorded a substantial improvement during the first quarter of 1985. As a result of an increase of 42 percent in exporters and a rise of only 8,4 percent in imports compared with the same period of last year, a trade surplus of R2,51bn was recorded, compared with a surplus of R542m during the same period in 1984;
- Unfortunately, the overall balance of payments does not reflect this favourable development on the trade account because the foreign exchange reserve holdings of the Reserve Bank declined during the same period.

Particularly, the cash component of the foreign reserves shrank to R497,5m as at the end of March compared with R1,05bn in January. The significant divergence between the trade developments and the reserves and consequently the weaker performance of the rand can be explained by a large capital outflow in the balance of payments.

This is possibly the main reason why in spite of an improved foreign sector the rand failed to improve, Trust Bank says.

Capital

The capital outflows in turn are probably explained by both private and public sector borrowers repaying loans on occasion of rand strength.

Political consideration are probably also having a negative effect on short-term capital flows.

The net services account, which traditionally has had a negative balance for South Africa, has also reduced the rand's appreciation potential.

Trust Bank says: 'In so far as the near future of the rand is concerned it is prudent to take account of the neutralising effect of the adverse capital flows on the improved prospects in the current account.' — (Sapa)

'S A 50 years behind U S in information age economy'

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NM 23/5/85

JOHANNESBURG — The South African economy lags 50 years behind that of the U S in the drive towards becoming a fully-established information age economy, the chairman of the President's Council, Dr P G J Koornhof, said yesterday.

Opening the South African Computer Faire in Johannesburg, Dr Koornhof said a year-long study had established that and also that whereas the American economy has been a post industrial economy for the past 30 years, for South Africa, the move into the information era has just started.

He said that in five years' time more than two million people will be information workers. Currently, 53 percent of all economically-active whites are employed as information workers, but for other race groups it was five percent.

In 1990, information workers will take home an estimated R70bn in salaries.

Computers

'The impact that computers will have and the role that information processing will play in the future wellbeing and development of this country should not be underestimated,' Dr Koornhof said.

Most recent projections on the size of the South African computer industry show that it will grow from an estimated R1,7bn to nearly R4bn in 1990. A real 18 percent annual compound growth rate can be expected over the next five years.

The top 15 computer vending companies last year sold in excess of R1bn in equipment and of that amount South African financed companies are only responsible for 16 percent.

While that figure was still low, the strengthening of the position of South African-owned companies marketing computers is a strategically important trend for the country. The Government was intent on strengthening this growing trend.

Dr Koornhof said the Government's electronics industry strategy rests on two pillars:

- The mobilisation of the buying power of the State to support an intensified programme of local content and design in Government and parastatal government buying of electronic equipmenmt;
- Developing the country's potential to design electronic systems, if necessary with state aid in the initial stages.

He said the Committee for Eelectronics believes computer peripherals will be the product most suited to local manufacture and at a later stage consideration should be given to manufacturing micro-computers and mini-computers.

South Africa had already made progress in establishing micro-electronics systems which manufactures integrated circuits (chips), he said. — (Sapa)

CAPE TIMES 24/5/85 (49)

Keeping 'close eye' on disinvestment campaign — De Loor

NEW YORK. — The disinvestment campaign presently sweeping across the United States is being assisted by the downturn in the South African economy, says the Director General of the Department of Finance, Dr Joop de Loor.

Dr De Loor, who is in the United States after attending a closed meeting of investors in New York, told Sapa that although the purpose of his visit was not to investigate the disinvestment campaign, he was keeping a "close eye" on developments.

There are about 30 Bills before the United States Congress which in one way or another call for the withdrawal of American business interests in South Africa.

"I think the disinvestment campaign that is being waged here is being assisted by the relatively low returns compared with what have been earned in the past years in South Africa . . . simply because at the moment we are in the down part of the business cycle," said Dr De Loor.

Dr De Loor added: "But as soon as that (business cycle) starts picking up and the returns start increasing, then I think investors will be less worried about what the political problems are and they will assess them in a professional way."

Dr Joop de Loor

He said, however, that the South African economy was gradually "forming a very healthy foundation".

"It's working well . . . interest rates are coming down. There are very good signs in the wind and one would just have to see. It's a long path but it will be worthwhile in the end."

As to the conference of investors, which was arranged by the New York publication, The Institutional Investor, Dr De Loor said there were investors who were "very interested in what we had to say is going on in South Africa".

He said: "There was a very substantial interest in South Africa . . . we have several queries that we will be following up when we get back home."

He described the attitude towards South Africa at the conference as "positive" and "heartening".

"They were professional investors and not politically orientated. They wanted to know the risks and rewards, to make a pure investment decision . . . they were apolitical or, should I say, non-political investors.

"We were able to give them a little bit of background information as to what is going on in South Africa because they were unable, from what is published in the press here, to really get what we feel is a more balanced view," he said. — Sapa

GNP figures miss 1-million workers, says professor

ARGUS 28/5/85

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By STEPHEN ROBINSON

SOUTH Africa's GNP could be officially underestimated by as much as 25 percent, Professor Wolfgang Thomas of the University of the Western Cape, believes.

The slowness in the annual growth in per capita GNP might not be nearly so bad as some people believe, as there had been substantial growth in the informal economy in recent years, he says.

"Official figures fail to acknowledge the increased economic activities between the subsistence, informal, and formal sectors of the economy which are not captured by official data."

Progress in this sector presented a major opportunity to benefit the whole economy.

"Unemployment has now reached such a critical level that this sector must be encouraged to grow, and two thirds of the rules and regulations discouraging the informal economy must be abolished."

He estimated that between 1-million and 1,5-million people were employed full or part time in the non-recorded sector of the South African economy.

Professor Thomas also said South Africans should stop viewing their country as a cross between a first and third world economy, and should identify themselves more closely with other developing countries which are experiencing the same trends and problems.

"We must stop referring to our 'traditional trading partners', while complaining that our growth rate does not match that of the United States, as though our economies were in any way equivalent."

Taking into account per capita GNP, and the size of the economy and population, South Korea, Algeria, Argentina, Yugoslavia, and Venezuela show striking similarities to the South African economy.

"I am not suggesting that South Africa should necessarily follow the examples of these countries — each of which has experienced major economic and political crises during the last decades — but the problems facing South Africa at present are not as unique as is often felt by South Africans.

"In fact, the solutions might not be so unique either," he said.

Professor Thomas has made a comprehensive study of the medium term prospects for the South African economy.

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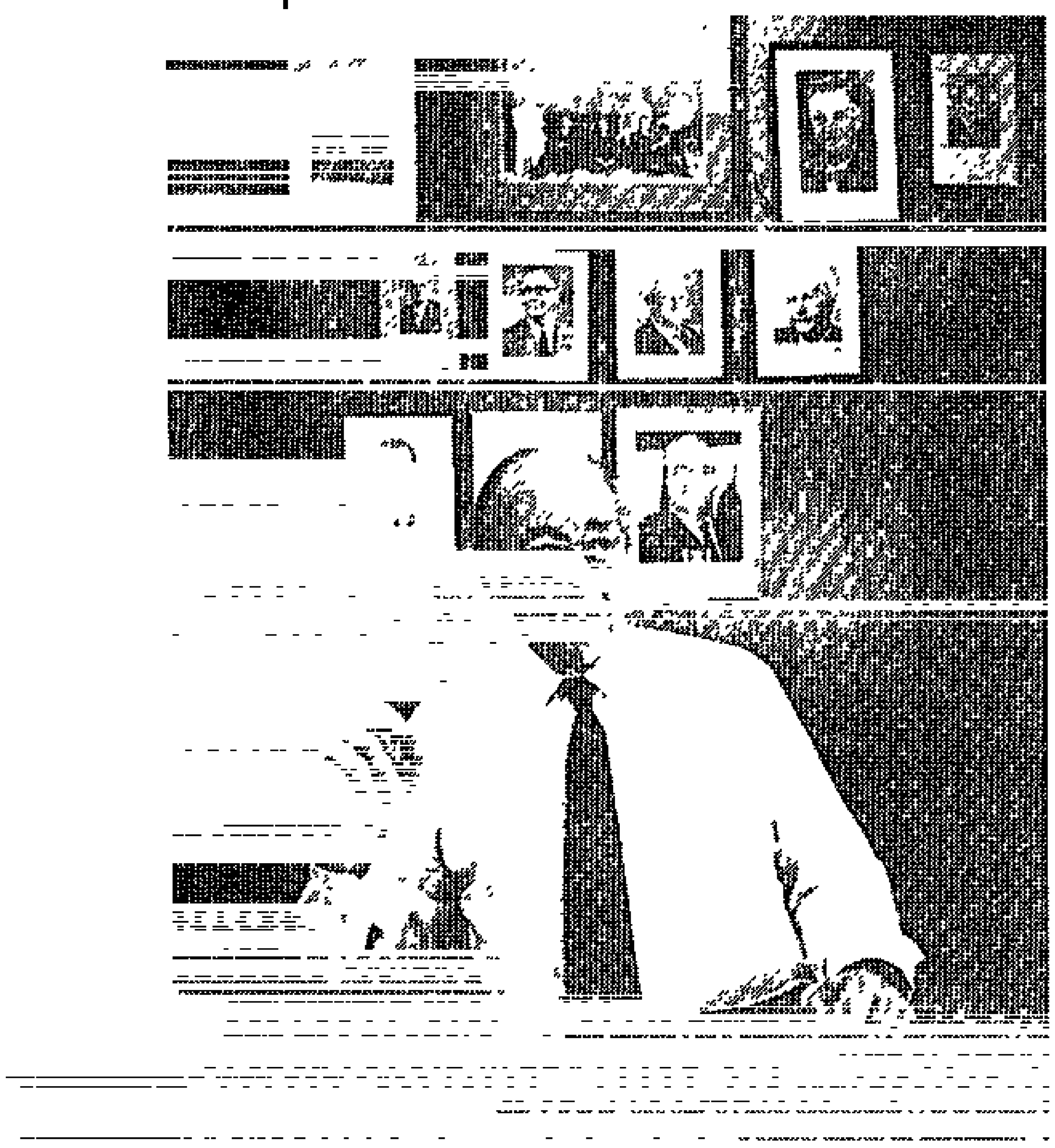
THE UNDERGROUND ECONOMY

The tonic for reform

A huge slice of SA's entrepreneurial activity is not officially visible. Given steeply rising tax rates, the incentive to go "underground" must become increasingly attractive. Pretoria should recognise that acceptance and deregulation is in its interests — and that of the economy as a whole.

It's a R40 billion a year business. Like no other economic engine in SA, it will this year alone generate record figures for job creation, and achieve a major level of competitiveness. And there are two major fiscal effects — it should provide some drag on the inflation rate, and government will garner no taxes from its activities.

"It" is the underground economy — illegal business enterprise ranging from the informal sector to under-the-counter trade. No facts or figures are recognised in any official documents or statistics, but the simple truth is that the underground economy has exploded as never before.



Commissioner Schweppenhauser ... a two-thirds drain

The process is part of the long-standing resistance to government over-regulation of the private sector, and a punitively increasing tax burden. For many reasons — mainly the foregone tax revenues — recognition of the sector by Pretoria is long overdue.

If taxes *were* being paid by the underground economy, Commissioner for Inland Revenue Carl Schweppenhauser could increase tax receipts by as much as R10,8 billion in 1985. Added to the amounts lost to tax dodgers, and the cost of concessions in the Income Tax Act, the total lost to Pretoria's coffers amounts to R19,4 billion — more than two thirds of government spending (see page 34).

The implication is that if the tax system *was* working efficiently, and the concessions abolished, tax rates could be reduced by a uniform two-thirds. The Margo Commission on tax should take note.

The advantages of going "underground" are increasing parallel to the ever-rising tax burden. Researchers have found that this kind of operation is capable of providing large amounts of jobs quickly — it is not hamstrung by red tape and other constraints. Participation often requires little or no capital, and few skills, since these are usually acquired on-site.

All it needs is that government get out of the way.

Moreover, the underground economy serves consumers — especially in the low-income bracket — who find access to the formal sector difficult because of cost or limited shopping hours. It develops entrepreneurship and eliminates lame ducks; and that's a process that traditional methods of development aid — such as those of the Decentralisation Board — are bad at doing.

Manpower's Reynders ... informal is rich and diverse

Perhaps most important, the underground economy maximises opportunity for people who need it the most.

Compared to many Western economies, openings provided in SA for underground operators are considerable — and the reason lies in the huge mountain of race and business regulations. Business is affected by more than 500 statutes, ordinances and by-laws, which in turn have spawned thousands of regulations.

Examples of underground entrepreneurship unique to SA are found in contraventions of our numerous liquor laws, trading hours and areas; employment of unregistered labour; gambling; and trade in "illegal" goods. The glaring examples are thousands of illegal shebeens and seemingly unlimited numbers of "pirate" taxis.

The vital importance of the submerged

Judge Margo ... can smile at possibilities

sector has been recognised in many studies in a number of countries and the conclusions are highly illuminating. The International Labour Organisation, for example, has found that: "The informal sector provides income-earning opportunities for a large number of people. Though it is often regarded as unproductive and stagnant, we see it as providing a wide range of low-cost, labour-intensive, competitive goods and services ... We therefore advocate a positive attitude on the part of government toward the promotion of the informal sector."

Not surprisingly, research shows that the underground economy tends to be bigger in proportion to how interventionist any eco-

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nomy is. The more capitalistic, the smaller the sector — because there is no need for it. Estimates in the US suggest that it contributes about 20% of gnp compared with more than 100% in Israel and Russia.

One observation agreed on by all students is that, regardless of its size and effectiveness, the economy as a whole does not operate as efficiently as it would without underground activity. Underground operators are often forced, for example, to bribe officials, so adding to costs. They cannot advertise to attract new consumers; and expansion, which should lead to greater efficiencies, is limited by increased fear of official observation.

Again, conversion to the formal sector can prove difficult: regulation raises the "cost of entry" for newcomers, thereby protecting vested interests in the short term. All the evidence on the underground economy suggests that an attempt should be made to measure and recognise the sector — perhaps particularly in SA where blacks have so many formal restraints against their entrepreneurial ambitions, and need, as opinion surveys have indicated, to be shown the benefits of free enterprise as a *legal* process.

Of much more immediate concern to Pretoria, of course, is the fact that — with the steeply rising tax burden, and the proposed taxes to fund local authorities — the growth in the underground economy is quite likely to outstrip that of the formal sector. As this process continues, income earned by the formal sector will decrease — and so will government revenues. The next logical progression is to increase tax rates in the formal sector — the "soft target" — to generate the same revenues as before. But that will simply mean that more individuals will be driven underground, and the gaps will widen further.

Meanwhile, the results of official neglect are making themselves felt. Edgar Feige (see page 37) of the Netherlands Institute for Advanced Studies argues that the failure to recognise the underground economy has resulted in major bias in official economic statistics. He concludes that this failure has *fundamentally distorted our view of economic reality.* Unless, and until, the basic data upon which all empirical work rests is made as accurate as possible, all economic analysis is suspect to some degree.

For, as Feige argues, figures that fail to account for the wealth of the underground economy may explain — at least in part — why professional economists in recent decades have failed to come to grips with central economic issues such as unemployment, recession, inflation, and, most important of all, the phenomenon of stagflation.


Small can be effective — but too often illegal

UNMEASURED GIANT

The size of the underground economy will never be known. But by using methodology applied by foreign and SA researchers, some indications are possible. The result shows that at least R40 billion worth of economic activity will not be recorded in SA in 1985.

Edgar Feige of the Netherlands Institute for Advanced Study *conservatively* estimates the size of the underground economy at about 20% of total recorded economic activity in the US and UK. These economies are far more sophisticated than SA's.

The Free Market Foundation's extensive research in the Ciskei produced a figure of 50%. Recognising that about 80% of SA's population is comparable with Ciskei's, and the balance with Western countries, an acceptable measure would be that 40% of SA's economic activity goes unrecorded.

With an expected gnp of about R100 billion in 1985, this means that SA's submerged sector will generate R40 billion worth of economic activity this year. Such a measure would be in line with findings of the International Labour Organisation, which estimates that as much as 50% of Third World economies operate underground.

Government revenues in 1985 are estimated at R27 billion on a gnp of R100 billion. Applying this "tax rate" — about 27% — to the R40 billion of unrecorded activity, forgone tax revenues amount to some R10,8 billion.

Tax dodgers cost billions more. Gst collection, for example, is thought to run at an 80% efficiency level, implying a R1,8 billion loss for 1985-1986. At least the same amount is lost to income tax avoiders — adding up to a total of R3,6 billion.

The cost of concessions in the Income Tax Act, according to Jack van der S Heyns of Natal University, was R5 billion in the 1984-1985 tax year. Assuming the same figure for this year, the total for the three formal tax categories is around R8,6 billion.

That, added to the taxes lost in the underground economy, produces a total of R19,4 billion forgone — nearly two-thirds of government spending for 1985-1986.

(49) FM 24/5/85

THE SERVICES OF THE STREET

A great deal of underground sector activities go unrecorded in official economic statistics simply because they are "unrespected." Conventional national accounting methods worldwide do not recognise pimps and pirate taxi drivers. Yet, like it or not, they are real components of any moderately free economic system.

In his book *Defending the Undefendable*, American Walter Brock argues the case for the unrespected, saying the failure to legitimise their activities means they make more profits than they would normally, and pay less, if any, taxes than they would otherwise do.

Brock describes familiar underground economic participants such as the slumlord (who gouges far too much rent for sub-standard accommodation); the ghetto merchant (whose outrageous mark-ups are associated with advantageous selling locations); the ticket scalper (who speculates in limited-supply tickets); the "gypsy" taxi driver (who makes money from government over-regulation); and even the blackmailer (who trades silence for another "good" — usually money).

Other players in the underground saga are the prostitute, drug pedlar, shoe polisher — and multi-millionaire tax evader. Often activity in the underground economy is simply a way of life: child-care; cooking; cleaning; waiters' tips; owner-occupied rental income; "do-it-yourself" activities; and consumption services provided by business. These activities are either cash-based or barter-based, or services which are not charged out for economic amounts, if at all.

Other examples of the underground economy, showing its richness and diversity, are given by Hennie Reynders, chairman of the National Manpower Commission. There are subsistence farmers; bicycle menders; street hawkers; "backyard" carpenters and mechanics; unregistered builders and painters; smugglers and street corner vendors.

It's hard to see SA legalising dagga or prostitution — but the number of activities which should be allowed to emerge is as limitless as human need.

The importance of SA's underground economy should be realised by all. For the future, perhaps the most vital issue is to make as many inroads into absorbing the underground economy into the formal sector as possible. The economy as a whole would then operate more efficiently.

Such absorption is not an impossible task and would have many benefits. But it should be recognised that the absorption can only be successful if four economic mechanisms are implemented — simultaneously.

Those, in short, are: privatisation (now recognised as part of Pretoria's economic policy); deregulation on a massive scale; the shrinking of government bureaucracies; and tax cuts. In a nutshell, the cornerstones of so-called supply-side economics.

Take the example of animal slaughterings, which comprise a significant part of the rural underground economy. In the formal sector, red meat slaughter is regulated by a pile of laws and a plethora of licensing, quota and health requirements.

Pretoria has already sold some abattoirs, but the private sector is hardly rushing to buy the rest. Privatisation is simply not enough, as the economic viability of an abattoir may be severely hampered by laws. But if red meat marketing was deregulated, investors would be encouraged to buy.

In all probability, the abattoir would then become a taxpayer; and combined with the savings of taxpayer money previously used to run the unit, taxes could be cut. Furthermore, if health requirements were deregulated, the size of government would shrink: fewer inspectors would be needed, for example. That, too, would mean less tax.

That small example can be extended to almost any other known component of the economy. As tax rates fall, operators in the underground economy would "volunteer" to pay taxes — recognising that the lower cost of tax is outweighed by the advantages of becoming "respectable."

In the final analysis, the underground economy is conclusive proof that SA needs a new economic dispensation. The sooner the better — for it has been shown that one of the major advantages of government disengagement from business is depoliticisation of prices, wages, minimum standards, transport and so on. That is exactly the kind of tonic SA needs for its political and economic reform programme.

Prospects for domestic investment 'positive'

ARGUS 29/5/85 (49)

Argus Correspondent

DURBAN — Prospects for investment are positive over the next 18 months, Ranan Lubinsky, a manager of the Syfrets-UAL investment research unit, says.

Addressing a Syfrets seminar here, Mr Lubinsky said on balance international and domestic economic factors pointed to the probability of a 12 to 18-month upturn running from the second half of 1986 through into 1987.

He emphasised that there were a number of conflicting economic forces which precluded the liklihood of any boom or "economic miracle". However, there was potential for rewarding investment in selected areas

At present, many industrial shares appeared fully priced and Syfrets believed better opportunities could be found in the mining sector

In brief, the investment stategy recommended by Syfrets was

- Cash should be reduced — but some liquidity retained Maturity of investments should be lengthened.
- Gilts also should be adjusted to a longer maturity spectrum. However, investors should remember long-dated gilts remain a high-risk area.
- Gold mine shares had attractive qualities and should be picked up selectively — especially those expanding production like Vaal Reefs and Western Deep. Mining financials were even more attractive
- Among other minings, coal (such as Amcoal) was a good buy, but platinums were fully priced. Diamonds should be sold into strength, moving out of De Beers into Anamint.
- Among financials and industrials, investors should build into their portfolios sizeable core holdings in shares like Sasol and those of banks and insurance companies.

Property trusts offered fair value but electronic companies were fully priced. Building would only recover some time distant and its shares were not a good bet.

Consumer-orientated shares also generally were full and unexciting as consumers faced a continued squeeze. Some industrials — perhaps Romatex and BTR — could be bought on a short-term basis

INTERNATIONAL SCENE

On the international scene, he said by and large central banks appeared to have gained control of money supply and large stocks of steel, oil and many commodities would inhibit inflation

Investors were no longer prepared to subsidise borrowers and this implied interest rates would remain at real levels However, a modest decline in interest rates was likely

One was unlikely to see the inflation rate rocket and neither would the gold price roar ahead. However, the above factors — and an expected 20 percent easing in the dollar — should hold some benefits for gold

A lower dollar would moderately boost the dollar prices of commodities like platinum, gold, coal and wool

Gold's recent trading patterns had been encouraging.

The rand was structurally weak — heavy short-term foreign debt had to be redeemed by the Reserve Bank — and the rand gold price likely to stay up.

ARGUS 29/5/85 (49)

Three main factors contribute to rand's 'debacle' — professor

JOHANNESBURG. — The "debacle" of the recent fall in the value of the rand could be attributed to three main factors, Professor R M Gidlow of the Department of Business Economics, University of the Witwatersrand, says in an article in the latest issue of Boardroom.

- The rate of growth in the money supply in recent years has been too high even when allowance is made for a fall in the velocity of circulation of money.
- The economy in the past couple of years or so has been buffeted by a series of unanticipated shocks.
- The local foreign exchange market can be characterised by abrupt changes in the timing of transactions by importers and exporters.

Professor Gidlow says the growth in the money supply, with rapid rises in Government spending, have served to keep the rate of inflation well above the average of South Africa's major trading partners and have thereby impaired the competitiveness of exports. This has undermined the rand in the foreign exchange market.

The unanticipated shocks included the recurrence of drought conditions last year, the continued surge in the value of the dollar against other major currencies and the fall in the dollar price of gold. They combined to precipitate a sharp drop in the rand.

Of the foreign exchange market, Professor Gidlow says that in recent months some exporters have delayed repatriating their dollar proceeds and so reduced the supply of dollars coming into the market.

Far more important, though, in influencing the rand have been the actions of importers. For many years they have raised foreign loans without bothering to take out forward exchange cover which would ensure that they could repay the loans at fixed rates of exchange.

They bore the risk of a fall in the value of the rand and simply repaid the loans at the exchange rate prevailing at the time of repayment.

The recent fall in the rand has alarmed many importers, who have rushed to repay their loans or buy dollars in the forward exchange market to cover the future repayment of their borrowings. The buying of dollars by these importers has served to put great downward pressures on the rand.

GOLD SHARES

Professor Gidlow says that among "some rather bizarre suggestions" aimed at stopping the decline in the rand's decline is the reimposition of exchange controls over non-residents. It would only make matters worse as foreign investments in gold shares would dry up to some extent and any further tampering with these controls could seriously "erode the confidence of potential foreign investors".

He says: "The most effective strategy to deal with the present predicament is to retain the system of a floating rand and avoid tampering with the exchange controls although the floating rand system, if far from ideal, is still the best mechanism available under the circumstances".

Against a background of adverse economic developments it is fulfilling the role of a shock absorber and in time the falling rand should boost exports and hopefully precipitate a major improvement in the balance of payments position.

Professor Gidlow says that among changes announced at the end of January was a new dual system with a new facility for forward exchange purchase contracts coming into being to try to reduce the pressure exerted on the rand rate against the dollar in the spot foreign exchange market.

Banking institutions can enter into a direct foward exchange purchase contract with the Reserve Bank without simultaneously having to sell any spot dollars to the bank and without having to purchase dollars in the spot foreign exchange market.

OUT OF LINE

At the same time, the previous facilities for conducting swop transactions with the Reserve Bank remain in force.

"This new, dual system of forward exchange runs the risk of proving impractical since it will encourage arbitrage transactions between the banks and the Reserve Bank at the expense of the latter."

The system was out of line with international practice and introduced distortions into the market by allowing banks to buy forward dollars from the Reserve Bank without affecting the spot rand-dollar rate.

The other main change relates to the handling of the dollars which accrue from the sale of gold bullion on overseas markets.

The Reserve Bank sells gold production on overseas markets and credits all the dollar proceeds to the mines, which have seven days to bring the funds back to South Africa and convert the dollars into rands in the local foreign exchange market.

As a benefit it will be "marginal" and it is questionable if the authorities are now in a better position to support the rand as the amount of dollars obtained from gold exports remains the same and the demand for dollars in the market is likewise not affected.

It distorts the market and renders it less competitive and the Reserve Bank will now have to intervene in the market to sell dollars to a much greater extent than before.

"There is a danger that this will be seen as official intervention to support a weak rand," Professor Gidlow says.

The degree of intervention by the Reserve Bank now required could encourage adverse leads and lags influences and put downward pressure on the rand.

COMPLICATED

Large scale intervention by the Reserve Bank is also complicated by the practice of not dealing on a firm basis for a minimum amount of dollars with foreign exchange dealers.

If the Reserve Bank offers say $5-million for sale, a bank may accept only $2-million, a practice which first arose when the rand had floated in circumstances where the banks were nervous of taking significant positions.

"This practice is now a handicap to effective intervention by the central bank when, for instance, it wishes to support the rand," Prof Gidlow says. — Sapa.

Economic troubles may be 'disguised blessing'

(49) E. Post 30/5/85

By LOUIS BECKERLING
Business Editor

RECENT economic problems to afflict South Africa might prove "a blessing in disguise", according to Afrikaanse Handelsinstituut president Mr Leon Bartel.

Delivering his presidential address at the AHI congress in Port Elizabeth yesterday, Mr Bartel said the prolonged drought and the low price of gold had combined to focus attention on "faulty policy decisions".

"And this forced policymakers in all sectors to take cognisance of underlying problems and the impact of incorrect decisions taken in the past when the economy was functioning well."

Mr Bartel said his period of office began in a welter of criticism direct-ed at his predecessor, Mr Hennie Klerck, who had said the Government was "technically bankrupt".

"The fact is that the previous congress coincided with political by-elections and Mr Klerck's remarks were exploited by certain politicians to embarrass both the Government and himself. This was regrettable."

From the beginning of his term of office economic circumstances had worsened and the blame for the undesirable "mini-boom" could "largely be attributed to an unhealthy increase in Government expenditure".

This was followed by the August austerity package "which has left serious scars on the business community".

"Only now, with the 1985 Budget, are there signs that [the Government] is committed to fiscal discipline."

Mr Bartel said an AHI investigation into inflation would be completed within the next few months and the AHI would also continue to express opinions on the crucial issue of labour relations.

Employers, he said, should guard against adopting a negative attitude towards trade unionism.

Labour legislation was predicated on six basic principles identified by the Wiehahn Commission:

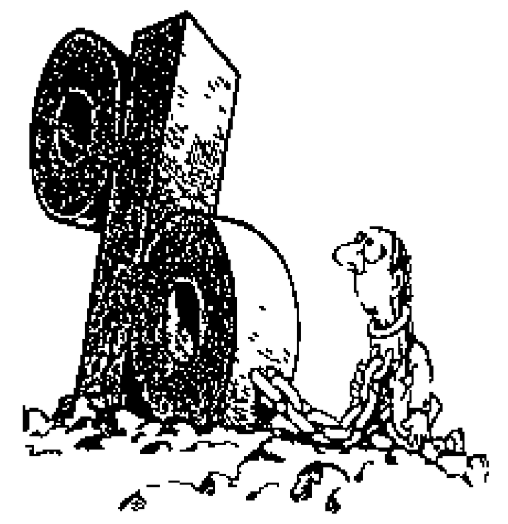
- "The right to work.
- "The right to unite or associate.
- "The right to negotiate.
- "The right to withhold labour.
- "The right to protection.
- "The right to develop."

These rights coincided with "great responsibilities", and "trade unionism should not be something which prompts a negative attitude in employers".

ECONOMIC OUTLOOK

No soft options

49



The climate of recession, it seems, has been warmed only slightly by the softening of interest rates. A long haul remains to prosperity — and accompanying that process must a new look at taxation, and modernisation of the industrial sector. All eyes are on the De Kock Commission.

The lowering of prime twice in a month is fuelling a modest bull stampede in financial markets. Needless to say, the anticipated pick-up in the economy early next year is already being discounted. This optimism, however, is grounded on what amounts to only a marginal drop in rates. There are more serious signs of the times.

Everywhere is the rubble of recession — escalating business bankruptcies, double-digit inflation, growing unemployment, depressed capital spending and massive foreign exchange losses.

Increasingly, business is clamouring for relief, especially from punitive interest rates. The banks, with their terrific exposure to failing business, share the call.

Such cries for quick relief from stringent economic policy, however, must not be allowed to lead to a repeat of the false spring of 1983-1984. What is needed is *sustainable* growth. Recent policy statements, such as the White Paper on industrial strategy, the De Kock Commission and the March Budget, show that government's economic heart is in the right place. The intent is there. Now we need to concentrate on specifics.

"In many ways the present recession has been sharper than the previous one, particularly the decline in consumer spending, and domestic sales of durables and semi-durables," says Standard Bank's group economist, André Hamersma.

Against this backdrop it may seem strange to hear talk of recovery. However, a feeling is growing that key preconditions for sustainable recovery are indeed falling into place, unlike the build-up to the false spring of 1983.

But, says Senbank's chief economist, Louis Geldenhuys: "It is surprising that people are talking about a turning point. What we are seeing now is a result of weakness, not underlying strength."

Things will get worse before they get better. Incomes have been stripped bare and the March Budget has yet to work its way through the economy. Sectors of the economy sensitive to interest rates will remain particularly vulnerable. Sales of durable and semi-durable consumer goods will remain in the doldrums. Private consumption spending will also shrink. Fixed investment will drop further, because of squeezed profit margins, high financing costs, depressed sentiment and unused production capacity.

"The short-term outlook for business is rough. In the real economy things may well get worse. But the basic economic factors point to a more positive medium-term outlook. These are grounds for a little more optimism," says Assocom's chief executive, Raymond Parsons.

Hamersma comments: "Improvements in the balance of payments and money supply growth mean the economy is getting healthier. But in future it will be more difficult to achieve startling growth rates. I think it would be foolish to expect improvements this year. They will come next year and when they come, they will be modest."

In general, prospects for growth in 1985 are not good. The feeling earlier this year was that SA could at best look forward to 0,5% growth for the year.

"I see no reason to change that forecast. But there is no doubt that the fundamentals are improving," says Anglo American's senior economic consultant, Aubrey Dickman.

Despite this cautious sentiment, the financial markets are giving early signals. Interest rates are sliding. The JSE is in the throes of a bull run at a time when many companies have reported lower profits. Recent tenders of government stock have been oversubscribed, signalling that the markets expect rates to fall further.

However, crucial to a future recovery will be the pace, timing and extent to which rates are allowed to drop and how improving conditions are managed. "Management of the present situation will be tricky," says Dickman. A repeat of 1983, which saw runaway consumer spending at the expense of investment and savings, must be avoided at all costs.

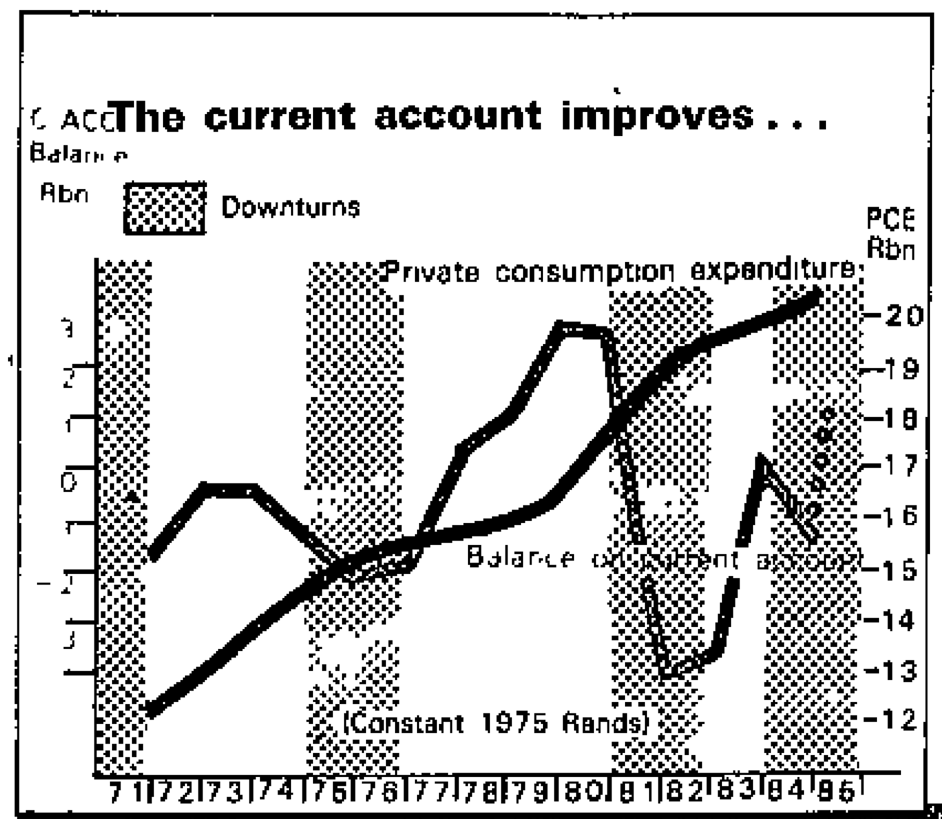
There is no doubt, however, that the present lower rates are a welcome respite from the stringent monetary policy of the last nine months.

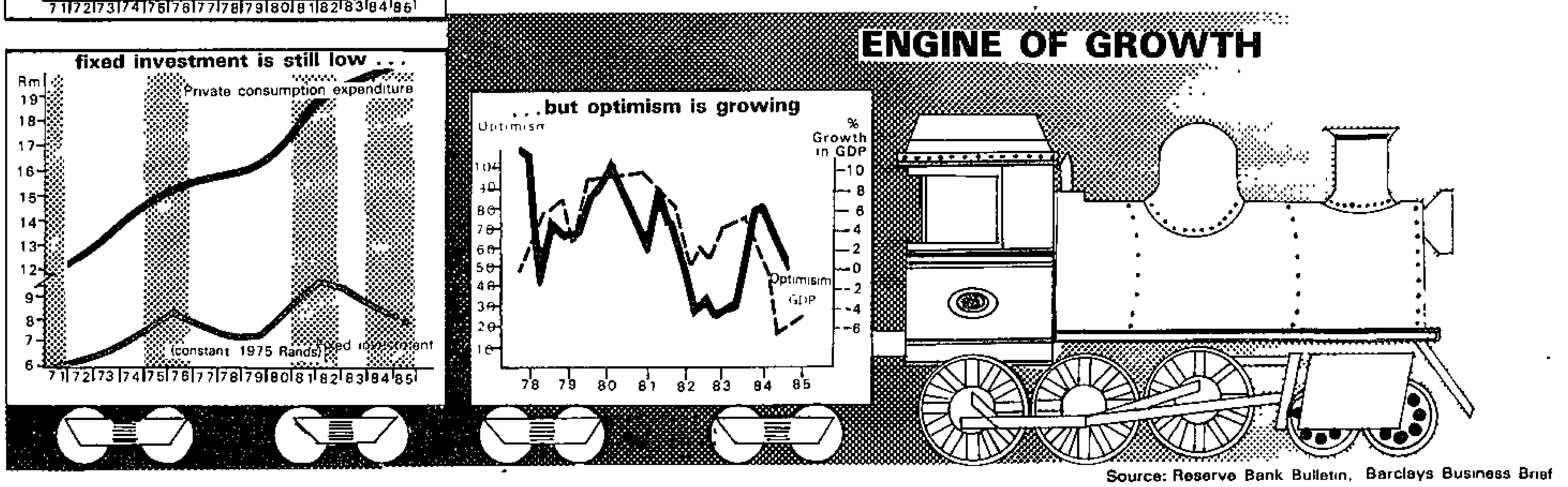
Says Reserve Bank Governor Gerhard de Kock: "The 3% rise in the rediscount rate on August 3 last year was a deliberate move to hammer home the message that the economy was heading the wrong way. This was not a popular policy but we stuck to our guns. In fact, people began to wonder if it would not be better to use socialistic direct controls.

"Although our decision meant hardship for many people there was no soft option."

Lurking in the background is fear of a repeat of the 1983 debacle, when uncontrolled consumer spending ran the economy into deep trouble. Rates dropped from 20% in November 1982 to 14% by February 1983, only to rise even higher in response to the surge for credit.

Many argue that it is unlikely that con-





Source: Reserve Bank Bulletin, Barclays Business Brief

Financial Mail

FINANCIAL MANAGEMENT

Accustomed as I am . . .

Well, Barend's done it again. It's the *style* in which Du Plessis chooses to make his sweeping pronouncements that leads us to question whether our sophisticated private sector deserves the current Minister of Finance. The dinner guest does not normally announce that he is going to run off with your wife.

It was, indeed, in an after-dinner speech that Du Plessis went for the throat of pure endowment (PE) policies — probably a first (see *Economy*). Overnight, PEs which carry premiums of more than R4 000 a year have been abolished. Most insurers were naturally transfixed by this revelation.

Here are a few questions for the Minister. How can *anyone* legislate retrospectively in this fashion? What about consultation, and parliamentary process?

Du Plessis anticipated discontent with the remarkable statement that "because of the exceptional nature of the announcement, advance consultation was not the proper way." And although he promised the industry a chance at consultation later on, he must be assuming a *fait accompli.* Perhaps Parliament will rattle him a little.

The move was inappropriate and inequitable. There are a few corporate PEs that have loan-back facilities; but about 90% of the rest attract savings for which the country is actually crying out. Furthermore, the imposition of compulsory life cover will do much to turn away potential investors — especially older ones whose life cover could cost as much as 10% of the investment.

Even policyholders with life endowments have been drawn into the net. Many of them, facing the strictures of recession, have resorted to bank loans secured by the policy — and that at least keeps the savings effort intact. But such secured loans will in future render policy proceeds taxable.

Pure endowments must be seen as an innovative marketing tool that attracts much-needed capital for the economy. More than a banquet has been turned sour by Du Plessis' ill-timed announcement. ■

RENT CONTROL

Sneaking back?

The property industry is understandably concerned about the Share Block Control Amendment Bill, which is now proceeding with unseemly haste through Parliament. And for good reason.

First, the Bill aims to extend rent control at a time when such counter-productive protectionism was thought to be on the way out. And, second, it is being pushed through without proper consultation with the private sector which, after all, is going to have to live with it.

The technicalities are complex. Basically, however, an owner who converts a block of flats for sale by sectional title can open a register and sell off any unit. The proviso is that tenants have to be given a pre-emptive right to purchase, or a reasonable period in which to find alternative accommodation.

Protected (or statutory) tenants, who must be 65 or over and earning below a specified minimum income, have additional protection. They cannot be moved out unless given notice by the new owner — and even then the owner or his immediate family has to take occupation.

When a building was converted for sale by shares, however, no deal could be consummated while a protected tenant lived in the building.

The original aim of the amending Bill was thus to bring the two methods of converting flat blocks for individual ownership into line. Private-sector bodies like the SA Property Owners Association (Sapoa) had no quarrel with that.

Out of the blue, however, a further clause was introduced which extended the statutory rights of qualifying tenants in blockshare developments to spouses in cases where the tenant died, divorced or deserted.

This means that converters of buildings for sale by shares face a lengthy (up to 20 years, Sapoa estimates) and costly wait before being able to wind up the shareblock companies.

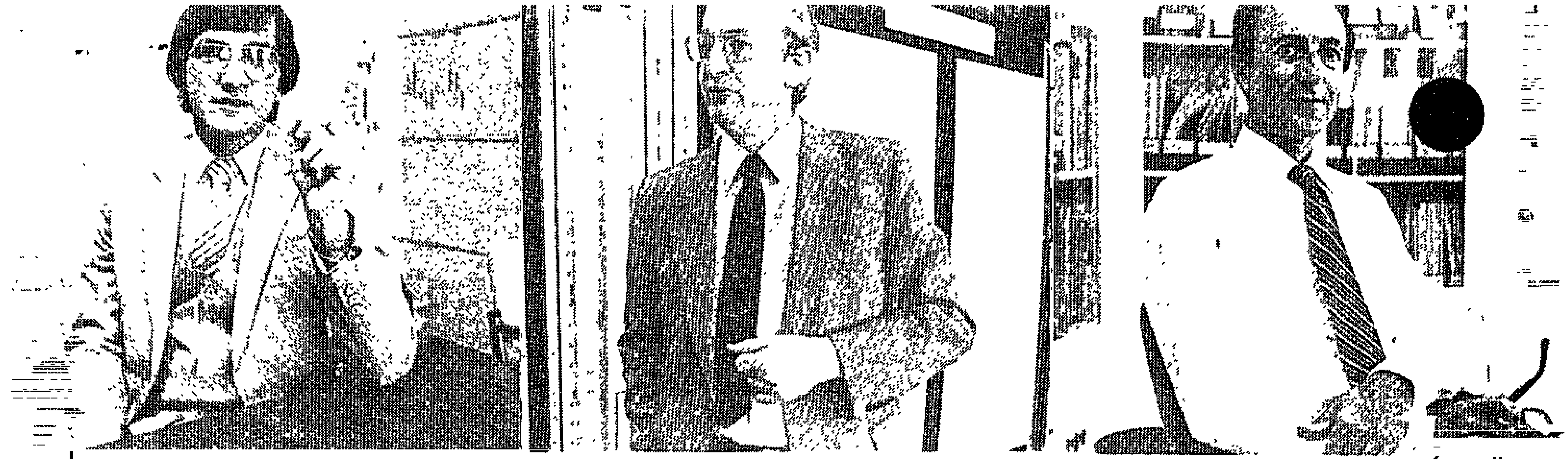
Sapoa, quite rightly, views the extension of protection with dismay. It points out that the Bill grants rights to statutory tenants in blockshare schemes which are not enjoyed by their counterparts under sectional title.

And, even worse, it means that rent control has been effectively extended, even if only to a few, just when developers were thinking it was safe to get back into the business of developing rental flats. Does it mean, the industry could justifiably ask, that government will bring in further controls later on?

Government, as we have said before, must phase out all forms of such control if it expects entrepreneurs to play a meaningful role in providing the country with accommodation.

Its latest moves will do much to destroy confidence. But the fact that it has chosen to introduce the new measures without full consultation with the affected parties is even more worrying.

Certainly, it should be under no obligation to accept the view of an association like Sapoa, which represents sectional interests. But Sapoa should certainly be given the opportunity to have its say. ■



Senbank's Geldenhuys, Standard's Hamersma, Anglo's Dickman . . . caution is their watchword

FM 31/5/85 (49)

sumers will respond as dramatically to lower rates as during 1983.

"Ladofca ceilings, which determine the man-in-the-street's cost of credit, will put the brakes on any take-off," says Barclays' economist Alan Doyle. "Neither is there the same sentiment which grew out of the gold boom."

Conditions in the economy are different. In 1983 the taste of the previous boom whetted appetites and there was a rally in the gold price. Also fuelling runaway rates was a sharp rise in government spending. Few people saw the rand dropping to US50c. Right now, however, the rand remains vulnerable and the economy is "gun shy."

On the positive side, there is a surplus on the current account, and room for improve-

IN MY OPINION

JOHN WHITTAKER

How the Bank plays banker

John Whittaker teaches at the School of Economics, University of Cape Town.

Short-term interest rates generally declined during April. The story in some quarters was that this decline was caused by falling demand for short-term funds, and therefore tight monetary policy was being seen to work. This, then, provided a good reason for the Reserve Bank to ease off a little, and the results were reductions of 1% in rediscount rates on May 6 and 20, with overdraft rates following suit.

Interestingly, a similar sequence of events occurred last November. In the first two weeks of that month, short-term rates declined and overdraft rates fell on November 19. According to the Reserve Bank *Quarterly Bulletin* (December 1984): "The Reserve Bank viewed these decreases as reflecting . . . the distinct moderation of the demand for credit. Accordingly, on November 19, the Bank lowered its refinancing rates by 1%." Subsequently, on January 8, it raised them again.

These arguments sound plausible, but they are wrong. Under current monetary control practices, changes in short-term rates are not brought about by changes in credit demand. If short-term rates fall, it is a result of Reserve Bank action, not a reason for it. And if short-term rates were seen to fall in advance of a reduction in rediscount rates, this was because the market was anticipating the Bank's action. Anticipation is possible, as sometimes the Bank gives hints about its future changes; and, anyway, the market has an idea of how the Bank reacts to various information — for instance, BoP and money supply developments.

Under current circumstances, commercial banks are continuously indebted to the Reserve Bank, either directly, or indirectly through the discount houses. This debt (the money market shortage) typically stands at between R1 billion and R2 billion, and its volume is controlled by the Reserve Bank using open-market operations, repurchase agreements and so on. According to the Bank's rules, the effective interest rate charged depends on the type of paper involved and on its unexpired term. The result is that, given fixed rediscount rates, the Bank's lending rate varies within a range of about 1%, depending on the shortage. At the lower rediscount rates introduced on May 20, this effective rate is typically 20,5%.

Obviously a financial intermediary, like a commercial bank, makes the most profit when it obtains its funds as cheaply as possible. But since banks are prepared to pay 20,5% for Reserve Bank funds, this can only mean that they cannot find cheaper funds elsewhere. Moreover, competition for cheaper sources of funds ensures that rates offered are close to those charged by the Reserve Bank. Short-term rates are determined in the money market, but the Bank is the dominant lender. Therefore, as long as the financial system remains indebted to the Bank, it makes no sense to deduce that a noticeable change in short-term rates can be caused by any event other than changes in the Bank's lending rates.

On the other hand, if rediscount rates are expected to fall next week, banks will not wish to be involved in borrowing arrangements that will turn out to be more costly than Reserve Bank financing. And this is why it is to their advantage to anticipate Reserve Bank action.

The crux of the affair is that the Reserve Bank, and nobody else, calls the tune on short-term interest rates. It does so by choosing its refinancing rates and by maintaining the money market shortage. The rest of the market is left to play the game of guessing how the Reserve Bank will be acting in the future. Furthermore, since long-term rates are an average of expected future short-term rates, they, too, depend directly on the expected behaviour of the monetary authority.

At present, the Reserve Bank's priorities seem to be to bring inflation down and to increase its holdings of foreign assets, although it is not obvious why this latter objective should be so important. Success in inflation control is measured directly by means of the various price indices, and indirectly via the money supply statistics (which also reflect credit demand). But the response of these variables to interest rate changes is slow and uncertain.

However much the authorities would like some reliable good news that would allow them to reduce interest rates further and thus ease the recession, the observed rates of growth of money and prices are not yet regarded as slow enough. And, as has been argued, declines in interest rates which the Reserve Bank itself sets are, unfortunately, not a valid indication of falling credit demand or any other favourable news.

As an alternative indicator, perhaps the authorities might take a look at the money base, alias M0 or the currency issue. M0 has been growing at a modest 9,2% year-on-year to April, having slowed from 20,4% last November. In contrast to the monetary aggregates (M1, M2 and M3), which have been growing rather faster, M0 does not suffer from bias because of unknown amounts of reintermediation. If some notice were taken of M0's good news, perhaps interest rates could be brought down a little faster. ■

ment in tight liquidity in the market.

"We have been flying against a strong wind but when I compare May 1984 with May this year, I find this year much better," says De Kock, who masterminded the tight conditions.

For example, De Kock says, in 1984:

☐ We were running a current account deficit; now we have a surplus;

☐ We were borrowing abroad for the balance of payments; now we are repaying loans;

☐ The gold price seems more stable;

☐ There is no need to import maize;

☐ The dollar appears to have steadied; and

☐ Government spending, which was rising faster than provided for in the Budget, has been brought to heel.

Dickman says: "There is the possibility of improvement. Stocks, for example, have been running down. This disinvestment in inventories could, with lower rates, reverse."

De Kock is rather pleased with the way things have turned out: "Of course, there has been hardship, but the worst is behind us, and it was market policies that got us through. We were wise to allow the rand to depreciate and rates to rise."

Not everyone agrees with the Reserve Bank's view, and some powerful lobbies speak of overkill. The pressure on De Kock to let go quicker is growing. Lower rates, people say, will cause less damage to the corporate sector.

However, says Hamersma: "I certainly expect another 1% drop in rates in the near future, but do not believe that the Reserve Bank would allow the decline to maintain its present pace."

Meanwhile, what has developed is a sort of synthesis of the previously heated debate between extreme monetarists and Keynesians about the need to avoid a premature lowering of rates that would give the wrong signals to certain sectors of the economy.

De Kock notes: "We are really all on the same side — we all want to get demand for credit and spending down.

"The real enemies at the gates are those who want to stimulate the economy prematurely. And by imposing controls, they want to operate on the symptoms rather than the cause. It was because monetary policy was carrying too much that rates had to go so high."

However, it is almost certain that until there is an improvement in the capital account of the balance of payments, rates will not drop to significantly lower levels.

What lower domestic rates do mean is that it is now attractive to repay foreign debt. And, says De Kock, once it becomes known that we are repaying short-term debt, our credit rating abroad will rise. This will stand us in good stead later on, when scarce capital is needed for investment.

There are, of course, other preconditions for growth. Initially, the balance has to move into surplus, both to offset the capital account and to contribute to greater liquidity and lower rates — and this process seems under way. Also, bank lending has to level off, contributing to lower money supply growth.

Once these trends are firmly established, the authorities may safely ease policy. This will lead to increased consumer spending and, in response, manufacturers will increase production until spare capacity is used up. If businessmen are convinced demand will remain high, fixed investment will begin — and this will lift the economy off the floor.

But SA is going to need an increase in export earnings to fuel a sustainable recovery. This, in turn, will depend on the US and European economies, which may be losing steam. On balance, it is believed that while the US may go into a recessionary phase, this will be mild, and the demand for non-gold exports will continue. Which is good news.

Also, worldwide changes in the approach to fiscal discipline will aid South African recovery and could make it difficult for government to go back on its good intentions.

"Profligate government spending does not promote sustainable growth. And there is worldwide acceptance that, once government spending gets out of control, it is only a matter of time before you run into serious trouble," says Hamersma.

The political will could just be there, for the first time in many years. "There are encouraging signs, such as keeping down public service salaries and standing up to the maize farmers. It certainly took a lot of

Signs of recession . . . consumer spending is down, unemployment up

Competition Board calls for outlawing of price collusion

Mercury Correspondent (49)

JOHANNESBURG— The Competition Board has recommended that resale price maintenance and collusion on price, conditions of supply, market share and tenders be outlawed, with certain exceptions.

This was announced by trade and industry minister Dr Dawie de Villiers during his budget vote.

Dr De Villiers has promised, however, that the board, because it places a high premium on consultation with the private sector, will send out the draft notice for comment before formally presenting its final recommendations to him. NM 3/6/85

He reminded the House that the Competition Board had launched an investigation in November into certain types of business agreements.

MONETARY POLICY

It's Catch 23 . . .

Faced with mounting bad debts, many bankers are calling for further cuts in interest rates. The Reserve Bank, however, has other concerns — the state of the capital account and the rand — which deserve higher priority than the banks' short-term woes.

The Reserve Bank has come in for quite a bit of criticism lately, for intervening to keep rates "artificially" high. The cry from bankers, in particular, has been to let rates drop further from a 23% prime to levels determined by the free market. Squeezed by tight margins on the one hand, and looming bad debt on the other, bankers have increasingly been clamouring for further drops in the rediscount rate: the situation is their Catch 23, so to speak.

However, the Reserve Bank, in managing the rates, is not deviating much from its past policy. In SA's money market, like it or not, rates are by and large where the authorities want them to be. And, as long as the money market shortage — the amount which the banking system owes the Reserve Bank — continues, the Bank has control over interest rates to a significant extent.

Says Reserve Bank Governor, Gerhard de Kock: "We have not been keeping rates up; if anything we have been keeping them down. If we had done what many monetarists wanted, that is close the discount window and control the cash base of banks, interest rates would have shot even higher in the short term.

"We are in the driver's seat for the simple reason that banks have to rely on us for accommodation," he adds.

Oddly enough, De Kock says that in the past two weeks, rather than keeping rates from falling, the Reserve Bank has put money into the system to prevent them from rising.

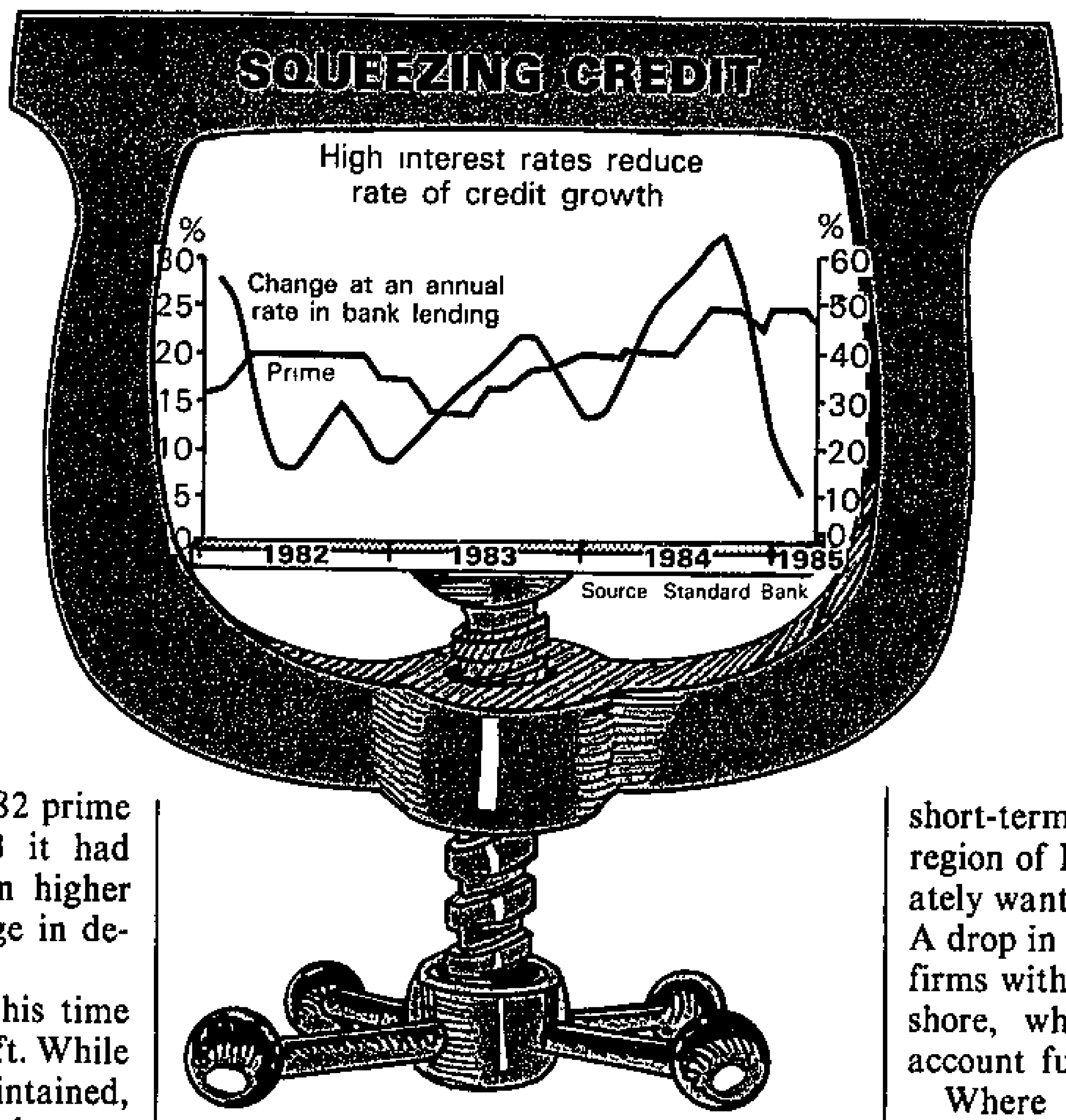
Arguing for lower rates, however, bankers say a drop of between 5% and 6% would not trigger a much-feared spending spree similar to the one that occurred in 1983. In November 1982 prime stood at 20%; by February 1983 it had dropped to 14%, only to rise even higher than before in response to the surge in demand for credit.

But, says one senior banker: "This time around the economy really is very soft. While tight monetary policy must be maintained, the Reserve Bank should accelerate the pace for lower rates. There is no evidence that a prime rate of 23% in this phase of the business cycle does more to keep consumer spending depressed than 20%, or even 18%."

Many believe the brakes will be put on runaway consumer spending by the ruling hire purchase requirements, the paltry state of consumers' disposable incomes, and consumers' continually waning confidence. In fact, maintain bankers, rates are falling for that very reason: consumer spending *is* dropping.

Also, they believe companies are unlikely to react to lower rates by borrowing more at what are still very high real rates — particularly since they have no reason to expect that the end of the recession is around the corner. This point is debatable, however.

Essentially, bankers argue that rates will not tumble too far as long as market forces rule. Rather, they will fall only as far as real conditions permit. Presumably, high inflation and a large short-term debt will prevent any unwarranted drop. They argue, therefore, that the Reserve Bank should not be intervening to keep rates higher than levels which the market will determine.



One banker comments: "The Reserve Bank can 'lean against the wind,' but commonsense tells us the wind cannot be made to blow in the opposite direction. We need more market — and less intervention."

While agreeing with the broad thrust of bankers' arguments, the Reserve Bank has some points of its own. "If we are guilty of anything, it is of holding rates artificially lower than they should be," says De Kock. "The IMF view of our policy over the past few years would be that we have been very accommodating and could have been much tougher."

According to De Kock, suggestions that recent tenders of government stock have been aimed at merely removing liquidity from the market and keeping rates high, are unfounded. "We have been selling paper because the government traditionally spends money in this quarter, and the Land Bank needs funds to finance debentures maturing in June. This money we drew has already been spent," he adds.

In a sense, the Reserve Bank faces a dilemma. If it holds rates too high for too long it will delay the arrival of the next recovery. But if it allows rates to drop too rapidly, this could give the wrong signal to the market.

"A decision to lower the rediscount rate is a policy decision and depends on timing. If we hang on too long, however, we could kill the economy. Central banking is always a balancing act between overkill and artificial stimulation," De Kock comments.

The Reserve Bank, however, *does* appear to be softening. It has dropped the rediscount rate twice in a month and there are indications that a third downtick could come very soon. However, "rates must come down in an orderly fashion," says De Kock.

Both the Reserve Bank and the commercial banks speak of consumer credit as the touchstone for any drop in rates. But perhaps there are other reasons for their differences. Banks, at present, want to protect their assets and are becoming increasingly edgy about customers defaulting on debt — hence the call for lower rates. Meanwhile, the Reserve Bank has its eyes on a sick capital account; short-term debt is estimated to be in the region of R18 billion; and the Bank desperately wants to protect the value of the rand. A drop in rates would make it attractive for firms with foreign loans to switch these onshore, which would damage the capital account further, and weaken the currency.

Where does this leave us? Bankers are pleading for a free market, but they cannot have completely free-market rates while they still borrow from the Reserve Bank. The Bank, on the other hand, is only too happy to continue lending to banks — merely to retain some influence over interest rates. Perhaps considerations such as the capital account and the rand will gain pre-eminence over banker's balance sheets.

Some cynics have gone so far as to suggest that the same people arguing for less intervention now, and lower rates, are precisely those who argued for more intervention when rates began to rise a year ago. ■

Economists propose radical change in SA growth policy

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By DEREK TOMMEY
Financial Editor

A GROUP of South Africa's top economists have proposed a radical change in the Government's economic policies. They say that instead of seeking economic growth with export-oriented industries, South Africa should base its economic development on the expected rapid growth in the black urban population and follow a policy which they call "inward industrialisation".

The economists, who are from Bureau for Economic Policy and Analysis at the University of Pretoria and are headed by Professor J A Lombard, have published this proposal in the latest issue of Mercabank's "Focus on Key Issues". Mercabank is part of the Sanlam group.

Professor Lombard said today that he was amazed that so little attention had been paid by the Government in any of its White Papers to this method of economic development.

But this might have been because of the difficulty of accepting the idea that black urbanisation was a permanent feature.

Considerable support

He said the proposal had received considerable support.

The economists say that developing the economy by establishing import replacement industries or export oriented industries — as was now being proposed — would not create sufficient jobs to meet the country's employment needs.

Developing export-oriented industries meant that South Africa would have to compete with both high technology in America and Europe, and high labour productivity combined with wage restraint in the newly industrialised countries, particularly in the Far East.

Heavy investment

It would require heavy capital investment, high labour productivity and have to be on a large scale. It would inject a high degree of volatility into the economy as the country would be heavily dependent upon the international business cycle and exchange rate movement.

It would also help perpetuate the domestic economic dualism.

But they point out that a third force for economic growth is rapidly emerging in this country — the orderly urbanisation of the black population.

They estimate that the country's urban population will ahve risen to about about 30-million by the year 2000, against 16-million in 1980, while the number of blacks in the urban areas will have risen from 9-million in 1980 to about 21-million.

Personal income

The urban populationb's disposable personal income was likely to grow from the R35-billion in 1980 to about R80-billion (at 1980 prices) by 2000, with the blacks' share trebling from R10-billion to R30-billion.

This would rapidly expand demand for consumer goods as well as for building materials and inputs in infrastruture.

The development need not be inflationary because the black population was rapidly increasing its productivity through education and training.

However, they admit that a substantial part of this urbanisation and "inward industrialisation" process would be much less sophisticated and more "informal" than had been the norm in this country.

Constraints

It would mean tht many of the licensing and other constraints on industry would have to be removed.

A consideration that assumes considerable attraction in these times of poposed boycotts and disinvetment campaigns, is that the economists believe that it would be possible for South Africa to finance its "inward industrialisation" from its own savings. This would be possible if the less capital intensive processes were used. This could be done by moving towards real interest rates through removing tax concessions so there was no longer an incentive to use capital wastefully, said Professor Lombard.

The Pretoria economists claim that orderly urbanisation and "inward idustrialisation" would lead to labour intensive industries and to the development of high and low skills. These factors would produce an open economy and a decline in economic dualism.

The deputy managing director of Nedbank, Mr Anton van der Merwe-Vance (right) met East London businessmen at a luncheon on Friday. With him are the Nedbank manager, Mr Ian Masson (left) and Mr Theo Blumberg.

Crunch over next six months says senior Nedbank man

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D. Dispatch 10/6/85

By ANDRE JORDAAN
Business Editor

EAST LONDON — While the next six months would bring economic hardship to many people, "everything is in place and things are improving," the deputy managing director of Nedbank, Mr Anton van der Merwe Vance, said here.

In a luncheon address to businessmen, he said the austerity measures introduced by the government last August were having an effect. Consumer spending had dropped and the trading account of the balance of payments was positive, with the likelihood of a further decline in interest rates shortly and a predicted prime interest rate of 18 per cent by the end of the year.

Mr Van der Merwe Vance said it had to be brought across to the government that a general interest rate of 20 per cent was still high and that businesses were unlikely to borrow money for expansions at that rate.

Money supply had stabilised and this was illustrated by the fact that overdrafts were "stagnant." The apparent anomaly between figures which indicated that the supply of money in the country remained high and Reserve Bank statements that the velocity of money had declined could in part be explained by the phenomenon of "re-intermediation" — borrowing money in South Africa to repay loans raised overseas.

This process had the effect of inflating the money supply figures because the rands required to repay loans in other currencies were raised in South Africa but were not actually put into circulation here.

The Reserve Bank was however satisfied that the velocity of money — basically the rate at which rands are spent in the country — had decreased considerably.

Mr Van der Merwe-Vance said he did not expect the rate of exchange against the dollar to increase significantly in the next six months. South Africa had borrowed extensively overseas and, in view of current political considerations, overseas and particularly US banks might be reluctant to "roll over" or extend loans, increasing the demand by local institutions for foreign currencies to repay these loans.

"I don't see the rand shooting up in the next few months, but there will be movements and companies will have to assess the situation and decide whether they are in a position to take risks or whether they should obtain forward cover," he said.

If the gold price took off — which he regarded as unlikely — the scenario could change and the rand could appreciate sharply. However it was to be hoped that if this did occur the Reserve Bank would be able to handle the situation and avoid a repetition of the 1980 situation when a strong rand led to a big increase in imports and rising inflation.

Mr Van der Merwe-Vance said there was a clamour for the economy to be set free of restrictions to allow market related prices to come into effect as a means of fighting the rising cost of living.

South Africa's major task was to reduce inflation significantly but there was doubt about whether this could be achieved. Although South Africa had created "a little pinnacle of success, a 20th century economy," in Africa there was "a sea of unskilled labour."

The cry was for labour intensive industries but these were not competitive with modern machine-orientated ones. Another complication was the insistence by overseas labour codes on the payment of "living" instead of "economic" wages.

The choice was between employment of the minimum number of people at a wage determined without regard to economic factors or the employment of the maximum number at economic wages.

Natal hardest hit by economic recession

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15/6/85 Mercury

Mercury Correspondent

JOHANNESBURG—Natal has been hardest hit by the economic recession, according to statistics kept by Dun and Bradstreet, marketers of business information.

In May 1984 a total of 759 judgments were made against businesses in Natal, compared with 1 220 in May this year, an increase of 61 percent. This is the highest regional figure in South Africa.

Mr Alan Mankoff, managing director of Dun and Bradstreet, said when heavy industries were forced to rationalise during an economic downturn the ripple effect was felt 'quickly and dramatically' by smaller businesses.

Mr Mankoff said about 35 000 judgments were made against companies throughout South Africa in 1984 of which only 2 675 went into liquidation.

In Natal, the number of judgments against consumers was well below the national average of 25 percent. The number of judgments increased from 3 237 in May, 1984, to 3 949 in May this year, an increase of 13 percent.

Mr Mankoff said the increase in the past six to eight months had been at its highest, but consumer spending was now dropping and with it the number of judgments being made.

'Consumers have learned their lesson and are not spending as freely as they were,' he said.

He warned, however, that the recession was the worst in 50 years and it would take time for the country to recover. There would be no quick upswing.

Every business which survived the downturn would be stronger and smarter.

'When the upturn comes — and this will not be before mid-86 — these businesses will show the best profits,' he added.

De Kock Commission says . . .

Monetary policy must be market-related

(49) NM 20/6/88

Mercury Correspondent

THE final report of the De Kock commission released yesterday which inquired into the monetary system and monetary policy, restates unambiguously the basic principle enunciated in its first interim report: that monetary policy must be market related.

'It is the commission's conviction that in South Africa's sophisticated financial system a market-orientated monetary strategy will serve the national interest better than any set of non-market-oriented or 'direct' monetary controls,' says the report.

These are the commission's recommendations, point by point:

Financial Markets

Many of the commission's recommendations affecting the money markets have already been implemented. These include:

- The tender system for Treasury bills (TB);
- The Treasury bill rate be determined largely by private tenderers;
- The amount of the TB tender by varied according to the Treasury's needs as well as the needs of monetary policy;
- The issuing of tax-anticipation TBs;
- The Reserve Bank should be a buyer and seller of TBs;

Government Bonds

The commission recommends that the prescribed investment regulations be withdrawn.

This might create transitional problems if the institutions decide to reduce the proportion of their assets held in public sector stock, but the commission suggests the Department of Finance and the Reserve Bank hold prior negotiations with the Life Offices' Association and the Association of Pension and Provident Funds to obviate such problems.

This recommendation about the abolition of prescribed investments depends on government adopting related reforms in such areas as credit control, money market management and exchange rate policy.,

Without these reforms a distortion of the structure and level of interest rates could again hamstring the public sector's borrowing and the Reserve Bank's operations in an open capital market.

- The issuing of government bonds by means of tender is welcomed but this should be discussed with the major institutions;
- With each issue of government bonds there should be a draw-down period not exceeding three months;
- The issuing of non-marketable government bonds such as loans levies, tax-free bonds, and bills should be kept down to a minimum.

Banker Acceptancess, Trade Bills and Promissory Bills

The commission takes the view that financial claims of any nature, such as BA's, accommodation paper, trade bills and promissory notes should be traded in the markets with a minimum of regulation.

Self-liquidating bankers' acceptances drawn for the movement of goods would qualify — as they do at present — as liquid assets but accommodation paper drawn for bridging finance for capital projects would not qualify as a liquid asset.

As banks' cash reserves bases become more adequately controlled by open market operations, discount policy and exchange market intervention, the ratio on certain types of liquid assets can be dispensed with and the market's capacity to absorb bankers acceptances will fall away.,

The commission recommends that building societies should be permitted to hold BAs as liquid assets.

It also considers that the local bill market has the potential to expand along the lines of the U S commercial paper market but this requires an amendment to the Companies Act. The commission recommends that this be referred to the standing advisory committee on company law to consider the feasibility of the issue of company paper to bearer.

Banks

The commission recommends the use of a cash reserve system of controlling bank credit rather than a liquid asset system.

The report says the minimum basic liquid asset ratios laid down by the Banks Act should be further reduced to 20 percent on short-term liabilities to the public and 15 percent on medium term. They are currently 22 percent and 16 percent respectively.

Other recommendations are:

- The Reserve Bank's powers to impose supplementary liquid asset requirements be revoked;
- The banks' minimum basic cash reserve balance should be 8 percent of short-term liabilities and 4 percent on medium term;
- The Reserve Bank should have the right to call for supplementary cash reserve balances against both short and medium-term liabilities as well as the power to reduce the basic cash reserve requirements.

The commission endorses new legislation which lays down that banks must provide capital and unimpaired reserves to cover domestic and foreign contingent liabilities issued against clients' overseas borrowings, as well as reserve asset requirements for banks' direct foreign borrowings entered into either in the banks' names or on behalf of clients.

The commission supports the principle that minimum capital and reserve fund requirements for banks should make allowance for banks' foreign operations conducted by foreign subsidiaries, branches or agencies.

Societies

An important recommendation is that the Minister of Finance should investigate the transfer of supervisory powers over banks and building societies from the Registrar of Financial Institutions to the Reserve Bank.

Land Bank

No problems are seen in the Land Bank granting long-term mortgage loans to farmers in certain categories at rates below free-market levels.

But the commission warns that these rates should be set close to those in the market because unrealistic rates cause land values to be bid up 'so that the intended advantage of low interest rates for purchasers turns out to be largely illusory and in time disappears altogether.'

Funds raised by the Land Bank by bank advances or by bills should not be used for mortgage lending or other forms of medium to long-term financing.

The commission recommends a number of steps to develop the forward exchange of market.

The ultimate aim, it says, should be a forward market outside the Reserve Bank in which both residents and non-residents are at liberty to deal forward freely with one another. And, as a result of arbitrage transactions, forward rates for the rand would tend to be the same in South Africa and overseas, settling close to interest rate parity.

'In such a market the two main deficiencies of the present forward cover arrangements would be eliminated: the Reserve Bank would no longer have a larger forward exchange exposure, and more realistic spot and forward rates would be produced by fully integrated spot and forward markets.'

It would be too disruptive for the Reserve Bank to withdraw immediately and to abolish all those exchange control and other limits restricting the banks' forward dealings.

Action of this nature would bring excessive downward pressure to bear on the Reserve Bank's gold and foreign exchange reserves and on the rand exchange rate. It could also cause interest rates to rise sharply.

The reason for that would be that the banks would probably seek to cover their forward sales with spot purchases and thus absorb more of the foreign exchange reserves. They would then either hold the spot dollars for cash and concluding agreements to buy them back in say six months later at an agreed exchange rate.

To avoid this disruption, the commission recommends:

- Announcing and then accelerating, its withdrawal from the market;
- Subject to appropriate 'open positions', S A banks would be allowed to deal freely in rands and not only in trade associated current payments;
- Interest arbitrageurs would play their hedging role and even out markets;
- Residents would be permitted to hold dollar-denominated deposit balances with S A banks against known commitments or pending conversion into rands of bulk receipts.

'This would impart depth and resilience to both the spot and forward markets and would help local banks attract business from foreign banks.'

The present limits on the banks' foreign assets, foreign liabilities and open positions should be amended with a view to encouraging the banks to participate more actively in the Eurodollar and other Euromoney markets.

Assets

The present limits on each bank's gross foreign assets and gross foreign liabilities should be replaced by a single and fairly liberal limit on its net foreign assets.

The introduction of a net limit on foreign assets would allow South African banks to borrow large amounts overseas and to employ these funds abroad, leaving their net position unaffected.

'If banks borrow abroad on a covered basis there is no exchange risk. And the extent to which they can borrow on an uncovered basis would be restricted by the prudential open-position requirements.'

Priority

The commission would urge the regulatory authorities to allocate a high priority to the further development of the forward exchange market in deciding upon the blend of financial requirements for banks for both their ordinary and contingent liabilities.

If at a later stage it is possible to dispense with the limit on banks' net foreign assets, the existing exchange control regulations prohibiting non-residents from borrowing in the domestic market could also be abolished.

The commission recommends that the remaining exchange control over residents be substantially relaxed and simplified as part of an orderly evolutionary process. At this stage the complete abolition of exchange control is not recommended.

Business backs Report

Finance Reporter

The comprehensive recommendations given in the De Kock Commission's final report of the Commission of Inquiry on the Monetary Sytstem and Monetary Policy in South Africa, released yesterday has been strongly supported by Durban businessmen.

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The final report of the commission, appointed in 1977, and headed by by Reserve Bank Governor, Dr Gerhard de Kock, covers South Africa's entire monetary system and monetary policy.

20/6/85

Many of the recommendations have already been implemented by the Reserve Bank. But there are other wide-sweeping recommendations which could make considerable positive changes to the South African financial structure.

NM

Of wide interest is the urging by the commission of relaxation of exchange control on portfolio investments and a substantial relaxing on exchange for residents.

U K lead

Mr Fred Beard, life president of Protea Holdings, said yesterday, while he approved on the relaxation of exchange control on portfolio investments the Commission should have followed the lead taken by the U K and recommended a complete abolition of exchange control for residents.

He approved of a flexible bank rate as recommended by the commission and that the Reserve Bank should become actively involved in open market operations in the money market and bond market.

Mr Andre Du Plessis, Regional Investment Manager of Syfrets Natal, said although there was nothing new in the report that the financial markets had not already discounted he welcomed the clarification of the report.

He said he expected the Government to agree to the principles of the Report, but believed the temporary economic considerations would cause delays in certain instances, particularly in the case of investments abroad.

The recommendation by the Commission that supervision of banks and building societies be transferred to the Reserve Bank from the office of the Registrar of Financial Institutions was given full approval by the Natal Building Society yesterday.

Mr John Gafney, financial director of the NBS, called the recommendation a positive move.

DE KOCK COMMISSION

The really big picture

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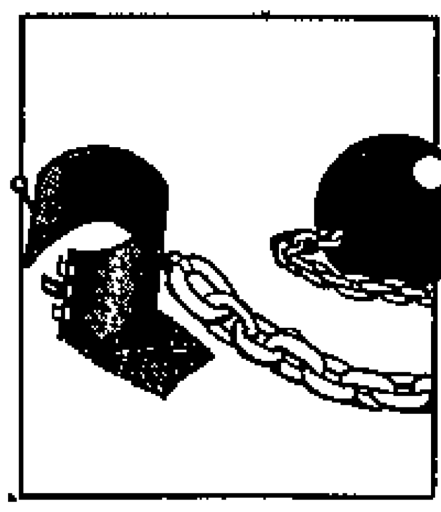


After seven years of deliberation, thousands of pages of evidence and two interim reports, the Commission of Inquiry into the Monetary System and Monetary Policy has finally seen the light of day. Chaired by the Governor of the Reserve Bank, Gerhard de Kock, the commission's recommendations, if accepted by government, will have wide-ranging implications for both the SA economy and the financial system.

More efficient markets, which are seen as the key to implementing economic policy, will be allowed to develop. Increased competition will be encouraged between financial institutions, while their capital adequacy will be improved. Intermediate targets for growth in money supply will be set each year.

Broadly speaking, the commission believes market-orientated monetary tools are also better suited to SA's relatively sophisticated economy.

In many areas, however, the report is less a guide for the future than a record of what has already been achieved. Events have, in a sense, overtaken the report's release, and many of its recommendations have already been implemented.

For example, amendments to the Banks Act, advocated in the report, have recently gone before Parliament. Many recommended technical changes to money market procedures are already in place.

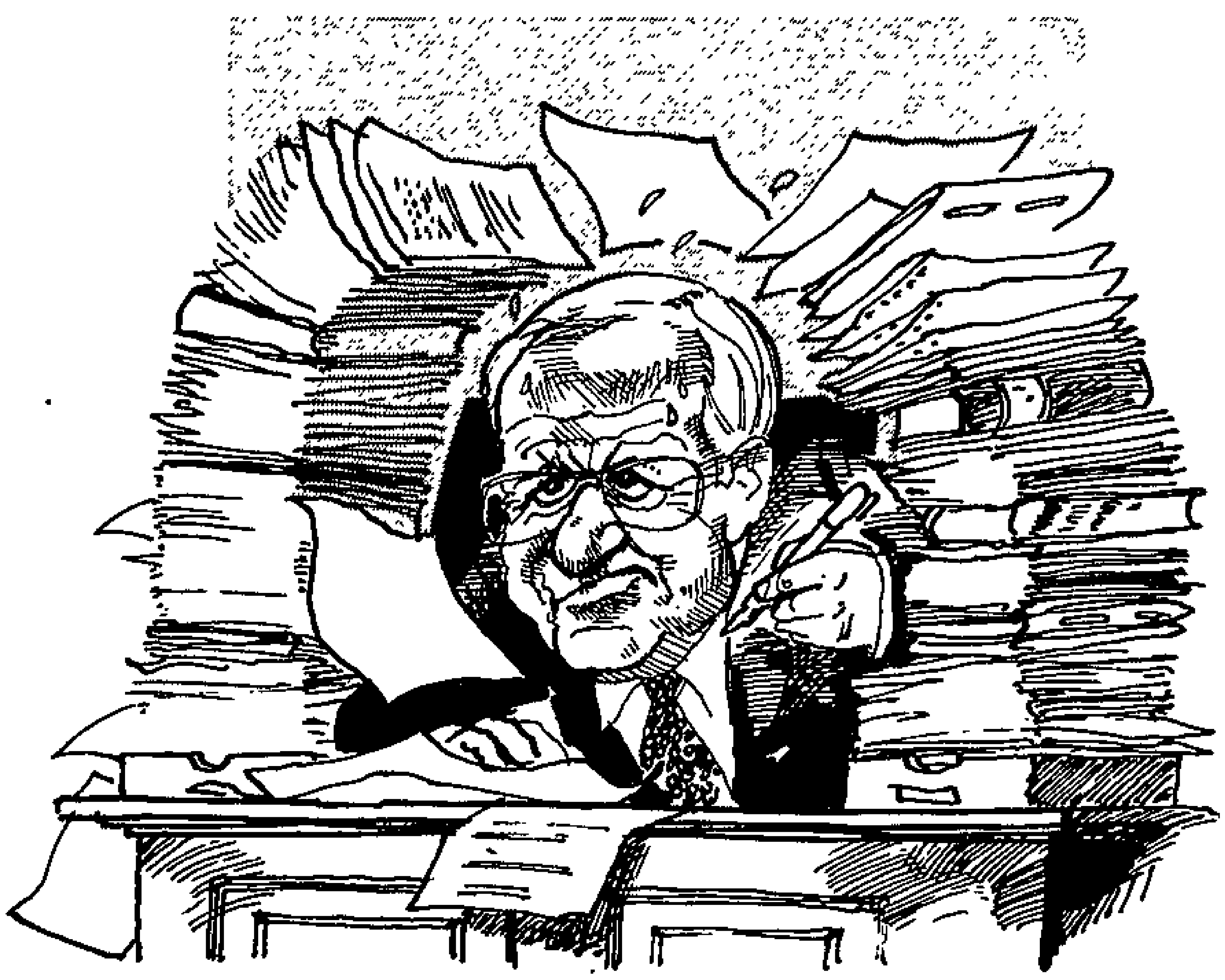
Rather, then, the report is a co-ordinating framework for monetary policy reform. It draws loose aspects together into an overall picture and offers a reasoned statement of intent.

"This is a package, and either has to be accepted or rejected as a whole," says De Kock.

Some critics, however, will say the commission's recommendations fall between two stools. To "super" monetarists, on the one hand, they will fall short of the measures needed to control the money supply. The commission has opted for discretion instead of a rigid money rule. In the critics' view, it should have gone all the way by recommending tight control of the cash reserves of banks and not left room for discretion. Also, it places too much emphasis on the importance of the mix of monetary and fiscal policy.

The report of the De Kock Commission is a landmark for broad monetary policy. While many of the recommendations have already been implemented, or are in the process of making their way into law, the report provides the best view to date of the long-term intentions of the monetary authorities.

On the other hand, the old guard, hankering after the "stability" of years gone by, will argue that more direct measures would work quicker, and with less overall cost to the economy. Lower interest rates would be better for industry. If this leads to a balance of payments deficit, imports controls could be imposed.



Historically, SA's monetary authorities have concerned themselves with financial institutions and the statistics of money supply, credit, the national accounts and balance of payments. Little importance, however, has been attached to the working of markets.

Until recently, financial markets were relatively unsophisticated. For example, no markets existed for government stock, Treasury bills and bankers' acceptances.

"We grew up in a world where markets did not seem important," De Kock comments.

Problems with the balance of payments and inflation were countered with import and exchange rate controls. Bank credit was brought into line with credit ceilings.

This approach did not work. The balance of payments remained unstable, and inflation reached double-digit figures in the Seventies, says De Kock.

Also, flexible exchange rates were introduced and the gold price began fluctuating. When building society mortgage rates, a politically sensitive issue, rose sharply, the Reserve Bank imposed deposit rate control. "We wanted to keep interest rates down to keep the mortgage rate down," says De Kock.

But when credit mushroomed because of low interest rates, controls such as credit ceilings were slapped on banks.

"In the past, we have focused too much attention on institutions and laws. That is why deposit rate controls, for example, came naturally," says De Kock. These, however, did not work successfully for a number of reasons:

- ☐ There was too much liquidity in the economy;
- ☐ Disintermediation took place;
- ☐ Velocity of circulation went up;
- ☐ Inter-company borrowing and lending increased; and
- ☐ Banks had paper rediscounted outside the banking system for clients.

Attempts to keep building society rates low by keeping deposit rates down were doomed to failure. So was the attempt to curtail bank credit, and one control simply led to another.

The institutions responded to deposit controls with ingenuity. For example, banks issued debentures that were not classified as deposits. Participation mortgage bonds offered realistic interest rates.

The Commission into the Monetary System and Monetary Policy comprises: G P C de Kock (chairman), G W G Browne, A J du Toit, J A Lombard, J W Louw, A J Marais, G M F Oxford, R A Plumbridge, M van den Berg, J C Y Kruger (secretary).

Financial Mail

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GABORONE RAID

Day of the hawks

In mounting the raid on Gaborone, South Africa's military and security forces must have carefully weighed up the consequences. So what we face is not some hearty and brutal display of aggression by uncontrolled elements of the SADF, but a conscious and almost certainly calculated operation with specific goals.

The raid came just before the anniversary of June 16, and on the eve of Pretoria-sanctioned self-rule for Namibia. One can only conclude that its goals must have had such overwhelming strategic importance as to outweigh any thought of the worldwide condemnation the cross-border action would undoubtedly draw.

Were the goals met? In other words, was the SADF successful in eliminating a major centre of terrorist planning aimed at SA — including widespread bombings and assassinations? We don't know.

There are some extremely puzzling aspects to the situation. It's no secret that since the signing of the Nkomati Accord, the ANC has been unable to use Mozambique as a staging post for attacks. Therefore, fairly inevitably, Botswana has become just such a post, given its long and porous border with SA.

However, it wasn't all that long ago that ministerial-level meetings between SA and Botswana appeared to have defused Gaborone's fears of Maseru or Maputo-style raids at ANC targets in its territory (in which civilians could well die).

On March 22 the *FM* reported that Pretoria appeared to have accepted Botswana's assurances that it would not allow "subversive elements" in its territory to hit at SA. Indeed, "Pretoria now seems to accept that President Quett Masire's government means what it says, and has dropped pressure for Botswana to sign a Nkomati-type accord."

The situation in Gaborone must have worsened considerably since then for SA to feel compelled to risk international opprobrium by striking so dramatically into the heart of the capital. Are we to accept that this is indeed what has happened over the past few months? Government says we must. And if the ANC has really been dealt a crippling blow, then Botswana failed to keep its promise.

But if the raid was to demonstrate that SA is tough on terrorism, who, after all that has happened, needs convincing?

The cost is that our dwindling number of friends regard the raid with abhorrence. But if an even greater bloodshed was forestalled, then perhaps that price must be paid. No one said we live in easy times.

Is this a famous victory? It doesn't feel that way. ■

ESTATE DUTY

The final cut

For the first time in many years, married taxpayers can breathe a little more easily, thanks to amendments of the Estate Duty Act. The estate of a deceased spouse — provided it all goes to the survivor — will henceforth be immune from estate duty, that antiquated quasi-wealth tax.

There is a rider: since the impost has not been abolished, Inland Revenue will collect its slice when the second spouse dies, provided there has been no remarriage or a total squandering of the estate. And those actions would in any event attract taxation of other kinds.

The traditional channelling of assets into testamentary trusts or usufructs has been made less attractive.

Recognition of the 1984 Matrimonial Property Act's marriage accrual regime comes with the new section allowing an accrual claim against a deceased's estate by the survivor as a *deduction* from the estate.

Further changes recognise the ubiquitous practice of either forgetting or not declaring donations between spouses. In many cases, for example, the family home is registered in the wife's name, although the husband pays the bond.

The value of any donation made by a person during his lifetime was hitherto deemed property — and therefore dutiable in the estate — except for donations made by antenuptial contract. The new section excludes *all* donations made to one's spouse.

The proposed changes do not completely rule out the use of an *inter vivos* trust — created before death — as an estate-freezing vehicle. This is usually done when the object is to minimise duty paid by the survivor's estate.

Overall, the changes will streamline estate planning, currently earning banks R20m and the professions some R5m/year. Although the impost is paid by only a small percentage of the population, its incidence has been growing with inflation. Pretoria's receipts amount to a paltry R90m/year — or 1% of personal income tax receipts. The beneficiaries of an estate are effectively taxed on earnings that are not theirs; and access to the estate's funds is not possible for up to 18 months, no matter how solvent the deceased.

In the interests of simplicity, equity and economic neutrality, estate duty is unacceptable in any good tax system. It is inefficient, unfair and unwanted. There is a crying need to abolish it altogether: and it would not be presumptuous to expect as much from the Margo Commission on tax. ■

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MIXED BAG FOR CONSUMERS

If the recommendations of the report implemented, how will they affect the man in the street? The most likely implications are as follows:

☐ The present strict requirements regarding the nature and size of building society mortgages, and the collateral and monthly repayment requirements on these loans, could be eased and simplified. It could therefore be easier for the average man to obtain a mortgage in certain circumstances.

But the reduction of tax benefits which building societies presently enjoy is likely to lead to higher interest rates. Therefore, while it may become easier to obtain a mortgage, the increased costs will probably mean that mortgages will be taken out for smaller accounts. The ultimate result is likely to be that people will live in smaller houses than has been the case up to now.

Interest paid on mortgage loans will not be tax-deductible. This is in line with the general principle of taxation that deductions should only be allowed on expenditure incurred on the generation of taxable income;

☐ The deregulation of the banking system is likely to lead to the development of "one-stop banking institutions," with a variety of financial services available under one roof. Mortgage loans, current account facilities, insurance broking and many other services could be made available by a single company, to the advantage and convenience of the consumer;

☐ Investment in Post Office and Treasury accounts could become less attractive from a tax point of view;

☐ State employees will be unlikely to benefit in future from the large nominal wage and salary increases of the past few years. But this could lead to a moderation of wage increases in the economy as a whole, and help to keep inflation under control. Everyone will then be better off, as real wages will not be eroded as fast as is the case at present; and

☐ More effective implementation of monetary policy should lead to increased stability, less inflation, and, consequently, increased economic growth and job creation.

Money flowed from building societies into instruments that were in effect offering higher rates.

"We did not help building societies by keeping their deposit rates down. Rather, these actions distorted the money supply statistics and increased the velocity of its circulation," says De Kock (see graph).

This was compounded in 1980 when the gold price rocketed and the country was swamped in liquidity, pushing interest rates to very low levels.

"We realised markets do in fact exist," De Kock recalls.

In response to this rapid sequence of

AIMING FOR THE RIGHT TARGETS

The aim of monetary policy should be the control of inflation, within the constraints imposed by balance of payments (BoP), growth and employment considerations. The Reserve Bank will intervene when necessary, although attempts to "fine tune" the economy are viewed as being generally counterproductive. With SA's relatively sophisticated financial system, market-orientated monetary tools are better suited than "direct" controls.

The Reserve Bank should determine target ranges for the growth rates of the money supply aggregates. These should be announced in February each year for the period 12 months ahead. While these targets should not be breached unnecessarily, they should not be seen as sacrosanct. These targets should be viewed as being intermediate to the ultimate objectives of controlling inflation, correcting imbalances in the BoP, and encouraging growth and employment.

The present system of controlling bank credit by liquid asset requirements should be replaced by a system of cash reserve control. To this end, the present liquid asset ratios of 22%, 16% and 5% of short-term, medium-term and long-term liabilities should be reduced to 20%, 15% and 5% respectively. Supplementary liquid asset requirements should be abolished.

In place of the above, the minimum cash reserve balances of banks with the Reserve Bank should be set at 8% and 4% of short-term and medium-term liabilities respectively. The Reserve Bank should be able to call for supplementary cash reserve balances. Interest will be paid on these balances.

The following tools of policy are recommended to achieve these objectives:

☐ Public debt management: The government's deficit before borrowing should be limited to a size that will not exert pressure on the financial markets. There should not be undue recourse by the Treasury to bank credit as a means of funding State spending. Where necessary, the Treasury should borrow in excess of its spending needs in order to "mop up liquidity" in the markets. The higher interest burden should be seen as a small price to pay for greater economic stability;

☐ Increased use should be made by the Reserve Bank of open market operations — for example the sale and purchase of financial instruments — to affect liquidity, interest rates and credit availability in the economy. This kind of intervention should also be used to smooth out seasonal fluctuations in the money market shortage rather than the use of rediscounting and overnight loans as is presently the case. An increase in the money market shortage should rather become a signal to the market that a more restrictive policy stance is being followed;

☐ Bank rate and discount policy: A clear distinction should be made between open market operations and public debt management in the broad monetary strategy on the one hand and discount policy to signal changes in policy on the other. The Bank rate should be reintroduced as the rate at which Treasury Bills are rediscounted for the discount houses. Rates of rediscounting other assets should also be set. Different rates of rediscount for different banks could also be used to influence the market and signal policy direction;

☐ The exchange rate policy should be one of managed floating of the currency. Direct intervention by the Reserve Bank in the forex markets to stabilise exchange rate movements should be encouraged. In the event of external developments, such as a large increase in the gold price, the authorities should encourage offsetting capital outflows to prevent an undue appreciation of the exchange rate that could harm the economic structure of the country;

☐ Direct control over wages and salaries should not be used to support monetary anti-inflation policies, except in the case of public sector salaries and wages, which should be set in accordance with the requirements of official economic policy. Adjustments in State-controlled administered prices generally should also be set with national policy objectives in mind; and

☐ There should be close co-ordination between the Reserve Bank and the Treasury in formulating and implementing monetary policy.

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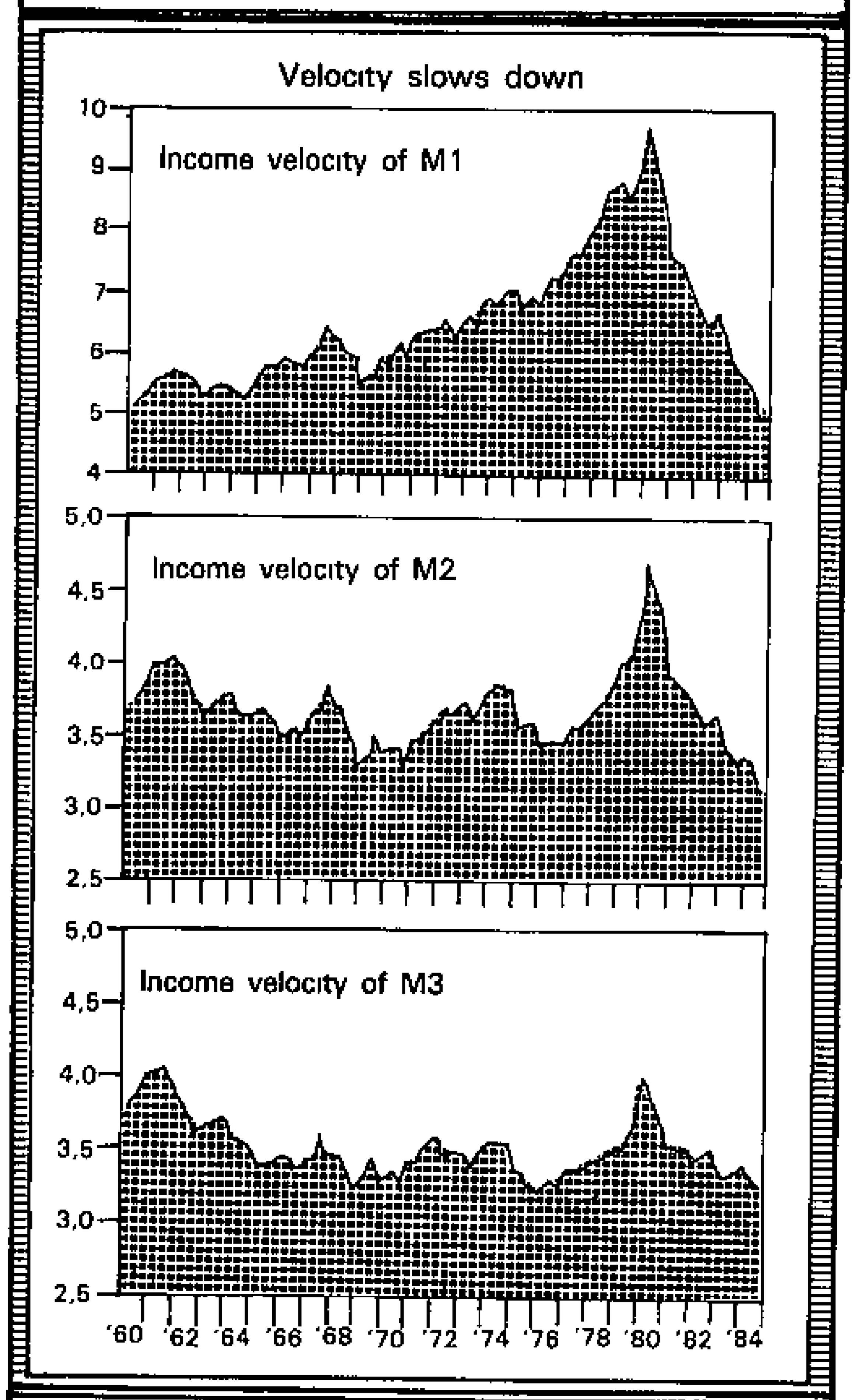
UNDER CONTROL



Source: De Kock Commission

HEALTHY INSTITUTIONS

Many of the recommendations of the report regarding financial institutions are already contained in pending legislation. The recommendations are intended to foster greater competition and activity in the financial system, while at the same time providing for the necessary capital back-up to ensure soundness and strength in these institutions.

☐ Discount houses: These institutions have earned a rightful place for themselves in the SA banking system and should be encouraged to develop. Discount houses should benefit from preferential accommodation by the Reserve Bank, and restrictions on the composition of discount house assets should be removed. This should encourage them to make markets in a greater variety of money market instruments;

☐ Banks: All banks should be at liberty to enter into legal banking activities. The current distinction between various types of bank should therefore be abandoned, and independent smaller banks should be encouraged in the interests of greater competition.

Some sort of capital and reserve requirements should be introduced on the domestic and foreign contingent liabilities of SA banks. Stricter limits should be imposed on tax-free investments offered by the Post Office and the Treasury which compete with those offered by other financial institutions. Prescribed investment, liquid asset and cash reserve requirements on inter-bank deposits should only be applicable to the receiving bank, in order to remove the problem of double-reserving. A scheme of deposit insurance for banks and building societies should not be introduced at this stage; and

☐ Building societies: These institutions should have to comply with the same cash reserve and liquid asset requirements as banks. The current restrictions on the maturity dates and size of deposits held by any one depositor should be relaxed, and the prescribed investments regulations for building societies should be abolished. Building societies should be allowed to become equity based, on an individual basis, if they so desire. Any relief from high mortgage rates which the government sees as being socially desirable should be openly provided for in the Budget.

events, the commission put monetary policy on the back-burner and focused its attention on developing markets for instruments such as Treasury bills, government stock and bankers' acceptances.

It also recommended changes to the Building Societies Act, the Banks' Act, and the foreign exchange market.

Probably the most important recommendation for monetary policy, however, will be the introduction of monetary targeting. If all goes according to plan, movements in the money market shortage will be smoothed out, hopefully easing the volatility of past years. And the Reserve Bank will make a

ENCOURAGING THE MARKETS

The Commission's view is that SA's financial markets have two roles to play:

☐ The markets, if they are efficient and well developed, can in themselves contribute to the growth and general soundness of the economy; and

☐ Competitive, free, active and broad financial markets are essential to effective stabilisation policies in a basically free-enterprise economy.

Many of the recommendations of the report are therefore concerned with encouraging the development and efficiency of SA's financial markets — especially with a view to developing a framework within which official economic policies can be implemented more effectively.

Many of the recommendations have already been implemented, or are part of legislation at present before Parliament. Among them:

☐ Treasury Bills (TBs): The Reserve Bank should expand its operations in the TB market in order to influence money market liquidity when necessary. The Treasury should also find ways of matching its inflows and outflows of funds, in order to reduce the current wide fluctuations in money market liquidity;

☐ Banker's acceptances (BAs), trade bills and promissory notes: Among other conditions, BAs should qualify as liquid assets if their underlying transactions can be regarded as self-liquidating within 180 days. Stamp duty should be charged according to maturity, rather than at the present flat rate.

Liquid asset requirements against banks' liabilities under these instruments should be removed, as should the restrictions on the holding of BAs by building societies for liquid asset purposes;

☐ Capital market: Prescribed investment regulations should be removed, after consultation with traditional investors in government stock. Borrowing by the State in non-marketable form, such as loan levies, tax-free bonds and non-resident bonds, should be minimised to develop the market in government stock.

The Treasury should investigate the reduction or removal of marketable securities tax, as well as test the suitability of the single-price method of tendering; and

☐ Foreign exchange and exchange control: the Reserve Bank should adhere to, and possibly accelerate, its scheduled phased withdrawal from the forward exchange market. SA banks should be allowed to trade freely in forward exchange.

Residents should be allowed to hold deposits with SA banks denominated in US dollars against known foreign commitments or impending receipts. Limits on SA banks' foreign activities should be amended to encourage greater participation in the Euromarkets.

Non-residents should, possibly, be allowed to borrow within SA. Remaining exchange control over residents should be gradually relaxed and simplified, particularly regarding "direct" and "portfolio" foreign investment by residents and emigrants' blocked funds.

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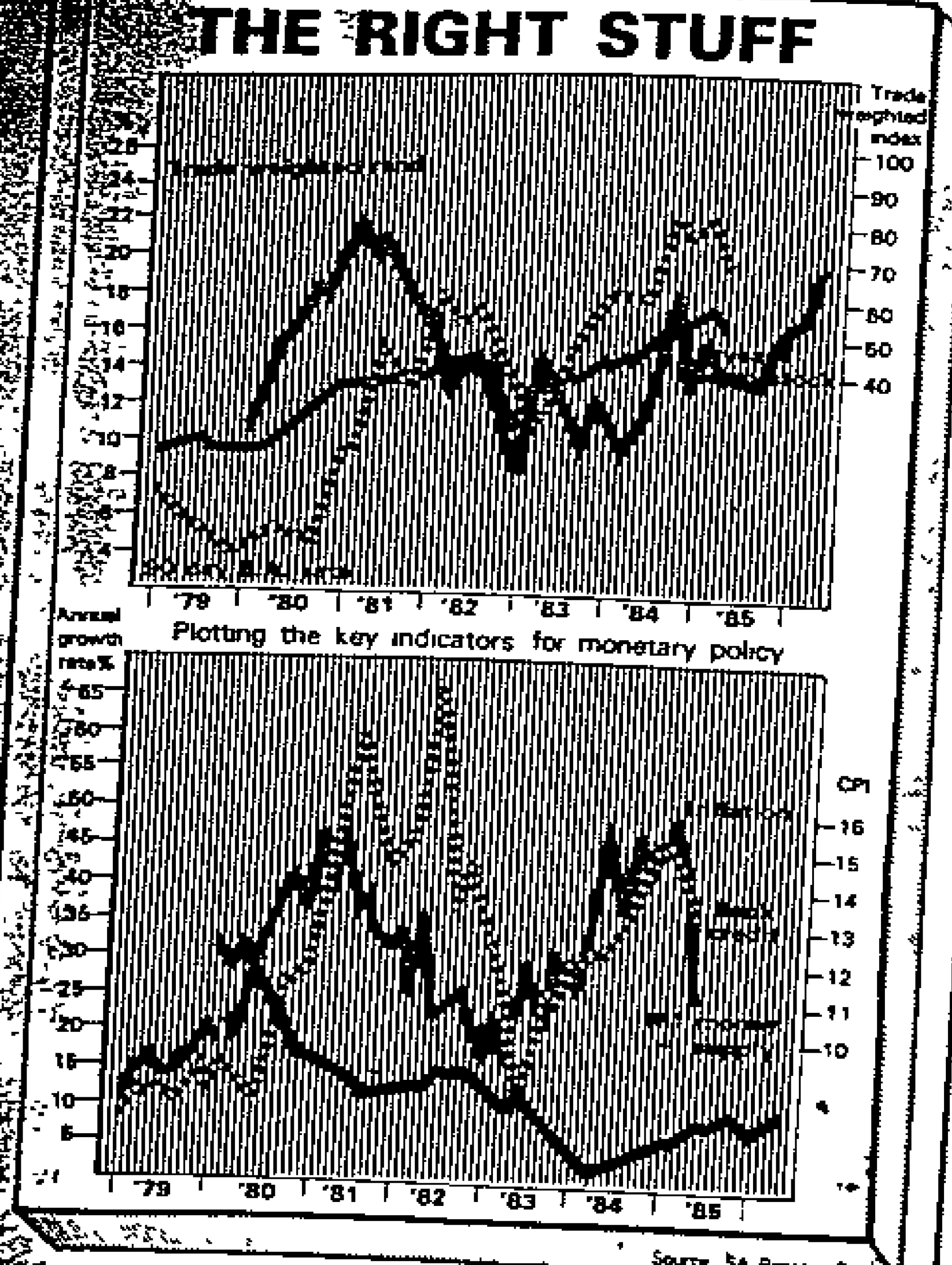
distinction between its "discount window," the rate at which it lends directly to banks, and the use of open-market operations.

At present, borrowing at the discount window helps smooth seasonal fluctuations in the liquidity of the banking sector. In future, however, this will be done by the Reserve

THE RIGHT STUFF



Bank buying and selling Treasury bills and other paper.

The role of the discount window will alter. It will be used to signal changes in Reserve Bank policy to the market. Longer queues at the discount window will mean banks are borrowing excessively and will signal to the market the Reserve Bank's displeasure.

The broad monetary policy outlined in the report, therefore, contains both carrots and sticks. The benefits of less regulation are counterbalanced by strict sanction for stepping too far out of line. Hopefully this report signals the end of *ad hoc* application of policy decisions. ■

KEVIN STOCKS

Kevin Stocks, the *FM's* Senior Editor (Politics), died peacefully at the weekend. He was 44.

The son of a mining engineer, he was born in Durban in 1941, raised in various parts of southern Africa and educated at CBC Kimberley. He chose journalism as his profession and eventually became an outstanding investigative reporter. In covering the Information scandal for *The Star* and later the *Sunday Times*, he travelled widely to countries such as Israel and France.

He joined the *FM* in 1980 and soon became head of the Current Affairs department, which entailed direct reporting as well as co-ordination of coverage of political, labour and broad social events. He contributed many highly-regarded cover stories and leaders to our pages — particularly on the growth of the civil service bureaucracy and the hidden perks of that sector. He was also an expert in military affairs.

His last printed article for the *FM* appeared on June 7, when he gave his first-hand impressions of treatment at the Johannesburg Hospital as part of a cover story on the increasing privatisation of medical services. He fought valiantly against his protracted illness, and when at home, but unable to be in the office, continued to work to the utmost of his energies and ability.

While he had the relentless curiosity and flair for detail of a top investigative writer, he was also a courteous and sup-

portive departmental head, and a warm family man. He also had a contemplative and artistic side which expressed itself in wood carving and an interest in poetry.

He leaves his wife Melissa and a three-year-old daughter Alexandra.

MONEY SUPPLY

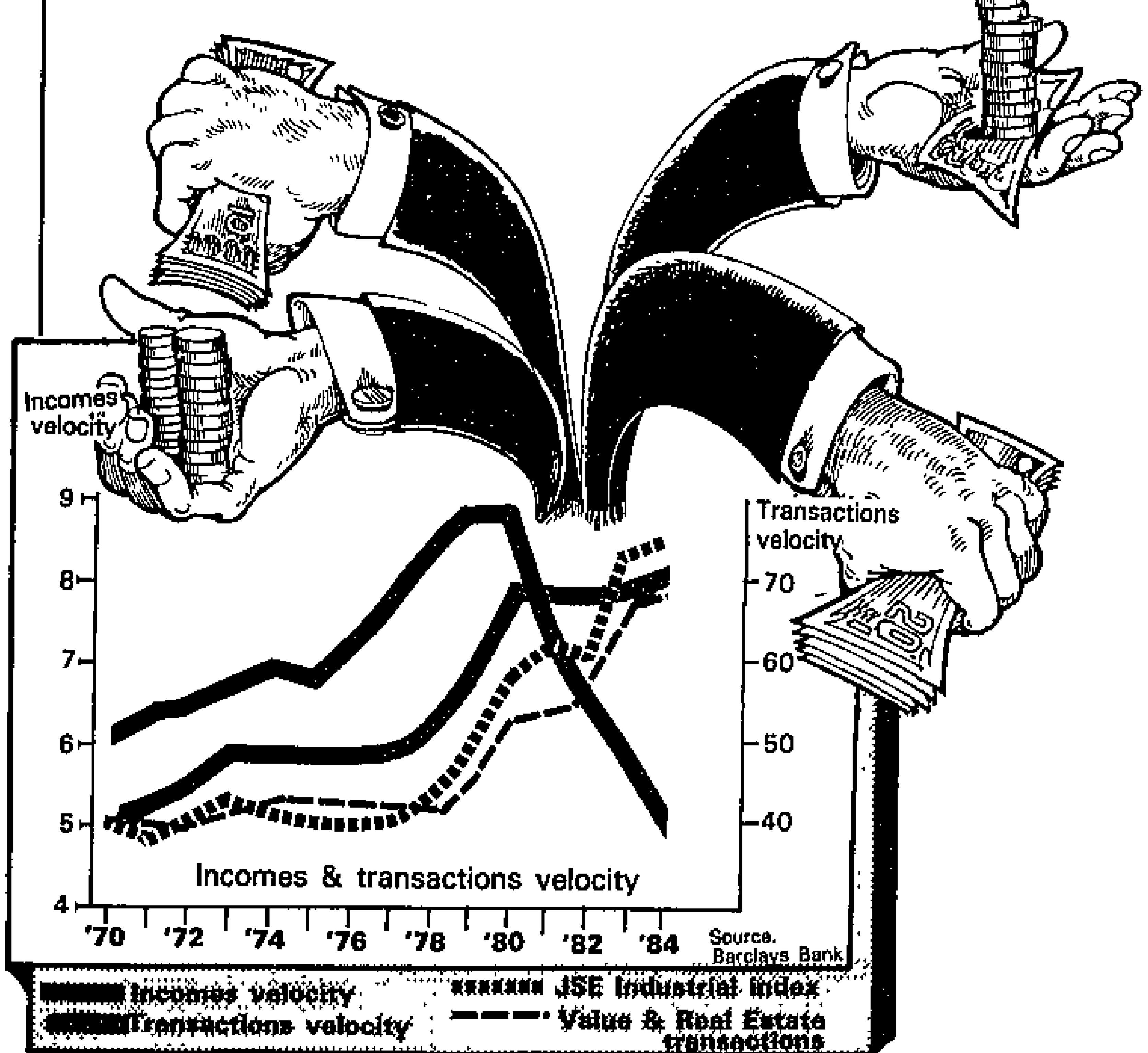
Target trouble

(49) FM

The Reserve Bank's plans to introduce money supply targeting to economic policy, as outlined in the final report of the De Kock Commission, has come under fire. According to Barclay's group economist, Johan Cloete, links between money supply aggregates and total spending in the economy are tenuous and often unpredictable.

As a result, the preference in official circles for targeting money aggregates might not lead to the ultimate objectives of encouraging growth and employment, and controlling inflation.

DISARMING TRENDS



The brunt of the argument rests on the concept of the velocity of circulation of money — that is, the number of times money stock must "turn over" to support a given level of income or expenditure.

There are two main measures of velocity. Incomes velocity is the ratio between nominal gdp and the money supply, and indicates the value of current production which a given money stock is able to support.

Transactions velocity, on the other hand, is the ratio between the total number of money transactions in the economy and the money supply. This embraces money spent both on current production and in the process of the exchange of existing assets such as shares, fixed property and second-hand motor cars. Transactions velocity is, thus, a wider concept, covering the exchange of money against current production as well as against existing assets.

Reserve Bank governor Gerhard de Kock lays great emphasis on the importance of control over aggregate demand or total spending in the economy. This, as stressed in the commission's final report, is seen as a priority for any successful anti-inflationary strategy.

According to Cloete, however, this appears to contradict the argument that targets should be set for the money supply, rather than for total money expenditure in the form of nominal gdp or gde growth.

"He justifies this on the basis that, although very unstable over the past eight years, incomes velocity — or the link between the money supply and nominal gdp — will be a stable function in future." There are, however, says Cloete, two fundamental problems with this approach to monetary policy.

Firstly, there is the question of the assumed stability of income velocity. Since 1976, incomes velocity has behaved in a most volatile manner. De Kock explains these fluctuations in terms of disintermediation and re-intermediation — the withdrawal from, and subsequent return of money to, the banking system — which took place over the period.

"Although there can be no doubt this did take place, it is questionable that the prolonged decline in velocity, noticeable during the period 1980-1984, can be entirely explained in terms of re-intermediation.

"One reason for such likely continued future volatility is that structural changes in the banking sector and financial markets could well continue in the future. Basing future monetary policy on the assumption of a stable relationship between the money supply and aggregate expenditures could, accordingly, be unwise."

Secondly, there is the need to separate the two velocities. Monetary policy at present, says Cloete, concentrates on the incomes velocity of money, and ignores the transactions velocity of money.

This ignores the fact that part of any increase in the money supply does not operate to drive up prices of goods and services currently produced, but it is spent on purchases of existing assets such as shares on the JSE, fixed property and second-hand cars.

As indicated in the graph, transactions velocity remained at a high level after 1980, while incomes velocity declined dramatically.

"The explanation for this post-1980 divergence lies fairly clearly with the expansion of the financial sectors of the economy, particularly the property market and the stock exchange. Since 1980, an increasing percentage of the total demand for money has been for the purpose of purchases of assets in these markets. As they are existing, rather than new, assets, it does not reflect in nominal gdp."

This means that while current tight monetary policy is affecting the "income demand" for money, the financial circulation of money has probably not responded to the same extent.

The introduction of money supply targets could result in an extremely severe impact on spending on new goods and services before the total money supply is reduced to the extent implied by the targets.

The only solution, according to Cloete, is to target nominal gdp, where velocity would be zero. It is also a variable available on a quarterly basis only, which would eliminate the monthly volatile reaction to money supply figures, frequently of no real economic significance.

"This does not mean abandoning the targeting of money supply aggregates. Targeting M2 and M3 would be necessary as intermediate targets to achieve the nominal gdp target, as would the public sector deficit.

"This is, in fact, how monetary policy in both the US and the UK has evolved more recently. In both economies, emphasis has been moved away from intermediate money-supply targets towards growth and inflation targets." ■

FRINGE BENEFITS TAX

Clamping down

Finance Minister Barend du Plessis clamped down on abusive perks tax practices — and clarified others — in Parliament last week. The areas concerned are many, ranging from subsistence allowances and public-sector travel allowance exemptions to long-service awards and phasing-in concessions.

Perhaps the most important changes concern the perks rules relating to housing and residential accommodation. When an employer rents accommodation from an employee and provides the employee with its free or cheap use, the rental paid is deemed to be the taxable perks benefit.

The generous concession formula normally used for this situation will not apply; and the rental will not be taxed as income under the normal provisions of the law — to avoid double taxation.

Another scheme used is where the employer buys the employee's house. This is accompanied by an agreement that the employee can buy it back at the end of an agreed period, or on termination of service, for the same amount as it cost the employer.

During occupation, the employee pays a fixed percentage of the cost as a rental. The legislation gives effect to this scheme's similarity to a low-interest housing loan by saying that it should be treated as such.

But where the employee ultimately purchases the house from the employer — which will probably be at a price considerably below the market price — *the difference will not be subject to tax unless the purchase price is less than the original cost to the employer.*

Approved housing schemes are those qualifying for the coveted seven-year phasing-in allowance. The amendments make it clear that the concession also applies to a *new* loan taken to replace a loan used wholly for such a purpose. ■

BOND RATES

Heading for a fall

Most fixed deposit categories have come down since March-April, which is around the time when the majority of rates peaked. This downward trend should soon start filtering through to bond rates.

The 12-month fixed deposit rate of the three largest building societies, Allied, United and the SA Perm, are now 17% after reaching a 20,5% high. Smaller societies, namely the Provincial, Natal, Saambou, Eastern Province, and Trustbou now offer between 16,5% and 18% for a 12-month fixed deposit.

While this drop in fixed deposits exerts downward pressure on bond rates, they are unlikely to drop immediately because of a delay period.

The senior GM at Allied, Geoff Bowker, notes: "The higher rate of fixed deposits must be worked into the system before an overall drop in bond rates can be considered."

This overall reduction, Bowker adds, is unlikely before September or October.

The SA Perm's MD, Bob Tucker, also has no doubt that the trend is downwards. "The cost of funds is likely to drop, so by October or November one should start seeing bond rates coming down."

Evidence is that the downward trend in bonds is already occurring. In an attempt to offload surplus cash some building societies are currently adjusting rates (see *Property*).

Says Bowker: "All new loans will be in line with interest rate patterns." The Allied has reduced the rate on all new loans of over R60 000 to 21,5%. All new further advances will be directly related to differential interest rate patterns. UBS has also brought down its rates of existing bonds in excess of R60 000 to 21,5% from 23%. This UBS rate is now in line with other building societies. Further advances have fallen to 23% from 25% or 26%. ■

PURE ENDOWMENTS

Pretoria backs off

Much confusion has been cleared up by the latest amendments affecting pure endowments (PEs). Although the measures concerning company-owned policies remain, major concessions have been made on individual policies by Finance Minister Barend du Plessis, following his original announcement towards the end of May (*FM* May 31 1985).

As one insurer commented: "It looks like he has now withdrawn all the contentious issues: retrospectivity of personal loans and the premium restrictions fall away."

For the purposes of clarity the accompanying table is presented. It can be seen that existing pure endowment policies for individuals continue to work under the old rules. New personal policies will require the life cover and an increased premium term of ten years. Bonuses during this period will make policies non-standard. In terms of the sixth schedule of the Income Tax Act only a policy classed as "standard" may benefit from the favourable tax provisions, allowing for proceeds to be non-taxable.

The life cover referred to applies to policies attracting annual premiums in excess of R1 500 and must be eight times the highest annual premium payable during the ten-year period.

Policies below this R1 500 limit do not require life cover. However, the limit applies to a family unit. Minors (those under the age of 21) who get married are not included in the family unit under this rule. For such policies to remain standard there can be no premium increases during the term. The limit also includes the total of policies with all insurers, so certificates of proof will have to be taken out by applicants buying new policies.

The previous R4 000 limit is also reinstated. This is where a policy receiving premiums of up to R4 000/year can be made paid up or surrendered without affecting the "standard" status of the policy.

Tony Davey, senior manager marketing technical at Southern Life points out that the life cover is not as onerous as people seem to have assumed, even for someone as old as 55. "We're not mad about it but really the amount of life cover isn't that much. And provided it is tailored for the policy it won't affect the savings return very much at all."

Indeed, according to Southern Life projections, as the second table shows, a person taking out a policy who is 25 next birthday loses just 0,58% of his maturity proceeds,

HOW THE LAW NOW STANDS

Individual Pure Endowment Policies

Existing Policy	New Policy
1. Minimum term 10 yrs	1. Minimum term 10 yrs
2. Minimum premium 5 yrs	2. Minimum premium 10 yrs
3. No life cover	3. Life cover (8 x rule) on premium over R1 500/annum
4. Loans OK	4. Loans still OK
5. Bonuses (a question-mark)	5. Bonuses make it non-standard
6. Premium variations OK	6. Premium variations still OK, but with a 15% increase/year limit

* To qualify as standard policies where proceeds are free of tax. Law effective May 25,1985

THE COST OF LIFE

Endowment projections for the individual

Ten-year term policy at 14,4% illustrative rate (smoker's policy)	Existing policy	New policy with minimum life cover	Change (%)
No premium updates			
Age next birthday 25	R207 223	R206 019	−0,58%
Age next birthday 55	R207 223	R195 565	−5,63%
Updates of 15%/year			
Age next birthday 25	R360 706	R359 626	−0,30%
Age next birthday 55	R360 706	R350 632	−2,79%

Source: Southern Life

while for a 55-year-old he loses 5,63% on a policy costing R10 000/year for a ten-year term.

All new-type company-owned policies are non-standard. Existing policies retain standard status unless new loans are taken out against such policies on or after May 25. Loans under "automatic premium" clauses, however, are not affected. This is where a clause in a policy provides for funds to be taken from the policy to cover premiums.

Brian Hewitson, Liberty Life's technical marketing executive, points out that the rules do not affect deferred compensation policies. "These are company-owned policies where the premiums are deducted from profits but where the proceeds are taxable. Life cover rules are also more stringent on these policies."

Meanwhile the industry is giving a sigh of relief — at least for the time being. As David Alston, executive director of the SA Insurance Brokers' Association (Saiba), says: "The issue could have been resolved more expeditiously had the industry been brought round the table for detailed negotiation." But instead various top insurance officials, the Life Offices' Association and numerous other lobbyists had to go through a hectic few weeks to apply for those amendments that have now been accepted. A costly exercise. ■

ESTATE PLANNING

Wedded bliss

Estate planning will never be the same again once proposed amendments to the Estate Duty Act are passed.

The most significant change means that the first-dying spouse is relieved entirely of paying estate duty provided all assets/amounts are left to the survivor. Only on the death of the survivor is duty payable. Indeed, the changes could be the first step toward abolition of estate duty altogether.

The change, says Brian Musto, a partner at Ernst & Whinney, is contained in a new section, S 4 (q). In effect, this means that in the estate of the first-dying spouse, any bequests/amounts inherited by the surviving spouse are not taxable for estate duty purposes.

Indeed, the importance of estate planning as a source of revenue to bank divisions and trust companies will be subject to major reappraisal.

If the husband dies first leaving his whole estate to his wife, his estate will now not have to pay any estate duty. But Revenue will of course collect estate duty when the wife dies. Exceptions to this will arise if the surviving wife has remarried and left everything to the second husband.

Present law provides that if the wife dies within 10 years of her spouse, a rebate of duty according to a scale is granted for assets inherited by her, which were dutiable in her husband's estate. A widow who dies three years after her husband, for example, will receive a duty rebate of 80% on dutiable assets inherited from her husband's estate.

But the changes deprive the surviving spouse of this so-called rebate on successive deaths on assets inherited from her husband, and her estate, in this example, combined with that of her deceased husband, will be dutiable in full.

It has been routine practice to advise wealthier clients to leave their estates to a testamentary trust (created on death) — or allow the survivor a usufruct over the estate to avoid double estate duty. This arises when estate duty is paid on assets in the first estate and on the same assets in the second estate.

Statistically, more wives survive their husbands; while husbands generally have larger estates than their wives. The concession introduced by Section 4 (q) will, in most cases, mean that direct bequests to the surviving spouse will be more favourable than using a testamentary trust or usufruct. The latter gives the surviving spouse a right to income from assets during their lifetime.

But, says Musto, the change does not completely rule out the use of an *inter vivos* trust (created before death) as an estate-freezing vehicle. This is especially so where the object is to minimise estate duty in the survivor's estate. The surviving spouse, for example, could end up leaving a massive dutiable estate to the children. Thus, early estate freezing by both husband and wife using an

SA ECONOMY

Short-lived upswing?

It is now common cause that the next upswing will begin early in 1986. The present plunge in interest rates, and the growing current account surplus are both strong evidence of this.

The question, however, is how long will the expected upswing last?

Andre Hammersma, economist at the Standard Bank, points out that the duration and sustainability of the upswing "depends largely on the ability to export and earn foreign exchange." He notes that previous upswings have been preceded by a rise in the gold price which in turn has increased foreign exchange earnings and led to the economy recovering.

Standard Bank's Hammersma ... expects a subdued upturn

However, he doubts whether the next upswing will be preceded by a gold price rise. "This means that the boom will have to be financed through other earnings — this will be the difference between past booms and the next one."

But other earnings, namely from foreign exchange, are, he adds, unlikely. "Therefore the upturn will be more subdued than in the past. The opportunity for a sustainable boom has been lost since we have not built up our gold and foreign exchange reserves."

Rudolph Gouws, Nedbank's economist, observes that most people expect international growth to decline next year. This will weaken SA exports and won't stimulate local production. "The balance of payments won't look so good and this is likely to affect interest rates leading to a slowing down in the economy around 1987." The positive aspect of this is that the recession after next year's mini-boom will not be as severe as the current one.

Indeed a look at some of the relevant factors suggests that the next business cycle will be somewhat shorter than average. Three main factors will determine the sustainability of a business upswing:

- ☐ The length of time for which net inflows can be achieved on the current account;
- ☐ The level of gold and foreign exchange reserves built up before and during the upswing, reserves that will of course be needed to help fund the import bill as the current account surplus disappears; and
- ☐ The availability of credit, foreign and domestic, which is especially needed for the tail-end of a recovery.

The industrialised West, and hence the demand for our exports, is expected to continue growing, although at a slower rate than in 1984. In addition, the weaker local currency will continue to boost the rand value of our foreign earnings. Imports, on the other hand, are likely to remain subdued this year, in response to the very tight monetary policy of the past ten months. This will allow a sizeable surplus to build up on the current account.

Estimates for 1985 are currently undergoing drastic upward revision, and a surplus of anything up to R3,5 billion is being suggest-

inter vivos trust remains wise estate planning.

Other proposed amendments were essential after the introduction of the matrimonial regime of accrual by the Matrimonial Property Act last year. The accrual system allows spouses married out of community of property — by ante nuptial contract (ANC) — to share in the increase of one another's estates on death or divorce. Spouses married before November 1 1984 may convert to the accrual system within two years of that date.

The new Section 4 (1a) specifically recognises that the accrual claim against a deceased's estate by his surviving spouse will rank as a deduction from the deceased's estate. Similarly, the proposed Section 3 (3) (Ca) includes any such accrual claim against the surviving spouse in the estate of the deceased.

Instead of — or in addition to — adopting the accrual system, it will now also become possible for spouses (mainly spouses married out of community by ANC) to divide their estates by way of donation *inter vivos.*

Until now, the value of any donation made by a person during his lifetime is considered to be deemed property and therefore dutiable in his estate, except for donations made by ANC.

Section 3 (3) (c) is to be amended to exclude all donations made to a spouse. These donations, incidentally, have always been exempt from donations tax. The proposal amounts to nothing more than legislative recognition of the reality that spouses continually donate assets to one another.

For example, in many cases, the family home is registered in the wife's name, even though the husband pays the bond. On the husband's death this *fait accompli* is seldom, if ever, reflected as a dutiable asset in his estate. This is so because the spouses never considered it as a donation; if they did, it has been conveniently forgotten.

Accountants and attorneys should be kept fairly busy in the next few months re-designing estate plans; and re-drafting wills. Most probable advice for clients will be to donate assets, so ensuring that estate duty benefits in the amendments are fully exploited. ■

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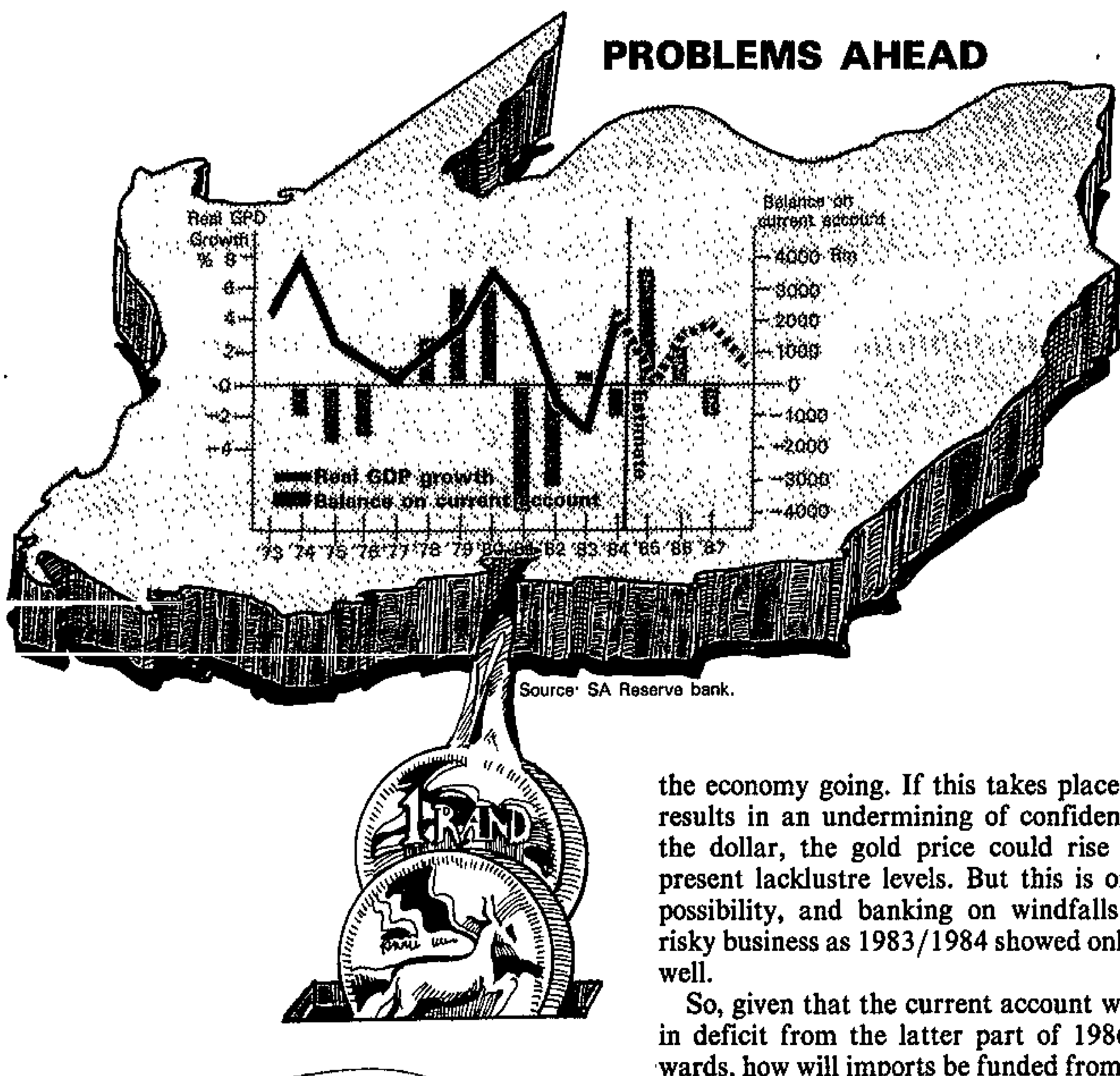
ed. This is a sizeable amount — much greater than anything achieved over the last ten years, In 1986, however, the current account is likely to be much smaller, and it seems that 1987 will see this surplus transformed into deficit.

If the US and Europe slow down further during 1986 and 1987 demand for SA's non-gold exports will obviously diminish while our imports will rise in line with a domestic economic expansion.

The net inflow on current account is therefore likely to be fairly rapidly squeezed from both sides. The timing of this squeeze is, of course, of utmost importance, and will depend on whether the rise in imports is controlled, or disorderly as it has been in the past.

One possible bonanza could be that, as the US economy slows further, the US Federal Reserve may be pressured to allow substantially greater money supply growth to keep the economy going. If this takes place, and results in an undermining of confidence in the dollar, the gold price could rise from present lacklustre levels. But this is only a possibility, and banking on windfalls is a risky business as 1983/1984 showed only too well.



Source: SA Reserve bank.

So, given that the current account will be in deficit from the latter part of 1986 onwards, how will imports be funded from then on?

Foreign exchange reserves will have been built up to some extent during 1985 and 1986. But the still large foreign debt position remains to be repaid, and this potential outflow far outweighs likely inflows on current account. What this means, in essence, is that we will not have a sufficiently large buffer to continue growing once the current account turns into deficit. And this means a resort to further borrowing.

If past behaviour in the SA economy is anything to go by, borrowing could increase dramatically fairly early in the recovery. Domestic credit lines could quite easily be extensively used, putting upward pressure on local interest rates and the money supply growth. And it is here that the recovery may reach its sticking point.

Balance of payments and foreign reserves considerations are usually the prime motivation for a tightening of policy by the Reserve Bank. And the need to protect the exchange rate, in particular, and prevent a repeat of last year, is likely to lead to substantially higher interest rates and tighter credit conditions.

At a rough guess, this induced cooling of the economy could take place during the latter half of 1987, or even earlier if spending goes out of control before then. Which means the recovery may only last eighteen months — not very long, compared to the average of 30 months for the last two upswings.

Only a long-term strategy toward encouraging secondary manufacturing will get SA out of its bust and boom swings. Such a strategy would include: export promotion; beneficiation of raw materials (for example, employing our own basic resources for manufacture to export in a value-added form); stabilisation of the rand; promotion of local industry; and a productivity drive.

Such a strategy would create a more favourable economic environment promoting a longer recovery cycle. ■

THIRD PARTY INSURANCE

Petrol premium

SA's 4m motor vehicle owners will have one less sticker for their windscreens next year, if recommendations from a minority report on third party insurance are accepted.

The *FM* learns that government is likely to reject the majority findings of the Grosskopf Commission, and accept instead the minority report submitted by Johannes Keyser. Keyser suggests the introduction of a petrol levy of between 1c/*l* and 1,5c/*l* in lieu of insurance premium — to be collected by the oil companies on the government's behalf.

The Grosskopf Commission was appointed in 1981 to look into various aspects of compulsory motor vehicle insurance. Unlike Keyser, the other six members disagreed with the levy idea, saying the existing system should be retained with a few amendments.

However, Keyser, a former manager of the Motor Vehicle Assurance Fund (MVA), says a petrol levy would benefit "the motorist, the claimant and the government in terms of costs, service rendered to the public and general efficiency."

Costs (including agents' commission) could be reduced from R17,3m to just R4m/year — an annual saving of R13,5m, which Keyser believes could even reach R15m. The current cost of collecting is R10,3m (18% of gross premium) paid to the insurance companies and R3,7m to their agents.

From 1965 to 1983, the MVA Fund spent 37,5% of its income on administration and commission to insurance companies and agents — which, Keyser notes, "is not for the purpose for which it was collected: to provide compensation for loss or damage suffered as a result of bodily injury or death arising from a motor accident."

Commission amounted to R202m compared to the R539m (62,5% of income) paid to claimants. The relationship of expenses to premium income was 29,6% in 1979-80.

Keyser also criticises delays in settling claims, and the fact that many motorists end up assuming responsibility for claims themselves.

The MVA Fund was created in 1965. Later, under the compulsory Motor Vehicle Insurance Act of 1972, vehicle owners became legally obliged to buy third party insurance annually.

If, as expected, Keysers' minority report is accepted, petrol companies will in future pay into the MVA Fund. The fund will, in turn, instruct insurance companies to settle claims.

A leading insurance company tells the *FM* a petrol levy: "will be cost efficient, involving little additional administration". Oil companies, Keyser finds, agree that collection costs would add only a very small amount to administration expenses.

Denzil Vermooten, Public Affairs Executive of the AA, says the advantages are that third party insurance will be streamlined and more convenient to motorists. "Motorists will experience no annual deadline and will not have to bother about discs on windscreens."

Pointing out that the AA was instrumental in getting the commission to investigate the issue of a petrol levy, he adds that unlicensed and unregistered vehicles will now automatically be covered with third party insurance. "Motorists will obviously be more secure in the knowledge that, should they be involved in an accident, they, and other parties involved, are covered."

PETROL LEVY SAVES

	Present system	Proposed system
Administration costs paid to insurers (1982/83)	R13 556 106	
Agents' commission (1982/83)	3 756 765	
Administration costs of MVA Fund (1982/83)	618 671	
Estimated administration costs of MVA Fund according to Prof de Wet (between R3 and R4 m)		R4 000 000
Cost of collecting premiums for non petrol driven motor vehicles calculated at present commission paid to agents		431 165
	R17 931 542	R4 431 165

Source: Grosskopf Commission — Saving of R13,5m

Keyser estimates the subsidisation of those motorists who fail to insure their vehicles amounts to R2m annually.

A further advantage of a petrol levy is that a degree of fairness is introduced, whereby payment will be directly related to road usage. The more mileage one does — hence the greater the probability of having an accident — the more one will pay for third party insurance. Vermooten feels a petrol levy is unlikely to push the petrol price up. "By the time the authorities implement this, the rand should have stabilised — leaving enough spare cash for the required levy without having to increase the price."

Keyser's recommendation that the MVA Fund handles claims is unlikely to be accepted, however. Instead, insurance companies themselves will, in all probability, assume the task — although the method to be adopted still needs agreement. It is likely that claims will still be notified to the MVA Fund, and insurers will settle them on its behalf, under instruction, as is currently the case.

Most insurers are opposed to a government body handling claims. Says one insurer: "We are confident that insurance companies can administer claims more cheaply than any central government body." Most insurance companies, he says, agree.

However, if insurers will no longer be issuing tokens under the new system there will be no automatic indication of which insurer should handle a given claim. And this is one problem that needs to be resolved. Certainly, insurers will be calling for certain guarantees. "Running a claims department is costly, and requires a minimum number of claims to make it worthwhile," says one insurer.

Regarding the 431 000 vehicles that are diesel or electric driven, Keyser recommends that premiums be collected through the Post Office, which would mean that some 20% of vehicles would still need tokens.

He also suggests that the 340 000 self-propelled vehicles (such as caravans and trailers) be exempted from compulsory motor vehicle insurance. Such vehicles represent 44% of non-petrol driven vehicles which are, at the moment, insured. ■

MANUFACTURING

Still falling

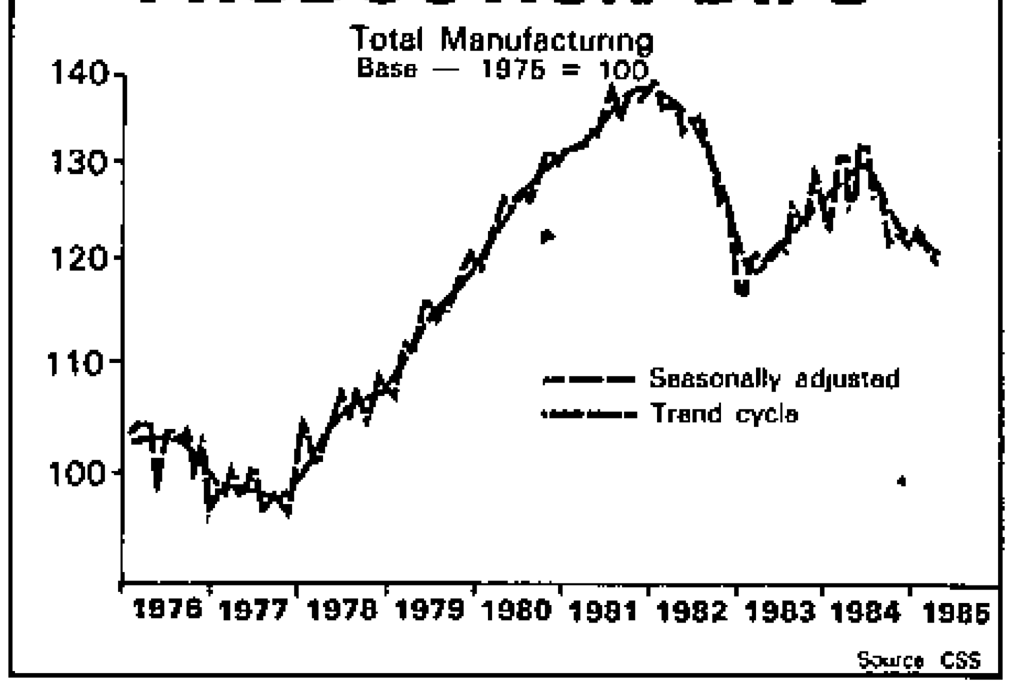
Manufacturing production continues its fall from June last year, according to the latest trends indicated by the Central Statistical Services (CSS). Figures show that the seasonally adjusted manufacturing production index declined on a year-on-year basis by 4,4% to April 1985.

The index dropped to 119,5 (base of 100 in 1975) from 125 in April 1984. For the latest quarter to April 1985, actual manufacturing production dropped 6,5% over the same period in 1984. The major reason for the year-on-year April drop is the 37,5% decline in motor vehicles, parts and accessories.

This sector carries a large weight (5,2%) within the index and, as such, contributed 2 percentage points of the total 4,4% decline.

Also contributing to the fall in manufacturing production was the poor performance in the machinery (excluding electrical) industry. This sector declined by 21,1% over the year and moved the overall index by 1,5 points. The transport equipment has also been hit hard, recording a fall of 21,9%, while textile production dropped 18%.

PRODUCTION DIPS



Of the 27 manufacturing industries covered only 11 recorded increases. Printing and publishing, with paper and paper products, were the most notable. Both sectors showed a production expansion of around 20%. Professional and scientific equipment rose by 11%, tobacco products by 10% and beverages by 4,5%. Food, which carries the largest weight who burned cat is set alight by two men

Tourism hit by township unrest

SOUTH Africa's tourist industry, worth R1 200 million a year, has taken a buffeting as a result of nationwide unrest, it was disclosed yesterday.

Mercury Reporter

At a time when the exchange rate was most favourable for Americans to visit South Africa, Washington officials had warned potential tourists of the dangers of township unrest here, the annual meeting of the South African Tour and Safari Association was told on the South Coast yesterday.

Three major factors considered by American tourists planning a holiday were the risk to their safety, the distance they might be asked to travel and the cost, said Mr Gert van der Veer, chief executive of South African Airways.

As a result of the disturbances throughout South Africa, the national airline expected a drop of 20 percent in U S bookings from August.

Already this year there had been a drop of 11 percent in visa applications from Americans

'The American market has taken a dive,' said Mr van der Veer.

On the bright side European tourists appeared not to have been deterred so much by township unrest and West German bookings had shown a slight increase.

Mr van der Veer said the country's best advertisement was a satisfied tourist.

South Africa could boast a ratio of one in three visitors who returned to the country, one of the healthiest return-rates in the world.

More optimistic views were expressed in Port Elizabeth at the opening of a seminar organised by the Eastern Province Tourist Association.

The deputy director (tourism promotion) of the South African Tourism Board, Mr Kobus Roux, told the seminar that in 1984 R4 600 000 had been spent on international advertising campaigns and a record 454 880 overseas visitors had come to South Africa.

Chairman of the South African Tourism Board, Mr Danie Hough, pointed out that by 1990 tourism would outstrip oil as the world's biggest industry and he felt that in the short term it offered the ... stimulant to ... ery from South Africa's recession.

Damaging

The seminar was being held as part of a campaign launched earlier this month by President Botha to make South Africans aware of holiday possibilities in their own country.

Although tourism had been affected by damaging publicity suffered in the U S Mr Hough said the country remained an internationally attractive holiday destination.

'We have countless friends abroad who have visited this country and who regard it as a wonderful land and a land of wonders.'

Mr Reinoud Boers, director of a tour company, felt that the industry might even help to solve some of the problems which caused township unrest.

A healthy black tourist industry, he said, could create an outlet for tensions and help meet heightened black expectations.

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22/6/85

Economy heads for upturn — Sanlam

By PAUL DOLD
Financial Editor

Cit Times 25/6/85 (49)

SOUTH AFRICANS can look forward to an end to the current deep recession and the start of a new expansionary phase of the economy which will begin towards the end of this year, Sanlam says in its latest economic review.

The economic recovery is occuring far more rapidly than anticipated as is indicated by a 14 percent fall in real gross domestic expenditure in the first quarter.

At the same time there has been a better-than-expected improvement on the current account of the balance of the payments as well as:

- A downtrend in interest rates.
- Indications that inflation could drop considerably next year.
- More realistic wage and salary demands.

While the economic outlook is encouraging, Sanlam cautions that the expansionary phase will be moderate and notes that the foreign reserves are unlikely to be able to accommodate a strong recovery in the economy.

The current account of the balance of payments is expected to maintain its favourable trend and show a surplus of more than R3 000m this year, but conditions on the capital account are not promising.

Sanlam's economists believe that the greater part of the surplus on the current account will be used to repay the Republic's large short-term foreign debt.

On the outlook for the current account, the review says that even though the industrial countries are showing slower growth, exports helped by the weak rand will show a further considerable rise.

The gold price should remain relatively stable, possibly increasing later this year. The sharp drop in domestic spending will restrict imports markedly in coming months.

The prime rate will continue falling, reaching some 16 percent by the middle of 1986.

The Reserve Bank is expected to prevent too rapid a decline in short-term interest rates through open market transactions and its discount policy.

The outlook for long-term rate falls is bullish too with the trend likely to contune until the end of 1986. But domestic inflation and inflationary expections will restrict the downward potential of the long-term rates substantially.

Sanlam sees a floor at 14 percent.

The inflation rate is likely to fluctuate around the current 16 percent level over the next few months but later this year and in 1986 will decelerate rapidly.

"At this stage we anticipate an average inflation rate of 15 to 16 percent in 1985 compared with 11,7 percent in 1984."

The South African economy is cooling down significantly and production in manufacturing, trade, transport and construction is still declining.

Only the agricultural and mining sectors are seeing growth thanks to the recovery from the drought and increased exports.

There has been a marked slump in the demand for goods and services mirrored in car sales and retail turnovers. In turn, lower levels of employment are leading to moderate salary and wage increases.

Consumers also face strict hire-purchase requirements, increased financing costs, higher tax and rising inflation.

Consumer confidence has weakened considerably and the immediate prospects for private consumer spending are not bright. Overall the forecast says retail sales are expected to fall by 2,5 percent.

There has been a drastic easing in the labour market and even skilled workers and managers are now being retrenched to an increasing extent. As a result, wage and salary increases have been well below the inflation rate.

Inventories are being run down in the wake of falling demand and this has hit the industrial sector.

Capacity utilization is also declining. In the construction sector real production has dropped continuously in the past months.

End of recession near, says mines chief

NM 26/6/85 (49)

Mercury Correspondent

JOHANNESBURG — The end of the current recession is in sight and there are positive indications of a better year ahead, said Mr George Nisbet in his presidential address at the annual meeting of the Chamber of Mines yesterday.

Mr Nisbet believes that the severe and prolonged economic downturn has bottomed out and that the business community is beginning to regain its confidence.

The recent drop in interest rates and a firming of the rand are seen as a sign that the authorities have at last gained a better control over the country's money supply.

Last year the mining sector achieved revenue of a record R19 000m, boosted by the favourable exchange rate of the rampant U S dollar against the near terminal rand.

Although the real gross domestic product increased by 4,5 percent in 1984, almost all the growth occurred in the first quarter of the year and was followed by six negative months accompanied by accelerating inflation and growing unemployment.

Mr Nisbet said that the present economic and political environment of the country has given rise to the widespread domestic unrest and violence in recent months and that the Chamber of Mines, on behalf of South Africa's private enterprise mining industry, continues to advocate reform of the country's racial policies and practices.

Last year the South African gold mining industry employed about 500 000 blacks whose three million dependants — 40 percent of them living in foreign countries — rely on earnings from the mines for their economic survival.

The chamber estimates that mine employment constitutes a R1 000m lifeline for black families in Southern Africa.

Mr Nisbet urged foreign business communities to become more involved in South Africa and its economy, and by example and encouragement help the process of reform.

The South African gold mines experienced a fall in the average grade of ore treated, from 6,55 grams a ton in 1983 to 6,44 g/t in 1984. This was countered by a record 101m ton of ore milled, resulting in the production of 651 tons of gold by the chamber's member mines.

Production from other sources raised gold output to 681 tons for 1984, a marginal increase compared to the previous year.

South African mineral sales in 1984 experienced a rather mixed reception.

Gold accounted for more than 60 percent of all mining revenue but faced a falling average price in dollar terms, from $425 in 1983 to $361 an ounce in 1984.

The widening exchange rate boosted the local price for the metal, producing a record revenue of R11 560m, some 13,6 percent higher than the previous year.

Coal not only maintained its second spot in 1984 but recorded an increase of not less than 30,8 percent in the value of sales to R3 426m.

Mr Nisbet noted that both silver and diamonds had a poor year, with the value of both minerals declining in spite of the falling value of the rand.

Silver sales for 1984 at R66m were 6,8 percent down on the previous year and diamond sales at R518m were some 3,6 percent below the previous year's figure of R538m.

Sales of metals and minerals other than gold, silver, diamonds and coal in 1984 were valued at R3 438m, some 21 percent more than the previous year's figure of R2 838m, said Mr Nisbet.

Working costs accelerated during 1984 with the cost a of ton of ore milled up by 13,2 percent compared to 10,7 percent in 1983.

Mr Nisbet claimed that this caused a squeeze on profits and necessitated slightly lower dividends paid by the industry.

Wages paid by the industry increased on an average of 14 percent and capital expenditure by 17 percent.

Mr Clive Knobbs, chairman of the gold and uranium division of Rand Mines, was elected president of the chamber. He succeeds Mr Nisbet in the position.

The two vice-presidents are Mr E P Gush, executive director of the Anglo American Corporation and chairman of the corporation's gold and uranium division, and Mr T I Steenkamp, director responsible for manpower at Gencor. — (Sapa)

DE KOCK REPORT REVISITED

An elusive eel

4a

Is targeting the money supply growth feasible in SA — given the many constraints within which Church Square must work? Various economists give their views. Consensus is that SA's commitment to free markets in the next few years will be severely tested.

The De Kock report recommendations have, on the whole, been enthusiastically received. With the dwindling band of anti-monetarists abstaining, the Reserve Bank's stated commitment to free markets has been applauded.

It is clear, however, that such commitment will be sorely tested over the next few years. Identifying the fight against inflation as the primary objective of monetary policy will prove easier than doing battle with the dragon. As experience in other countries has shown, targeting money supply growth successfully is as simple as getting to grips with a healthy, well-greased eel.

In Britain, for example — according to central bank economists no less — any monetary target chosen by a British government becomes meaningless within six months. As other economists have drily observed, monetary targeting doesn't work — except by accident.

The apparent intractability of the task does not, however, mean it is misplaced. Firstly, it implies an acceptance that inflation is a monetary phenomenon. Says Standard Bank's chief economist, André Hamersma: "Targeting is highly desirable because it makes it explicit that it is the Reserve Bank's job to fight inflation. We will now know where to lay the blame for inflation. Whereas the Reserve Bank was always responsible for inflation, it will now also be accountable for it.

"Although most of De Kock's recommendations are now in place, targeting is a necessary ingredient of the final mix. If people say money can't be managed, then they are saying we can't fight inflation, which is clearly unacceptable."

Adopting the principle of targeting will also impact on the economy more than the targets themselves. Says Barclays group economist, Johan Cloete: "Whether M1, M2 or M3 is eventually targeted, the monetary authorities will be forced to take a forward view of the economy. This means adopting a proactive, rather than a reactive approach to economic policy, enabling the economy to be pushed in a certain direction. It is this recommendation which will have the greatest impact on the economy.

"Previously the Reserve Bank used to wait until things happened. By this time it is normally too late, and the response often aggravated the situation. An example was the prime rate adjustments of last year.

"It also means that other targets will have to be aligned to this target, ensuring that a more consistent mix of policies is adhered to. Whether the target they adopt is 'low-key' or not, they are going to be responsible for that target, and will have to plan accordingly."

It will remain a Sisyphean task, however, unless the transition to complete deregulation is swiftly executed. The original impetus for the monetarist approach to inflation came from Milton Friedman's study of US monetary history. He concluded that, as inflation is caused by too much money chasing too few goods, if the supply of money is controlled, inflation will stop.

But US monetary past bears very little resemblance to local monetary past, or for that matter, the present. The primary difference is that the Federal Reserve has been able to manage the economy in the short run because the entire system is very sensitive to interest rates. That is, money and credit obediently contracted when rates were pushed up. Under these conditions, the growth of the money supply — just cash and deposits — was a good indicator of whether policy was courting inflation, strangling the economy, or was on target.

Without a concomitant commitment to deregulation, and especially the removal of exchange controls, the Reserve Bank is going to find the targeting eel very slippery indeed. According to informed sources, a stumbling block could come from within the Treasury itself.

However, there is evidence that a half-hearted acceptance of monetary targets will do more damage than a reversion to direct controls. As Hamersma says, no one said the move toward unshackling the economy would be easy, but it will require a bold commitment.

Others are more dubious about the possibility of achieving these aims. According to Frank Shostak, the *enfant terrible* of the dismal science, targeting within the present framework will be Mission Impossible.

The most important problem, he argues, is pursuing a monetarist approach with inadequate monetary tools.

"As far as I'm concerned, the recommendations change nothing. The focus of the report is still on interest rates, through which no target can be attained. At the same time, using interest rates can kill the economy completely."

He adds: "The reduction in reserve assets, without confining it to cash alone, as is the case in the US, means that the banks will be

FM 28/6/85 **L to R: Shostak, Geldenhuys, Hamersma . . . half-heartedness won't work** (49)

able in the short term to lend out more money. The Reserve Bank has no tools to prevent this from happening, which means the same mistakes of 1983 could be repeated.

"We need to control excessive money supply growth rather than monetary growth *per se.* That is, the extent to which it exceeds gdp growth must be monitored. The decline in the buying power of money, that is, inflation, can't be resolved through recession. There is a need to control without damaging the economy, and this means controlling the money supply and not money demand. We must stop interfering with behavioural patterns."

Gerhard De Kock knows this. But with reports of this kind, which imply painful adjustments and rude disturbance of comfortable assumptions, it is sometimes necessary to gild the lily with cautious, sometimes apparently contradictory language to allay the fears of those who favour continuing interventionism in economic policy.

That is the style of official reports in SA. But no one should underestimate the underlying determination of the commission to break the mould of past practice. Church Square will do so in its own way, proceeding with caution and discipline.

And in the end it will doubtless come to the conclusion that central bankers in the US and Britain have now arrived at: stop struggling to control money supply growth and it will probably start behaving itself. ■

No bond rate fall till year-end says NBS chief

(49)

Finance Editor NM 9/7/85

THE mortgage bond rate will not fall until the end of the year, expects the chairman of the Natal Building Society, Mr H G Chapman, who was speaking at the annual meeting in the city last night.

This was in spite of falling interest rates. They, like other societies, were locked into deposits on which they had to pay high interest rates and could not drop the bond rate rapidly.

He said NBS shareholders will decide whether the society remains mutual or becomes a company.

However, after a transfer of R17,5m out of the current year's profits to reserves they would have a ratio of 3,95 percent of reserves to liabilities, which was very close to the four percent proposed in the new law.

Savings

Since the year-end they would have passed the 'ideal' four percent mark.

The society stepped up its intake of savings by a small amount 6,6 percent — or R120m in cash — as part of a deliberate policy not to rely on a disproportionate amount of 'wholesale' money.

Mr Chapman said the small rise reflected the 'limited amount of public savings available' despite the highest interest rates.

Dealing with the proposed new laws for building societies Mr Chapman made six points:

- The role of building societies was changing in the monetary system — tax-free, or partially tax-free investments would be phased out over a possible 10 year period: they would get new powers to offer a wider range of profitable services;
- The minimum capital requirements would be demanded of either a mutual or a company structure;
- Shareholders, who had held shares for at least a year, would have to choose which route the society would follow and would be allocated shares in proportion to their holdings but at least 100;
- The directors think that at present, there are 'worthwhile advantages in converting to a company;.'
- The concept of direct Government subsidies for low-income borrowers was strongly supported by the directors; societies would continue to use the bulk of their funds for housing. The cost of funds would rise as a result of the new laws but this would attract more funds, Mr Chapman believed;
- Whatever the future status of the NBS, 'our social responsibility to the people of South Africa will remain unaltered.'

Reserve Bank worried by forward exchange losses

(49) Star 12/7/85

By Dr Roger Gidlow
Special Economic Adviser to the Reserve Bank

The aggregate losses incurred by the Reserve Bank on forward exchange account over the past 10 years amount to several million rands. These losses have been a worrying state of affairs both for the central bank and the Government.

The Reserve Bank furnishes forward cover for rand/dollar transactions for banks as well as public corporations and municipalities.

The losses have originated from the unbalanced nature of its forward exchange commitments to sell dollars forward which exceed its commitments to buy dollars forward.

This short position in dollars means that when the rand falls markedly against the dollar the Reserve Bank is especially liable to incur losses in meeting its net commitments to sell dollars forward. There is no obvious way in which the bank can cover its exposed position.

These losses largely explain why the central bank has decided to withdraw from the forward market over a period of time by means of progressive reductions in the amount of forward rand/dollar business which each bank can conduct with the bank. This is being done by scaling down the amount of the swap lines which are granted to each bank by the central bank.

These intended changes, however, do not automatically affect the forward exchange cover which the Reserve Bank, on behalf of the Treasury, supplies for periods of longer than 12 months to public corporations and government bodies on the rand/dollar leg of their foreign loan transactions.

The final report of the De Kock Commission makes no specific recommendations that these forward cover facilities be withdrawn.

The cost of forward cover charged by the bank on these transactions has been relatively cheap, and so long as such cover is furnished at subsidised rates the central bank will remain exposed to potential losses on forward exchange account.

This raises the issue of whether such facilities should be made available to public corporations and other public sector entities.

They have been justified in some quarters on the grounds that long-term capital inflows have been encouraged since the public corporations have found it cheaper to borrow abroad, after taking into account the cost of obtaining forward cover from the bank, rather than borrow in the domestic markets.

Foreign reserves have therefore benefited, while the pressure on domestic interest rates has been moderated.

It has also been argued that public corporations could face difficulties in getting forward cover on large loans if they were forced to use the mechanism of the forward rand/dollar market.

The opponents of these arrangements argue that the Reserve Bank, by providing forward cover to these bodies in the public sector is providing a subsidy to them which is paid for by the community at large (ie the taxpayer).

The allocation of economic resources is therefore distorted, because the prices of items such as electricity provided by Escom do not reflect the true costs incurred, while taxes are higher than would otherwise be the case.

MORE PROFESSIONAL

Other distortions also proliferate because the exchange rate and domestic interest rates would be different in the absence of these forward cover facilities extended by the central bank.

Critics also assert that in the absence of these facilities public sector entities would become more professional in their management of funding their capital expenditures, and more particularly in connection with the handling of their foreign exchange dealings.

They would be pressured to acquire skills in the area in a par with these which exist in the private sector.

The critics also dismiss the claims that inadequate forward facilities for long-dated maturities exist in the private market.

Apart from the occasional extremely large loans raised by public sector borrowers, they argue that the availability of cover facilities is not in question. Only the cost of such forward cover would be different.

Money supply control aids economic stability

SA may introduce monetary targeting

(49) Star 15/7/85

By Dr Roger Gidlow
Special Economic Adviser
to the Reserve Bank

In recent years numerous countries have adopted targets for the growth in their money supplies which they try to adhere to over specified periods of time.

Monetary targeting indeed has become an important element of monetary policies in countries such as the United States, and is based on the assertion that it facilitates the attainment of a stable growth in output and more especially low rates of inflation in the medium term.

Monetary targeting could be introduced in South Africa in the not too distant future if the government accepts the recom mendations of the final report of the De Kock Commission.

The kind of targeting suggested by the commission, nevertheless, does not conform to the strict type advocated by some monetarists. It has rejected the idea of rigid monetary targets which would imply adhering to the targets at all costs and therefore allowing interest rates and the exchange rates to find their own levels at all times.

This rejection is based on the argument that such targets are totally unsuitable for South Afri ca partly because of the volatile economic conditions which can result from unpredictable fluctuations in the dollar price of gold and other external factors as well as unforeseen developments in the agricultural sector.

Given the open nature of the local economy, rigid monetary targeting could lead to very substantial changes in the exchange rate at times, which could produce disruptive economic effects on export industries.

Instead the commission envisages the introduction at some stage of low profile and flexible targets for one or more selected monetary measures which would be made public.

This would incorporate tolerance ranges for the targeted rates of increase in the various measures rather than single rates, which would be set once a year for periods of twelve months at a time.

Provision would also be made for a revision of the targets within any twelve month period if this was deemed desirable, although it would be prudent to avoid changing or breaking the targets so frequently that the policy loses its credibility.

In setting and changing the targets, or letting them be breached the monetary authorities would exercise discretion based on their assessment of the general economic situation and prospects at the time.

This assessment would include the Reserve Bank's view on the appropriate level and structure of interest rates and exchange rates at that stage.

The opponents of any form of monetary targeting can present a strong case.

They can point to the maverick nature of the velocity of circulation of money, that is, the speed with which money changes hands, and the shifts in credit which can be furnished within or outside the banking system. Such changes only complicate any meaningful interpretation of the money supply statistics.

FLOATING RAND SYSTEM

Such opponents can similarly point to the substantial changes in the cash base of the banking system which can emanate from movements such as the price of gold.

Even under the floating rand system the overall balance of payments position can be altered radically and quickly, and it is not always easy for the authorities to neutralise the impact of this on the cash base of the banks.

It is, however, precisely these problems which partly explain why the commission opted for low profile and flexible monetary targets.

Even if the principle of flexible targeting is accepted, there are major obstacles to the speedy implementation of such a monetary regime. Apart from the recent high growth of the monetary aggregates, there is the tricky problem of determining which measures of the money supply would be suitable for targeting purposes. This raises a host of technical issues.

In spite of the pros and cons targeting can be useful in spreading awareness of the link between the money supply and prices.

It can be helpful in curbing the propensity of governments to spend money, because central banks can emphasise to politicians that spending in excess of certain levels will entail exceeding the money supply targets if such spending is financed by resort to bank credit.

How the economy is likely to be affected

NM 22/7/85 (49) (327)

JOHANNESBURG—The state of emergency could slow the recovery that had recently begun to pull the country out of its worst post-war recession, but should have no dramatic effect, economists say.

Some believe the emergency measures could even aid the economy if they bring calm to the country, gripped by violence that has left about 500 dead over the past 18 months.

Reserve Bank Governor Mr Gerhard de Kock said he did not think the measures would materially affect the economy and much would depend on what developed.

Mr de Kock said a disinvestment campaign against South Africa and overseas perceptions of unrest were not conducive to increased investment, adding these factors had already had a harmful effect on the South African economy.

In spite of this, however, the economy has improved dramatically, neutralising the impact, he said.

Mr de Kock said he did not see a net increase in capital outflow, adding he saw robust recovery for the economy in the next six to 12 months 'if the situation is well handled'.

Economists are projecting a current account surplus of around R3 billion this year as imports drop under pressure from austerity curbs and exports show a significant rise.

The Finance Minister, Mr Barend du Plessis, said in May that the current account surplus rose to an annualised seasonally adjusted R4,2 billion in the first quarter this year after a R2,8 billion deficit in 1984.

However, economists said the clampdown, which gives security forces powers to impose curfews and censorship and detain people indefinitely while banning the media from publishing details of people held, could exacerbate the disinvestment trend already apparent in financial markets.

Economists and analysts believe that capital will not flow out of the country to the extent it did during the 1976 Soweto riots when 575 died. Even then, they said, the outflow was not that great.

Economists said one of the short term costs of the clampdown could be to make domestic finance more expensive.

One said he believed South Africa would find it increasingly difficult to get overseas loans and when it did they were likely to be for shorter periods and could be more expensive.

The high rate of unemployment among blacks is one of the reasons blamed for the current unrest in South Africa.

Most of the money market economists interviewed said they did not expect the rand to move dramatically when markets opened today — (Sapa-Reuter)

JSE prices follow gold's increase

49

Star 23/7/85

The enormous influence the international gold price has on the local stock market was reaffirmed this morning, pushing considerations regarding the state of emergency to the background.

Gold recovered on world bullion markets this morning, putting on more than $5 from its overnight levels. As a result the Johannesburg Stock Exchange firmed across a broad front led by gold and other mining shares.

Yesterday, under the influence of a falling gold price and uncertainty generated by the state of emergency, share prices retreated.

However, there was no suggestion of any panic selling and indeed most shares coming on to the market were sold by overseas investors while local operators took a much more positive view of the situation.

The rand, too, was stronger on the local foreign exchange market, recovering virtually all of yesterday's losses.

Grade 10

0.00	0.00	17.59	20.22	21.98	23.74	27.72	27.72	31.68	34.76
0.00	0.00	30.07	24.45	24.59	23.67	21.76	19.96	21.88	21.47

Current Hours: 44 Hourly Change 1975 to date: Nominal +0.0% Current Real Weekly Wage: R 19.85

Grade 12

11.88	15.84	19.43	21.58	23.74	25.90	30.24	30.24	34.56	38.16
22.12	29.06	33.21	26.09	26.55	25.82	23.74	21.77	23.87	23.57

Current Hours: 44 Hourly Change 1975 to date: Nominal +425.6% Real +61.2% Current Real Weekly Wage: R 21.79

No panic in world markets

By Neil Behrmann

LONDON— The State of Emergency had minimal effect on South African securities on international markets. Business reaction has also been muted.

'There has been no panic,' said a New York analyst of Merrill Lynch, although 'there were concerned inquiries from offices throughout the U S.'

Gold shares were marked down in London, but large-scale sales were absent. When the gold price improved in the afternoon, prices recovered from their worst levels. Share prices of Barclays and Standard Bank and other U K issues with interests in South Africa fell slightly, but brokers said that there were no major sales.

South African gold shares, however, have been under-performing Australian and Canadian issues for some time. American fund managers have offered lines of shares during the past few months

NM 23/7/85

The rand

The rand remained steady at 52,20 U S cents. South African bonds on the Euro-markets were left untouched by the latest developments, but yields of S A dollar bonds were already 1pc to 2pc higher than top-quality bonds.

Between 1976 and 1984 net long-term capital of R4,35 billion flowed into South Africa, but almost the entire amount came from borrowing by Government and semi-Government organisations.

In recent years the poor performance of the economy discouraged new investment, but the 'harsh fact is that politically-inspired market forces' have already stopped an inflow of foreign capital which is urgently needed, said a banker.

Star

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Gold and dollar movements hit S A money market more than 'Emergency'

NM 49

23/7/85

Finance Editor

THE drooping gold price and the rising dollar seemed to have had more influence on the South African money market yesterday than Saturday's declaration of a state of emergency in many parts of the country.

Money market rates closed little changed in continued quiet trading.

Most rates were steady at around Friday's closing levels, although three-month rates were bid marginally higher, as in the key 90-day liquid bankers' acceptance rate at 16,85 to 16,90 percent after an unchanged opening fix of 16,80 percent.

The market shortage narrowed to R312m on Saturday from R467m on Thursday while among other market indicators, the average Land Bank bill rate rose slightly to 16,52 percent from 16,49 percent at yesterday's tender.

Capital market rates edged higher in quiet and nervous early trading in response to the weaker gold price.

Small interest mainly centred on RSA stocks where the 13 percent 2005 moved up to about 15,13 percent from a close of 15,07 percent on Friday.

The rand opened weaker at 52,25/35 U S cents against its 52,80/90 close here on Friday, reflecting a stronger dollar and lower gold price.

Trading was very quiet, with the state of emergency having no major impact so far. The market is very nervous with attention focussed for any foreign reaction, dealers added.

It closed at 52,20/30 U S cents.

The announcement of the emergency could have negative effects on the rand, but no dramatic fall-off in the demand for the rand was expected at this stage, the Standard Bank said in its International Comment for July.

'Political unrest increases the risk attached to investing in the local economy and risk averse foreign investors would no doubt attach a great deal of importance to prevailing political instability.

'However, no dramatic fall-off in the demand for the rand is expected at this stage.'

Standard said last week's measures could result in a renewed lack of confidence in the rand by local traders and this could exert some downward pressure on the local currency.

This factor, together with the uncertainty surrounding gold bullion, could undermine the rand in the short term, Standard said

S A markets not shaken by emergency, says De Kock

49

NM 24/7/85

JOHANNESBURG— South African financial markets have been little influenced by the State of Emergency imposed on parts of the country at the weekend, Reserve Bank Governor Dr Gerhard de Kock said.

'So far, from our point of view, very little has happened,' he told Reuters.

Share dealers in Johannesburg said there had been some moderate overseas selling of gold shares and selected industrials, following the announcement. Dr De Kock said the amounts sold had so far been relatively small and added that the main factor was still the gold bullion price.

He ruled out the possibility of any further restrictions on South African markets as a result of the emergency.

Dr De Kock, in common with dealers, said the foreign exchange, money and capital markets had so far been unaffected. The Reserve Bank had been a net purchaser of spot dollars this week, as it had been for the past three months, he said.

Economists say the markets have not been shocked by the State of Emergency, as rioting in black townships has been continuing for the past year- and-a-half.

About 500 people have been killed.

The imposition of South Africa's last State of Emergency in 1960, after the shooting of 69 black anti-apartheid protesters by police in Sharpeville, south of Johannesburg, was followed by a substantial outflow of capital and a fall in reserves.

After Sharpeville, the Government nursed the economy back to growth by imposing new controls on imports, blocking the repatriation of distributed profits earned by foreign investors and imposing tight controls on the export of capital in general.

Dr De Kock said it was too early to judge the effect of the emergency on the capital account of the balance of payments.

But he said very preliminary estimates indicated that there was no capital outflow in the second quarter of the year, following a substantial outflow in the first.

He said it seemed as if the net reserves had risen by the full amount of the current account surplus in the second quarter, which appeared to be running at a level close to the annualised R4 200m in the first.

'It's not as if we're running a current account deficit and borrowing overseas. Our official net gold and foreign reserves have been rising steadily since the end of March,' he said.

He said it looked as if the rand value of gold output was lower in the second quarter than in the first, but the value of imports declined and exports continued to rise. 'They're running at a very high rate now,' he said.

Dr De Kock said the bank was some way from stepping out of the forward exchange market, even though it was happy to do so.

He told a seminar on the De Kock Commission, which reported in June on South African monetary policy, that the 'service' the Reserve Bank provides by selling or buying foreign exchange in unlimited amounts had cost the Reserve Bank close on R2 000m in the year ended March 1985, compared to around R643m in the previous fiscal year.

Cost

Dr De Kock said the bank was more than 'happy to step out' of the forward market and while the commission, which he chairs, said the process should be accelerated, he did not think it was possible, considering current circumstances.

The cost of operations in the foward exchange market, where currencies can be traded for delivery at some specified date in the future, is borne by the taxpayer.

Dr De Kock said he believed that in proposing monetary growth targets it was better to keep a low profile and not 'oversell' targets, as markets could over-react in expectation of response from the central bank if targets were over or under-shot. — (Reuter)

Sanlam sees two-point interest rate fall

49

NM 24/7/85

JOHANNESBURG— South African interest rates will fall by about two percentage points during the second half of the year; and although expectations of high inflation will slow the decline of long-term rates, they will fall by half to one point, life assurer Sanlam said.

It said in a survey that the easing would reflect, among other factors, easy liquidity in the money market, continued deceleration of domestic economic activity until late 1985 and a levelling-off of inflation and a firmer gold price. Prime rate is 21 percent.

South Africans can hardly be proud of the country's productivity record, Sanlam says. Sharp increases in salaries and wages, coupled with poor productivity had contributed to the sustained high inflation rate in the past few years.

Output

'If we examine the trend of labour productivity, we find that in the past 10 years South Africa has hardly managed to maintain an average growth rate of 1 percent a year,' Sanlam says.

'Together with the tendency of workers to demand salary and wage rises equal to or even more than the rate of increase in the Consumer Price Index, this has caused unit costs to climb considerably.

'In turn, these have served as a basis for the next round of price and wage hikes.'

Even more disturbing was the fact that South Africa's labour productivity compared unfavourably with that of other countries. In addition, the rate of increase in labour remuneration was considerably higher than in other countries.

'This unsatisfactory state of affairs has been an important underlying factor in our consistently high inflation rate and in the impairment of our ability to compete internationally.

In addition to the factor of labour, the effective use of capital, land and material were also important in determining inflation.

'For example, our analyses show that the productivity of capital dropped annually by an average of approximately 2 percent in the past 10 years, with the result that considerably more capital was needed to produce the same quantity of goods and services and to employ the same number of workers,' Sanlam says.

The economic consequences of these broad underlying trends, together with substantial salary and wage increases, were disastrous.

Competition

'Prices of locally-produced goods and services have been driven way beyond their intrinsic values, competition on internationl markets is being adversely affected, company profits are under pressure, the balance of payments and the external value of the rand are deteriorating, and ultimately, the country's capacity for growth and employment suffers.

'If we wish to compete with the other industrial countries, this spiral of unfavourable factors will have to be arrested and turned around.

'The effective use of all our resources, together with a more flexible attitude towards salary and wage demands, will have a beneficial effect on inflation and inflationary expectations in the longer term.'— (Sapa-Reuter)

AECI's 6-month earnings fall 6pc

49

NM 24/7/85

JOHANNESBURG— AECI had a 6 percent decline in attributable earnings in the six months to June, compared with the same period last year, but the directors expect earnings for the full year to match last year's, at least.

The group has maintained its interim dividend at 24 cents per share and expects to maintain profitability and dividends for the full year at last year's levels subject to no major disruptions occurring during the remainder of the year, such as a further decline in the value of the rand, further deterioration of the economy or disruptive labour problems.

Releasing the interim results in Johannesburg yesterday, the group's managing director, Mr Ted Smale, said the 33 cents earnings per share achieved in the period was on budget.

Money cost

'The results reflect the cost of money, foreign exchange and increased costs,' he said.

While the group had benefited from the growth phase experienced by the mining industry, most of the other industries it catered for, notably the motor industry, had been severely hit by the recession and affected the 'sharp end' of the group's operations accordingly, Mr Smale said. Margins in these areas had been cut back sharply.

Capacity utilisation in the group overall during the review period was 72 percent. The volume of domestic sales for the first six months was similar to that of the same period of 1984

However, most of the operations had reached the bottom of the downturn and could be expected to show an improvement in the second half, which Mr Smale estimated would be about 10 percent better for the group as a whole than the comparable period of last year.

Chiefly because of the depreciation of the rand, exports increased substantially against the first-half of last year, from R78-million to R97-million, with increased volumes accounting for only about 7 percent of the increase. Mr Smale said exports for the full year were expected to total R203-million (R173-million).

Total attributable earnings for the period were R51-million, compared with R54-million in the comparable period, or earnings per share of 33 cents (35 cents).

Turnover was 14 percent up at R1 081-million (R948-million). Trading income was R106-million (R107-million).

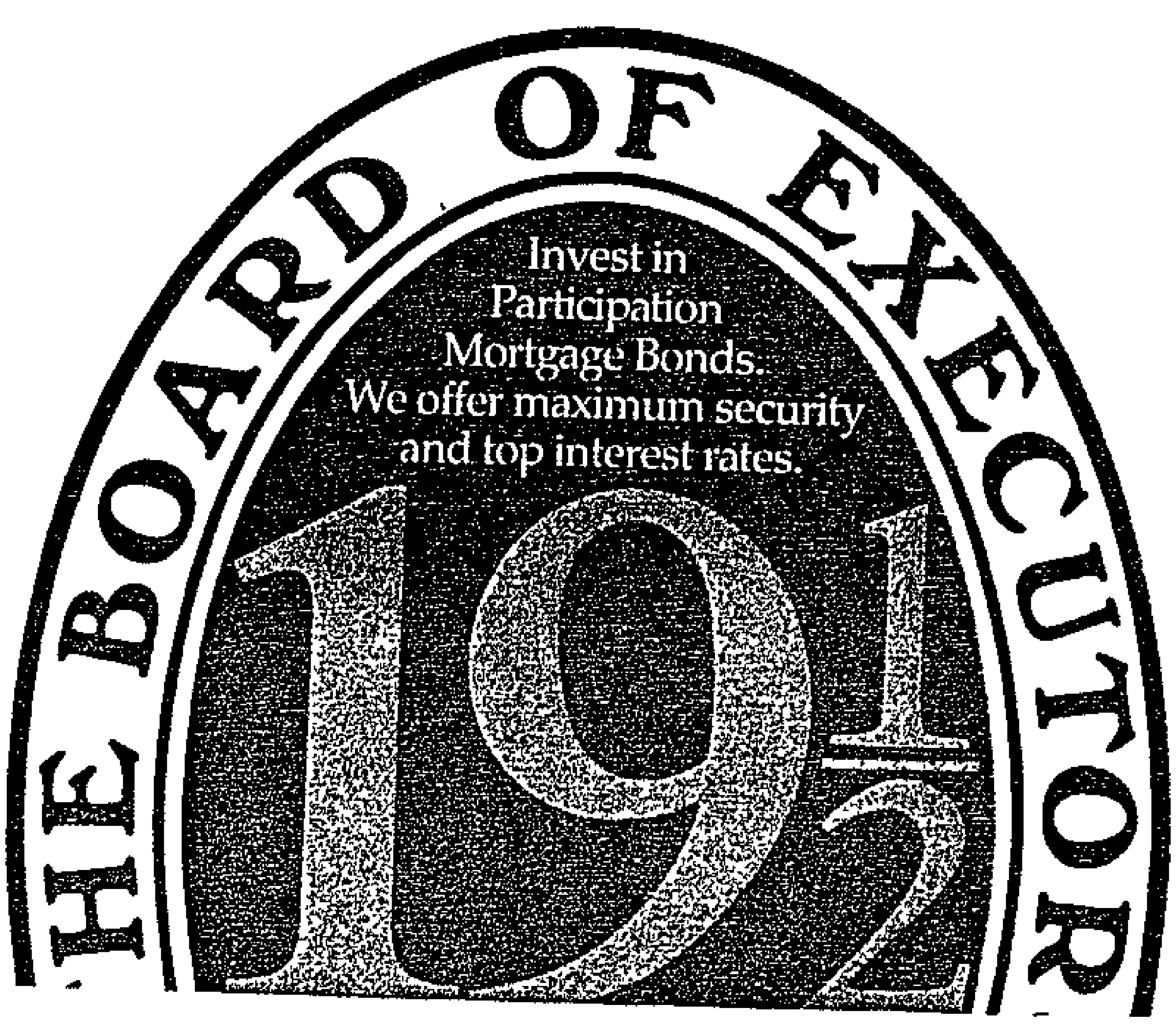
Unrealised exchange differences on foreign borrowings amounted to R8-million (R5-million), forming part of financing costs amounting to R40-million (R30-million). second-half of last year.

Capital expenditure of R80-million was well down on the R147-million in the first-half of last year. — (Sapa)

Dealers focus on dollar's prospects

LONDON— Gold bullion markets are focussing firmly on prospects for the dollar and inflation rather than on the worsening unrest in South Africa dealers said

'I cannot see any material effect on gold prices in the short, medium or long term unless things get totally out of hand and there is a total cut-off in production,' said one prominent dealer — (Sapa-Reuter)



No falls in interest rates for next three months

Borrowers may pay less at end of year

(49) Star 25/7/85

By Peter Farley

Borrowers could be in for another spate of cuts in interest rates towards the end of the year, but there is not likely to be much of a downwards movement for the next three months.

Barclay's deputy MD Mr Barry Swart said he felt rates had reached the right level for the time being, after the four-point cut in prime to 21 percent in the last couple of months.

But, he added, there should still be scope for another three or four point reduction to 17/18 percent by the end of the year.

However, several factors militate against any decline in the immediate short term.

The most important of these is the continuing growth in the inflation rate, currently at 16,4 percent, which is not expected to peak until September.

Mr Swart said any further cut at this stage would therefore be prohibitive as it would not allow a meaningful real return.

Another pressure keeping rates at current levels is the knowledge that August and September are traditionally months of higher demand for credit due mainly to half-yearly tax payments. Once this period is over, and there are signs that inflation is beginning to recede, there will be an opportunity to reduce rates.

Mr Swart said, however, that he expected the next round of rate cutting to be led by the commercial banks without waiting for the Reserve Bank to lower the rediscount rate.

He pointed out that the last reduction was virtually the retail banks leading the way with an almost simultaneous announcement from the banks and Pretoria.

There was pressure on the authorities from the IMF not to be seen encouraging lower rates, and rather allowing the marketplace to openly dictate the levels.

The only significant factor against another sharp prime rate drop towards the end of the year is the possibility of offshore money coming back into the local system.

Should rates drop too quickly, Mr Swart said, many local companies who have borrowed overseas could be encouraged to switch their funding to the local markets. This would instantly create an excessive demand for credit and could easily force rates back up again.

Frank Jeans writes: While the bond rate is expected to drop by the end of the year, the suggestion of a two percent adjustment might be a little optimistic, says Mr Hans Falkena, economist at the United Building Society.

If the current top rate did fall from 21,5 to 19,5 percent a R60 000 bond-holder would save about R94 a month. A 1,5 percent reduction would mean a saving of R74. "Much depends on the Reserve Bank if it makes a move on the rediscount rate," says Mr Falkena.

"We can expect the bank to play it fairly cool, and it is possible the overdraft rate will be about 19 percent by the year end. If that happens the bond rate will follow."

CINEMA METRO - Page 2 72. 1985

Grade 10

0.00	0.00	17.59	20.22	21.98	23.74	27.72	27.72	31.68	34.76
0.00	0.00	30.07	24.45	24.59	23.67	21.76	19.96	21.88	21.47

Current Hours: 44 Hourly Change 1975 to date: Nominal +0.0% Current Real Weekly Wage: R 19.85

Grade 12

11.88	15.84	19.43	21.58	23.74	25.90	30.24	30.24	34.56	38.16
22.12	29.06	33.21	26.09	26.55	25.82	23.74	21.77	23.87	23.57

Current Hours: 44 Hourly Change 1975 to date: Nominal +425.6% Real +61.2% Current Real Weekly Wage: R 21.79

FOREIGN OPINION

ARGUS 29/7/85 (49)

SA economy in a mess — British paper

PETER MANN of The Argus Foreign Service in London reports on a major examination of the South African economy by one of Britain's most influential newspapers

SOUTH AFRICA'S economy is in a mess and widespread disturbances would have profound implications for Britain, the influential Sunday Times of London has concluded.

In a major, full-page business survey the paper paints a gloomy picture of South Africa sliding deeper into recession and wrestling with growing unemployment, increasing emigration and vast sums of "funk" money leaving the country.

It notes that 250 000 British jobs depend on South Africa.

If Britain attempted to impose sanctions South Africa could retaliate by cutting off strategic raw materials — a move which experts say would cost 180 000 British jobs.

The Sunday Times says South African attempts to counter the plummeting gold price and the strong dollar last August, by raising interest rates three percent to an unprecedented 25 percent and imposing "savage" hire purchase restrictions, did not work.

The fall of the rand did not stop, it lost 47 percent in a year. And South African companies misread the foreign exchange markets when buying dollars forward and lost another R5,2-billion.

Inflation was now seven percent. Unemployment was up 68 percent in a year, with an estimated three million blacks unemployed. Half of these were in the "hated" black homelands.

"More crucially," says the Sunday Times, "the black National Union of Mineworkers is set to strike over pay in 27 gold mines and collieries.

"This would cripple the minerals sector, the one bright spark in the economy."

Port Elizabeth, once the Detroit of South Africa, was now derisively called "the ghost on the coast". The large car manufacturers, General Motors, Ford and Volkswagen, were operating at half capacity.

Only three of the country's 10 car makers expected to make a profit this year. Sales figures for June were 52 percent down on June 1984.

The housing market had crashed. Thatched houses in Johannesburg's elegant suburbs which were selling at R350 000 a year ago were now marked R190 000 and "very negotiable".

Last week, after the announcement of the State of Emergency, prices simply nosedived with falls of up to 50 percent at the top end and 20 percent on homes below R120 000.

The outlfow of funk money was accelerating. In the first quarter of 1985 Reserve Bank figures showed that nearly R2,9-billion left the country for "safer" destinations, the same figure as for the whole of 1984.

In April emigration rose by 35,5 percent to 903 people. The number of immigrants chasing the good life fell 58 percent to just 608.

British investment was more than twice that of all its partners in the EEC put together.

South Africa was Britain's 12th largest esxport market and she enjoyed a substantial balance of trade advantage — nearly R1,3-billion last year.

Four British trade missions had visited South Africa this year and there seemed little likelihood of the Thatcher Government imposing sanctions, despite the state of emergency.

Economy in a mess, says paper

The Star Bureau

LONDON — South Africa's economy was in a mess and the widespread disturbances there would have profound implications for Britain, *The Sunday Times* said yesterday.

In a full page business survey, the *Sunday Times* painted a gloomy picture of South Africa sliding deeper into recession and wrestling with growing unemployment, increasing emigration and vast sums of "funk" money leaving the country.

It noted that 250 000 British jobs depended on South Africa.

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49

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29/7/85

CRUCIALLY

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'Market has survived previous crises'

Property prices tipped to rise early next year

By Andrew Beattie

49

Estate agents and economists believe the property market will survive the recession and state of emergency and that — barring unforeseen political setbacks — property prices will rise again early next year.

Initial fears that the political crisis evidenced by the declaration of a state of emergency would drive property prices through the floor are probably unfounded if a historical analysis of the property market is made, say experts.

STAR

"At the moment, political factors — especially the emergency measures — are tending to drive property prices down. But the property market has managed to improve through times like these before. For example, after the Sharpeville crisis in 1960 many people left the country. But, soon after the emergency, prices doubled," said Dr H B Falkena, a United Building Society economist.

Dr Falkena said recent improvements in money market conditions, coupled with the 1,5 percent drop in the mortage bond rate, had enabled financial institutions to make more loan funds available. He added that the Government's stringency measures had also put the clamp on lending for the first quarter of this year.

Figures provided by the Central Statistical Services, which indicated the number of building society bonds granted in the first three months of this year for the construction of new houses was nearly 50 percent down on the same period in 1984, could be misleading, said Dr Falkena.

This was because this analysis could lead to confusion of turnover with price per unit, and also because the end of 1983 and the beginning of 1984 signified an economic peak compared with the trough at the beginning of this year

He also said that, if the prices of some up-market houses had dropped by 50 percent recently — as claimed by estate agent Mrs Aida Geffen — then these properties "had probably been overpriced by 30 percent in the first place".

"There is still a lot of life in the property market. But the third quarter of this year will also be a difficult period and property prices can be expected to decline another three or four percent until early next year when there will be an improvement," said Dr Falkena.

30/7/85

Mr Johan Grotsius, executive director of the National Association of Homebuilders, said building contractors believed there could be no further significant drop in prices

"Therefore we believe it would be wrong for people to hold back and wait for prices to drop further before they buy, or for people to sell now and leave the country," he said.

Estate agent Mr Basil Elk supported this view.

Mr Elk said sellers in the property market would have to accept at least 25 percent less than this time last year and would have to have a "very good reason for selling at this stage".

"The buyer's attitude has been to sit on the fence and not to buy in the hope that prices would fall further — but they have to realise that the market has bottomed out.

"People must remember that this is not strictly an investment field. People are motivated to buy a house to fit their needs because they have to have somewhere to live. A house is an essential commodity and not necessarily an investment which has to increase in value," Mr Elk said.

Blacks link poverty to free market system

(49) (~~240~~)

NM 30/7/85

Mercury Correspondent

CAPE TOWN—Black people were suspicious of the free market system and tended to associate it with wide, racially based income and wealth inequalities, Prof Richard van der Ross and Prof Wolfgang Thomas of the University of the Western Cape have concluded.

These inequalities were in turn seen as the very cause of black poverty and unemployment, they said in the latest issue of Indicator S A, which is published by the Centre of Applied Social Sciences at the University of Natal.

The 'free market' concept raised strong emotional reactions, which could be visualised as a 'we-they' syndrome.

'The black man struggling to meet the basic needs of his household — in times of high inflation, tightened hire purchase and widespread unemployment — sees himself as the powerless, economic political underdog, as opposed to the economically secure and politically powerful (white and wealthy) "capitalist" stereotype.'

The constant exhortation of the media, business and Government spokesmen about the virtues of the free enterprise system made black people even more suspicious.

'They (black people) cannot but note that the rise in the free market ideology occurred at more or less the same time that food subsidies started declining, a general sales tax was introduced and rapidly increased to 12 percent, rentals on council houses escalated, hospital admission fees increased, train and bus fares doubled and so on.'

The black working class were also to a certain extent influenced by highly articulate criticisms of the capitalist system by student leaders, trade unionists and other intellectuals in urban black communities.

'These radical critics argue that private enterprise is not merely incapable of solving the social and economic problems of the masses, but is in fact the very cause of black/white inequality and of racialism per se in South Africa,' Professors van der Ross and Thomas wrote.

Instead

Very few people in the lower socio-economic scale could envisage themselves as the future business owners.

'They are looking instead for better wages, housing, education and health services, stable employment and some say in the economic and political decision making processes.'

The unqualified propagation of the 'free market' concept would not be able to prevent further polarisation.

'To maintain peace will require, among other things, the emergence of some overarching socio-economic goal which is acceptable to both black and white people.'

Separate Barprop listing to raise R214-m

R175-m injection for Barlow Rand

(49) Star 31/7/85

By Peter Farley
Investment Editor

Barlow Rand is raising R214 million through the separate listing of its wholly owned property company, Barlow Rand Properties (Barprop).

The issue, involving a mixture of shares and loan stock units, will bring in some R175 million for Barlows and leave almost R40 million for the future expansion of Barprop.

The cash injection will give some much-needed breathing space for the group as a whole, whose long-term debt stood at R832 million at the last September 30 year-end.

In addition, however, it provides investors with a clear opportunity to invest in property without facing so many of the risks that the depressed property market currently poses.

Virtually all the properties in the Barprop portfolio are let to Barlow Rand group companies, and carry an average lease of some 10 years, with an average return of around 12 percent.

The managing director of Barprop, Mr Dick Pratt, said that Barlow's tractor division, motors division, manufacturing division and Federated-Blaikie each have around 20 percent of the properties, with the balance split among a mixture of companies.

This latter group includes Nampak, Metal Box, Reunert and a few outsiders.

Mr Pratt explained that Barprop was formed in the early 1960s, but only consolidated the operation into a more realistic company — with market-related rents — in the past couple of years.

He said that independent valuations placed the company's property portfolio at around R300 million, but that Barprop is working on the basis of a current book value of R260 million.

The largest are the Wrightec factory in Boksburg and the Barlow Manufacturing building in Kew, which are valued at R18 million and R12 million respectively.

OFFER

Slightly more than 10 percent of the properties are in decentralised areas, said Mr Pratt, with all the others firmly in urban centres.

The listing involves the offer to existing Barlow shareholders of 26,8 million Barprop shares at 100c each, in the ratio of 15 new shares from every 100 ordinary or 100 preferred ordinary shares.

In addition, 26,8 million variable rate loan stock units of 700c are being issued on the same basis.

Mr Pratt said that after the listing Barlow Rand will hold not less than 60 percent of Barprop's share capital and around 11 percent of the loan stock.

The use of loan stock finance is believed to be the first in a property listing, and should prove an attractive investment.

Not only will participants receive an 11 percent yield in the first year, escalating in future years in line with dividend growth, but they will also participate in the portfolio's long term capital growth

The dividend on the ordinary shares, in the year to end-September 1986, is forecast at a 1,2 times covered 7,5c, while the payment on the loan stock is expected to be 77c a unit.

Mr Pratt said the company had no immediate intention to use the R40 million earmarked for further expansion, but indicated that this was being raised now to preclude a short-term return to the market for more funds.

But, he pointed out, there is every possibility that if interest rates continue to become more favourable, Barprop would consider borrowing short to finance longer-term growth.

He emphasised that Barprop would continue to focus on industrial and commercial properties and had no intention of extending its interests into the residential field.

Monetary target plans welcomed by Southern Life

49 Star 31/7/85

By Frank Jeans

South African business generally has welcomed the De Kock Commission recommendations to go for monetary targets in the battle against inflation, and joining the chorus is the Southern Life Association.

"The change in policy from focusing on the level of interest rates to one of controlling the quantity of money is to be enthusiastically received," says Southern in its latest *Economic Comment*

"Targeting involves the setting up of a 'monetary rule' or growth channel which the markets can take as the Reserve Bank's commitment to money supply growth, and thus the extent to which it is prepared to finance inflation."

Southern sees the advantage in that markets can take strategic price decisions, provided the target is credible and the bank has the confidence in the markets.

And there can be little doubt that if these conditions are met, the inflation rate will fall in time followed by nominal interest rates, with little disruption to the real economy.

The question, however, is what target will the bank set?

Will it be at a high growth rate of, for example, 18 percent against current broad money growth of 24 percent?

This might be credible and achievable, but it implies an inflation rate of 16 percent at a real economic growth rate of say two percent.

The alternative could be a 10 percent target, in which case, how would the bank respond to the probable overshoot?

"On the theoretical level, there is an alternative, non-monetarist view which contends that the money supply, far from being an entity 'out there' that can be controlled, instead responds passively to the needs of the economy for credit and deficit-spending."

STABLE VELOCITY

"To limit money supply growth, economic activity must be restricted, implying that severe recessionary conditions must be imposed.

"The notion of targeting is predicated on a stable velocity of circulation money so that changes in the money supply impact in a fairly direct and predictable way on prices.

"Velocity has been far from stable in recent years in South Africa and problems for monetary targeting could arise if it continues to be so."

Southern compares the Federal Reserve in the US and the fact that relevant monetary aggregates must be continuously redefined as financial innovation changes the nature of "broad" and "narrow" money

The Federal Reserve has admitted its research cannot keep up with which definition yields the best relationship with economic activity, and it is now openly questioned whether targeting the aggregates is the best way to achieve its broader goals.

"South Africa may be walking into the same difficulties," says *Economic Comment*

Nevertheless, Southern welcomes the shift by the Reserve Bank away from interest rate control towards money supply growth, and believes that what is really necessary is to ensure that the money supply does not grow excessively by allowing the exchange rate to move freely and accepting the required level of interest rates.

Rand crashes — heads for a record dollar-low

The rand crashed heavily against all major currencies this morning, reaching a low of 43,5c to the dollar and a record R3,11 against sterling. *Star*

Foreign exchange dealers said that although the rand recovered to above 45c by midday, they expected that in the next few days it would break through the historic low of 42c set in January. (49) 31/7/85

The previous low against the dollar was set while the US currency was riding high on world markets.

The only bright spot for South African investors was that the price of gold reached $328 an ounce which converts into a high, in rand terms, of R730.

The rand's weakness was attributed by dealers to more buying of dollars by importers and rumours that two US banks had withdrawn credit lines to South Africa.

Education, free labour market vital — Cronje

By Frank Jeans 49

Until there is a totally free labour market and significantly improved education and training, the whole of South African commerce and industry will continue to suffer, Dr Frans Cronje, chairman of the South African Permanent Building Society told the annual general meeting last night.

"Unless our economy can provide jobs for the new entrants to the workforce, they cannot afford houses, however cheap. At present, our economy is not doing this and unemployment is increasing and is partly the cause of mounting dissatisfaction," he said.

Dr Cronje asked whether the economy as presently structured can ever build the three million houses which were needed before the end of the century.

The economy had to grow in real terms at about 5,5 percent a year to absorb all newcomers to the labour market and to achieve that figure considerable new investment in job-creating activities was needed.

SA Perm's Dr Frans Cronje. . . personal savings rate too low

"Considerable new investment, however, needs considerable new savings. Unfortunately, South Africa's personal savings rate, at present at about three percent, is very low by world standards, particularly that of Japan which is about 20 percent."

The country's savings rate was simply not sufficient to sustain a rate of investment necessary to absorb more and more workers and while Dr Cronje is well aware that a sufficient inflow of foreign capital could supplement savings efforts, "political and economic reasons militated against this in the near future".

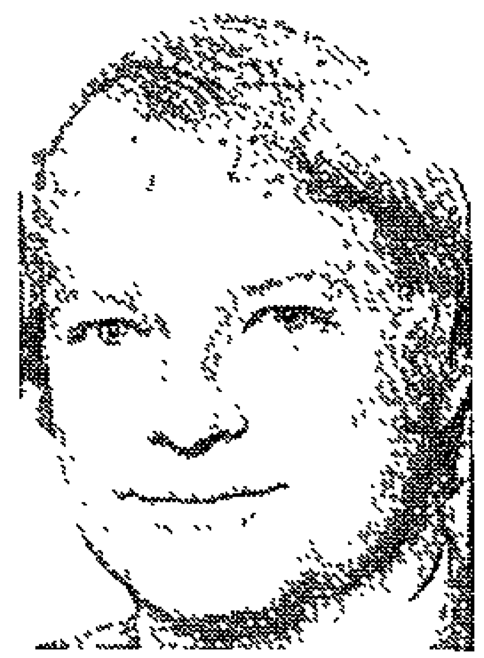
Referring to the present social unrest, Dr Cronje said: "Through the lack of consultation between the various cultural and racial groups and rising educational standards, estrangement and distrust between the groups has grown.

"If all South Africans want this country to continue in prosperity and not decay into just another unsuccessful Third World country, the true leaders of all sections of the population must show statesmanship and wisdom to come together and agree on a non-discriminatory economic, social and political system."

● DICKMAN

● PARSONS

● HAMMOND-TOOKE



● CYPIONKA

● KANTOR

● GELDENHUYS

Privatisation (49) is the key to next year's growth

B. Day 1/8/85

PAUL BELL

NEXT YEAR, most people have been led to believe, there will be an economic recovery ... and about time, too. That should mean higher real incomes, more jobs and less expensive loans to buy houses and cars and other durables.

This has important implications for businessmen, as they need to know what steps to take now on such things as manufacturing capacity, inventories and other aspects of their business to ensure that they are able to exploit the opportunities that become available.

The better they are able to do this, the more efficient the economy will become and the greater the chances of economic growth accelerating to the benefit of all.

The key to the speed of recovery will, of course, certainly at first be determined by the monetary and fiscal strategies that are applied by government.

Inevitably, these strategies lead to controversy, usually because they have political implications, but also because different interest groups see their particular interests best served in different ways.

Politicians and public servants, for instance, usually present higher government spending as a priority to building up economic steam. They have, of course, most to gain from it and also from inflation, which swells tax coffers.

Bankers and businessman, on the other hand, usually perceive their interests best served by lower taxes, unless they are to gain directly from government contracts.

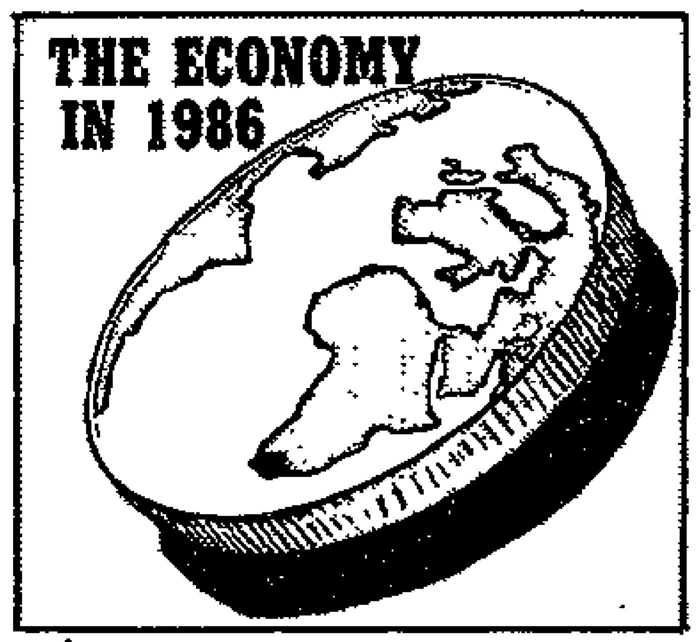
Whatever the correct strategies should be, now is the time that they should be formulated and discussed. To this end, *Business Day* intends to carry a cross-section of informed opinion in a series of articles on the topic.

We start today with the views of six economists: the economic consultant to the board of the Anglo American Corporation, Aubrey Dickman; Assocom's chief executive Raymond Parsons; the Federated Chamber of Industries chief economist Arthur Hammond-Tooke; the Standard Bank's economics chief Nic Cypionka; Professor Brian Kantor, of the UCT Business School; and economist Louis Geldenhuys, of stockbrokers George Huysamer and Partners.

Four elements have been discerned by all of them as important points of government strategy in 1986.

They are:

● To retain the credibility of



present monetary restraint;

● To allow no real increase in public sector spending — as a minimum condition;

● To move ahead with privatisation and deregulation; and

● To restore confidence within a framework of realistic expectations.

There was also strong — although not unanimous — support for supply-side tax cuts.

Not one has recommended any significant relaxation on monetary controls, particularly in view of the fact that government has only recently restored some balance between its monetary and fiscal policies. Any stimulation via the money supply, which would be illusory, is rejected.

There are shades of difference between the six on the extent to which market forces should set the pace as government regulates money supply.

For example, Cypionka advises a controlled decline in interest rates. Geldenhuys says the direction of rates is down so let them go while government spending is under control — "you can't keep all of the stops out all of the time".

And Kantor says that Reserve Bank Governor Gerhard de Kock, if he is not to lose credibility, will have to change operating procedures sufficiently to prevent extra credit demands *from any quarter* leading to extra supplies of money.

Most of the economists stress the need to avoid the type of "hot air" expansion in domestic consumption that characterised the half-boom which — led by easy money supply and high wage/salary and inflation expectations — lasted into the first quarter of last year.

They call for consistency and continued restraint now.

Dickman questions whether government really braked that hard, and says any loosening of the reins will have to be within very clearly-defined limits.

Cypionka — while sympathetically aware of the harsh realities of life on the lower rungs of the economic ladder — warns government against "chickening out ahead of an increase in unemployment". Monetary policy should not, he says, deviate from accepting positive real interest rates.

Parsons says business wants less crisis management of monetary, fiscal and exchange rate policy. Economic policy in general and monetary policy in particular must be handled so as to restore confidence and credibility.

All six economists would like to see government implementing the De Kock recommendations, and monetary targeting in particular, as soon as possible.

Kantor says: "Introduce targets before the next revival gets under way. Business and consumers need these if they are to be convinced that inflation will not accelerate with the revival."

Dickman is cautious about targeting. He approves of it but feels that 1986 is too soon for targeting to be important in evaluating monetary policy. He says the Reserve Bank will need some experience in the use of this tool.

He also refers to the technical aspects of targeting, and especially the impact of velocity on targeting theory, which, he says, might lead in practice to nominal targeting of GNP.

He also suggests that, now that net reserves are beginning to improve — which might lead to increased liquidity — changes in bank credit should be closely watched.

Geldenhuys interprets present Reserve Bank monetary policy as interest rate policy. "They are going to influence interest rates through the discount window".

Kantor said control over the money supply meant breaking the links between bank credit and money supply, but lower interest rates would not necessarily ignite credit demands.

Geldenhuys appears to agree on this score, saying that a credit spree is unlikely, even with prime at 17%, because of the squeeze on real incomes. He qualifies this by warning against a relaxation of hire purchase curbs relaxed too quickly.

Regarding tax, the prescription common to them all is the need to rationalise the tax structure and expenditure. A tax increase would *obviously* be highly inappropriate given the retarding effect of the present tax level on economic growth.

Parsons actively supports a tax cut. Depending on the recommendations of an interim Margo report, government, he says, should make room for tax cuts next year to underpin long-term growth, remove temporary surcharges contained in this year's Budget and compensate for the regional taxes which may be introduced next year.

Hammond-Tooke, who has devoted much of his energies for the FCI this year to submissions to Margo, also refers to present "excessive real levels of tax" and the consequent need for "adjustment. He would wish to see government initiate a zero-budgeting strategy immediately".

The others emphasise cost-effective government spending, although Geldenhuys indicates that — given the massive socio-economic commitments of government with special regard to the black community — an overall tax cut might be inappropriate.

In Geldenhuys' view, supply-side economics is unlikely to transplant successfully in South Africa, if only because — if Reagonomics is used as the yardstick — we cannot afford tax cuts, a spending spree and bigger trade deficits.

He says political factors, too, would cause difficulties in attempting real cuts in expenditure because of the need for "social" and "preventive" spending.

Cypionka believes a tax cut might be appropriate *only* as an alternative to increased government spending if stimulatory measures were called for.

Kantor says one way to stimulate growth is to limit government spending, to simplify taxation and to accept a bias towards savings. Bigger budgets come out of a bigger economy, not out of a bigger share for government.

Beyond monetary and fiscal policy, the third leg of immediate strategy — for which the economists call to a man — should be to move ahead with deregulation and privatisation.

In fact, deregulation/privatisation (DP) stands, in their minds, almost as a central pillar of the immediate drive for growth, in that monetary and fiscal policies — as Dickman puts it — influence a given economic situation without addressing broader stuctural deficiencies in the system.

Parsons says DP would be an important way of reducing the State's claim on the country's resources, and hence to limiting government spending. Privatisation could generate finance for the State to use in those areas where it alone can take action. He calls for a White Paper on policy.

Hammond-Tooke says the private sector is already engaged in shaping a strategy for DP — and trying to engage government in discussion on the rules of this new game. Geldenhuys cautions that such a strategy will have to take into account the jobs of those employed in possible affected areas.

This leads into the need for a comprehensive overall economic strategy, a matter also widely agreed by the economists. Cypionka refers to a necessary recognition of the fact that existing metropolitan areas are better suited to development — concentration as opposed to decentralisation.

Economic policy should be right for its own reasons, unaffected by ideological considerations. But a precondition for this is the establishment of social and political frameworks conducive to the creation of the right economic strategy.

Cypionka's phrase sums it up: "We need more than monetary and fiscal tinkering. We need a plan."

Geldenhuys says: "IBM was planned; so was General Motors. I'm no socialist, but why can't we plan an economy?"

CAPE Times 1/8/85

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Banks rumour: Rand slumps

By PAUL DOLD
Financial Editor

THE rand slumped to $0,435 yesterday — close to its all-time low against the dollar — as speculation swept the market that several United States banks were to close their South African operations.

Last night two US banks — Citibank and Chase Manhattan — denied the rumours.

Yesterday's fall by the rand of some $0,5 from the $0,4925 opening was one of the heaviest ever by the currency.

The Reserve Bank intervened several times during the day to support the currency with the rand finally closing at $0,4565, well down from the previous $0,4860 close.

The pressure on the rand was caused by importers who feared a reduction of their facilities from the US banks.

They bought dollars heavily, leading to the rand diving against most currencies.

Markets were also unnerved by rumours of a reintroduction of the financial rand and foreign-exchange control.

Rates up

Senior foreign-exchange dealers discounted the possibility of such a move by the government although they believe the rand may remain weak for the next few weeks.

The weaker rand is leading to pressure on interest rates and there was a dramatic rise in short-term money market rates.

The key three-months Bankers' Acceptance (BA) rates reached 18,30 percent after Tuesday's 17,80 percent.

The fall in the rand caused a surge in gold shares due to the higher rand price now being received by the mines for their gold which is sold in dollars. The rand price at current exchange rates is around R718 an ounce.

The fall in the rand could have an inflationary impact on the economy at a time when most economists are predicting the inflation rate will fall to 10 percent.

● US banks to stay, page 12

● Impact of emergency on economy, page 12

US banks to remain in South Africa

Cape Times 1/8/85 (149)

By AUDREY D'ANGELO

RUMOURS that two American banks — Chase Manhattan and Citibank — were about to close their Johannesburg offices were denied yesterday.

But a spokesman for Chase Manhattan refused to comment on a rumour that it was not prepared at present to lend any more money to South African customers.

The managing director in South Africa, Mr Simon Stewart, said he had no comment to make.

"We have a corporate public relations officer, Mr Fraser Seitel, and he is the only person who will make statements on this matter."

Mr Seitel said by telephone from New York: "Rumours are going round.

"We have an office in Johannesburg and we are going to maintain it. We have no investments in South Africa so it would not be possible for us to disinvest.

"We have had a standard policy since 1977 that we do not lend to the South African government nor to parastatal organizations nor to Namibia or the homelands.

"We have customers in South Africa but we consider our relationship with them a matter of confidentiality and have nothing to say about them."

Asked if the bank would be willing to lend to any new customers in South Africa or to make new loans to existing customers, Mr Seitel said it was reviewing the situation constantly.

"But if there were any change in policy it would be something we would not announce nor disclose."

A vice-president of Citibank, Mr Stuart Hain, said: "There is no question of our going — we are here to stay, and there is no change in our lending policy."

A spokesman for Citibank in New York said it had stopped lending to the South African public sector some time ago but, "any rumours that Citibank is stopping lending to the private sector or is pulling out of South Africa are incorrect."

● Mr Neil Behrmann writes from London that concern about repayments of foreign loans, and rumours that a two-tier currency system would be introduced again, set off a sharp decline in the the rand yesterday.

According to banking sources, he writes, Citibank sold South African public sector syndicated credits in the Euromarkets a few weeks ago.

London bankers told him that it was "extremely difficult" to roll over South African loans on the international credit markets.

Such was the concern about the renewal of loans and the weakness of the rand that several South African borrowers decided to repay them early.

The repayments pushed the rand down from $0,48 to a low of $0,43 before the currency recovered to $0,46 again.

Against sterling, the rand was worth 31,5p, a record low. Just over a year ago. it was 56p.

There were also unconfirmed rumours that West German banks were not renewing certain credit lines, Mr Behrmann writes.

A South African banker in London said that before the state of emergency, South African credits were on a margin of 0,75 percent to 0,87 percent over LIBOR, currently 8,25 percent.

It was now "exceedingly difficult" to raise funds therefore so present margins were bound to be higher.

Agefi, the international bond and credit newsletter, estimates that in the first half of this year the South African public and private sector borrowed $948m on the Euromarkets, compared with $828m in the same period last year. Bonds accounted for $690m.

In 1984 South Africa borrowed $1,33 billion on the Euromarkets and in 1983 $1,4 billion.

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Rumours plunge rand 5 U S cents

(49) N Mercury 1/8/85

RUMOURS of a possible withdrawal from South Africa of Chase Manhattan Bank, and a reintroduction of the financial rand, sent the rand plunging more than 5 c against the dollar — equivalent to a devalution of more than 10 percent — in a matter of hours yesterday.

Finance Reporter

The Reserve Bank is believed to have pumped millions of dollars into the market to prop up the rand, which eventually closed at 45,50/80 U S cents.

Dealers said dollar demand was very excessive, prompting Reserve Bank intervention.

But opinion was divided as to why such demand surfaced.

Reuters reported that the Chase Manhattan report, which had gained momentum on foreign exchange markets, was denied by a company spokesman in New York late yesterday, who said there were no plans to close its representative office

The bank was watching the situation closely.

Firmer

The day's trading ended on a relatively steady

cerned over yesterday's development, also entered the markets causing over-reaction.

The volatility could have been further exacerbated by the repatriation of share sale proceeds from earlier disinvestments by foreigners this week.

Mr Andre du Plessis, investment manager of Syfrets Natal, said yesterday's hectic trading was extremely worrying and could force South African companies to shift overseas borrowing to local sources, putting upward pressure on money market rates as well as the gilt market.

Children

Hillcrest man (74) bludgeoned to death

Crime Reporter

A 74-YEAR-OLD man was found beaten to death in the hallway of his Hillcrest home yesterday and police wish to question his gardener.

They suspect that Mr Christopher Charles Duffield of 47 Hilltop Road had been bludgeoned with a blunt instrument.

They want to question a gardener, known in the area only as Victor, who had worked for Mr Duffield and is thought to have been the last person to have seen him alive.

Mr Duffield's body was found lying in a pool of blood in a hallway between the lounge and the passage shortly

said last night he and his wife had been terribly shocked by the killing.

He said his father-in-law's dogs, a doberman and a labrador, had been in the garden at the time of the attack and would not have been able to come to Mr Duffield's assistance.

The police investigation is being led by Lt Eric Moolman of the Durban Murder and Robbery Squad.

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Firmer

The day's trading ended on a relatively steady note, but not before the rand slumped more than 5 c rapidly to 43,50/65 in hectic and disorderly early trading from Monday's 48,55/65 close, dealers said.

This was after the rand had opened firmer at 49,10/30 on the stronger gold price and weaker dollar.

The Chase spokesman noted that in 1977 Chase became the first major U S bank to stop making loans to the South African Government and parastatal institutions.

Some of the larger importers, obviously con-

Finance Reporter

cerned over yesterday's development, also entered the markets causing over-reaction.

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Jockey barred for two weeks

By Richard McMillan

APPRENTICE jockey Matthys Odendaal, who won the trainer's title for David Payne when he rode First Base to victory in the Stewards Cup at Greyville yesterday, faces a two-week suspension for his riding in the race.

The R21 000 winning stake was sufficient to give Payne the edge over his rival, Terrance Millard.

Odendaal was drawn on the outside on First Base and shortly after the start moved his horse across too sharply to get a better position, causing interference to Harry Flasher, Fine Edge and Landed Gentry.

Meanwhile jockey Jeff Lloyd, on the stable companion On Stage, was carrying out the stable plan to win race and trainer's title by pressuring the favourite, The Barbican, and literally running him into the ground.

As these two fought it out at the head of the field, Odendaal settled First Base in as had been planned and sat back until the straight when he brought the colt through to take over the lead and win comfortably.

After the race the stewards held an inquiry into Odendaal's riding of First Base and he was recommended for a two-week suspension. He has the right to appeal.

● See also Page 12

Children can buy lethal weapons

Mercury Reporter

POTENTIALLY lethal martial arts weapons are on sale in Durban and even children can buy them.

But according to Mr Bob Davies, owner of a city shop which stocks the imported martial arts products, most of the weapons were lethal only when used by experts — and the experts would never use them on any-

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Cape Times 1/8/85

Rescue bid too late — Eglin

By ANTHONY JOHNSON

Political Correspondent

THE "foreign affairs debacle" precipitated by President P W Botha's threat to expel 1,5-million foreign black workers would not be defused by the subsequent "cover-up" attempted by Mr Pik Botha, the Progressive Federal Party said yesterday.

Mr Colin Eglin, the PFP Foreign Affairs spokesman, said the "explanation" offered by Mr Pik Botha of President Botha's original statement was "a clear attempt to undo some of the obvious harm created by the threat".

'Consequences'

"But his rescue bid came too late — the damage has already been done," Mr Eglin said, noting that President Botha's statement had also threatened to deny neighbouring states the use of South African roads, railways and harbours for their exports and imports, as well as to end other forms of financial and technical assistance.

On Tuesday, Mr Pik Botha responded to inquiries about President Botha's statement by saying: "The South African Government is not only still ready to continue co-operating on all levels (with its neighbours), but is also ready to extend them.

"It must be obvious from the State President's announcement that he was merely emphasizing the unavoidable and logical consequences that would have to follow the present illegal action of the Security Council."

'Cool heads'

Mr Eglin said yesterday that if South Africa carried out these threats, it would be cutting off its nose to spite its face and at the same time would create monumental instability on the subcontinent.

"What one needs in these times are cool heads and careful diplomacy. This is not the sort of statement to make when constructive engagement is teetering on the brink.

"The economy is in bad enough shape. This sort of statement will help to wreck it."

Barclays views rest of 1985 with cautious optimism

LONDON— Barclays' chairman Timothy Bevan said the group, which is the holding company for Barclays Bank, viewed the rest of 1985 with cautious optimism.

He was commenting on the bank's results for the first-half of 1985, which showed a 40 percent rise in pretax earnings to £431m from £308m.

The results were above most analysts' expectations and Barclays' share price initially jumped to 399p from 379p before settling back to around 392p.

The first-half results were the first since the group integrated its British and international banks. Mr Bevan said Barclays was already seeing the benefits of integration, particularly with combined treasury operations.

He said the Barclays' capital base was strong, having benefited substantially from the £507m proceeds of the recent rights issue, retained half-year profits of £166m and the recent $600m issue of primary capital notes, proceeds of which were received on July 2.

Mr Bevan said Barclays' free capital ratio, which measures the capital supporting the group's deposits, rose to 6,5 percent from 4,8 percent at the end of 1984.

He said that within the British operations, the clearing bank, which made pre-tax profits of £284m compared with £170m, performed very well with a significant contribution coming from the drive to contain and recover costs.

There were improved results from many overseas areas, including a further good contribution from Barclay American Corporation.

But Mr Bevan said South Africa's depressed economy again affected the return on the shareholding in Barclays National Bank, with pretax earnings from that quarter falling to £20m from £27m.

Bad debts

The bad debt charge for the group rose to £250m from £231m. Specific provisions were £220m, net of recoveries, down £36m from last year but still high by comparison with earlier periods.

Of the total specific provisions, £106m arose from British-based operations and £114m from overseas operations.

Total assets of Barclays, Britain's largest banking group, were £71bn at the end of the half-year, down some £2bn or three percent on the end of 1984.

This principally reflected the strength of sterling against the dollar towards the end of the period. Excluding the effects of exchange rate movements, there was a net increase in total assets of some £2bn, which was mainly attributable to the British clearing bank.

The introduction of higher rate deposit accounts in Britain has been particularly successful in attracting new depositors, Mr Bevan said. — (Reuter)

Vulnerable rand

02.08 E Post (49)

ONE of the most harmful consequences of the state of emergency and the mounting international campaign against apartheid is the declining value of the rand, which this week slumped 6c in a day on rumours about a major American bank refusing loan facilities to South African businessmen. It recovered partially, largely because of support from the Reserve Bank, but is still precariously placed around 45 US cents.

This is happening despite the declining power of the dollar, which is falling against other major currencies — an indication of just how badly international confidence in South Africa has been shaken. There is a grave danger now that a weak rand will depress the economy just when there were hints of a recovery.

The main problem is that inflation will be fuelled again by the rising cost of imports, also at a time when economists were predicting an improvement. Most of the durable items sold in South Africa contain an import content of about 25%, so prices must rise if the rand fails. Interest rates could also come under pressure if loans dry up and the disinvestment phobia takes hold.

While exporters benefit from a weak rand, their problem now is the growing consumer resistance overseas to South African products because of our political system.

There has been brave talk by Government and Reserve Bank spokesmen about the inherent strength of the economy, but its vulnerability to world political pressure was demonstrated this week and is one more reason why the Government should be pressing on with visible reform.

Politics pounds rand

By Trevor Walker
Financial Editor

49

The weakness of the rand against other currencies had been overdone, particularly as the turn-around in the recent trend had been entirely due to political factors.

Foreign exchange dealers have had a busy few weeks since the state of emergency was declared.

Barclays chief dealer and an assistant GM, Mr Autry Wilkie, chatting to *The Star*, said it was a pity that much of the foreign sentiment in the market was based on a lack of understanding of the emergency.

There had been some operators who had taken up speculative positions against the rand, but this was probably very small, not even R50 million.

Media coverage overseas appeared to have painted a very gloomy picture, perhaps more so than was actually the case.

Because of this and until there was a better understanding of the situation in South Africa, the rand could be expected to remain below 50 US cents and in the very short term could trade down to 40 cents.

Barclays' forex circus ringmaster — Autry Wilkie.

Upward path

However, the recall of the EEC foreign envoys could actually help stabilise the market, once they have reported back to their various governments.

The rand prior to the French disinvestment decision and the emergency measures had been on an upward path and the latest weakness was not based on the state of the economy or fundamental market factors.

Mr Wilkie believes that by the middle of next month the rand will begin to firm again, although his earlier expectations that the currency could be at the 56 cent level by the end of the year, might not now be met.

He agrees with Reserve Bank governor Dr Gerhard de Kock that the trading position of the country had improved materially this year and this was not even taking into account the move in the gold price away from $300 an ounce.

The headline-catching six cent fall in the rand a week ago occurred in a very thin market.

Of the 19 authorised foreign exchange dealers that make up the market only eight or nine are truly active.

Because of the lack of players in the market a small deal could push the rate quickly lower when based on panic sell orders.

Trading conditions had begun to settle towards the end of the week and there were many foreign banks in the market on a business as usual basis.

It was a curious fact that on Thursday when the dollar surged higher forcing most major currencies lower, the rand was one of the most stable currencies.

Clearly the market felt the fall in the rand had been overdone and that it was not necessary to follow the overall trend.

The Chase Manhattan scare that credit lines had been withdrawn caused confusion in the market, but even that situation had tended to die away.

Stories that other banks had also stopped lending to South Africa proved unfounded.

Set limits

Some of this could have stemmed from certain banks balking at their sovereign credit limits because of the political unrest in the country and how this was covered abroad.

Banks, since the emergence of the Third World debt crisis, have tended to set limits on their exposure in any one market and the emergency could have made them hold back in their South African dealings.

It was most unlikely that foreign banks would in fact withdraw credit lines because this in the last resort could lead to a rescheduling of the country's foreign debt position which in turn would be detrimental to the banks themselves.

Because the country's inflation rate was still so high, Mr Wilkie said he expected the authorities to continue to leave interest rates at the present very high levels.

A fall in the prime rate to just below 20 percent was possible this year, but it was unlikely that rates would show any significantly easier tendency in the medium to longer term.

No political reform without economic partnership — Spier

Star 5/8/85

49

By Stan Kennedy

Political integration without economic integration would lead to the collapse of South Africa's economic system, Mr Andre Spier, director of Syncom, told the Association of Personnel Service Organisations.

He said economic integration, in which the total population became partners in a modern economy, was the essential prerequisite for any political agenda for constitutional reform

Presenting a paper, "What happened to the future of work?", Mr Spier said the products of modern science, electronics, bio-technology and integrated information systems were transforming society and its activities.

The traditionally more inert social, economic and political institutions were unable to absorb the avalanche of novelty at the speed at which it was pouring on to the market.

TRANSFORMATION

"Our speed of innovation is not matched by the speed in which we can absorb the new tools in our outdated systems and institutions.

"What we are witnessing is a fundamental transformation of all our institutions because the old ones do not foot the bill and are cracking up."

"Today, in an advanced economy, 50 percent of all jobs are related to the computer and the forecast is that this will be 70 percent by the year 2000. Yet we see a major slump in the computer industry, with Silicon Valley in trouble, the giants retrenching and the so-called service industries declining in most economies."

What complicated the process, he said, was that the developed and developing nations were at different stages of the transformation process.

While the advanced nations were in the first stages of an emergent post-industrial society, in which whole industries and categories of employment were being made obsolete, most developing nations were battling to employ their burgeoning millions through the process of industrialisation

This urge to modernise their economies had thrown them into an endemic debt situation from which they were unlikely to emerge except by default. Such a massive default would destroy the monetary system. To some Swiss bankers, such a collapse was not a matter of if, but when.

In the developed world, high unemployment levels persisted with only a remote relationship to what was happening in the economy.

In the Netherlands, 150 000 with academic qualifications could not find work. In the UK, being young and black meant no job. In the US, most jobs were created by the 800 000 new small businesses which started up each year.

Mr Spier said that in the next 20 years, more than 2 000 million would want work.

South Africa had both problems. An advanced sector reluctant to go flat out on modernisation because of the social pressures of massive unemployent and a retarded sector, in which some 30 percent of the total population did not participate in the economy.

World debt crisis, weak dollar boost bullion

Gold's dollar price looking stronger

STAR 49 5/8/85

By Dr Roger Gidlow

In recent weeks the dollar price of gold has displayed signs of renewed strength, a feature which has reflected the weakness of the dollar, and a revival of fears about the course of the international debt crisis.

South American debtors are becoming increasingly restless, and could be preparing for a major campaign to get better terms from major creditor banks. A confrontation with these banks cannot be ruled out, and if it happened confidence in the international banks could deteriorate significantly.

Many investors would probably decide for prudential reasons to have gold, rather than excessive amounts of bank related assets, in their portfolios.

In June this year Cuba called on Latin American countries to suspend all their payments on their foreign debt of $360 billion on the grounds that it is unpayable. This call was rejected by other Latin American countries because of their reluctance to cut themselves off from the rest of the world.

Fears that trade and investment sanctions could be imposed on them acts as a strong deterrent to such extreme action.

Nevertheless, in recent months these countries have increasingly adopted the view that the region's foreign debt should only be serviced if sufficient foreign exchange income is obtained. Proposals have been put forward which would allow countries to set a limit on the amount of export incomes generated each year which would be allocated to debt servicing.

Some months ago Ecuador indicated that it would set a limit of 25 percent of its export income to be used for this purpose, and now Peru has followed suit by fixing a limit of 10 percent. In addition, Bolivia has announced that it will make no debt payments until its exports reach $1 billion. Last year they amounted to $730 million.

In 1984 the debt service to export ratio of Latin America as a whole dropped to 35 percent from a peak of 39 percent in 1982, but some countries are still squeezed to the limit Bolivia topped the list with 57 percent while Argentina and Chile were also above 50 percent last year.

SHORTAGES

The increasing restlessness of these debtor countries stems from new constraints which they face as their export booms fade away. The substantial slowdown in the American economy as well as growing protectionism by industrial nations explains this feature.

These countries have cut their imports to the extent that further cutbacks in this direction are largely ruled out, because it would lead to shortages of essential food and raw materials. They are desperately dependent upon increased exports.

Unfortunately, these exports are falling in several countries such as Mexico and Brazil, an outcome made worse by the fall in oil and coffee prices. In short, the weakening of the American economy is threatening to expose even more the fragility of the international debt situation.

Many countries are still relucrant to follow the example of Peru. While providing some relief in the short term it only adds to the foreign debt burden of a country in the longer term.

The imposition of a limit on debt servicing also poses the thorny issue of deciding which loans will be serviced.

At this stage the big four debtors — Brazil, Mexico, Argentina and Venezuela — appear unlikely to follow the hard line of Peru, but some small debtors could do likewise. The latter are struggling even more in their efforts to meet their debts, and they have been given less attention by the banks.

In many cases the actions by Peru will almost certainly mean that interest arrears to some American banks on foreign loans to that country will go beyond the 180 day limit which bank regulators use as a guideline in declaring a country's loans value-impaired.

Any downgrading of Peru's loans by US regulators would mean that some banks would have to write-off part of their exposure to Peru, and some American regional banks might call a default.

Any increase in the dollar price of gold would magnify the present benefits which South Africa is reaping on the current account of the balance of payments from its current mix of monetary and fiscal policies.

Despite South Africa's present difficulties there are still some grounds for cautious optimism regarding the current account.

Risk and reward ratios of SA golds are insufficient

STAR 5/8/85

49

By Roy Cokayne
The Star Bureau

LONDON — Investors are being urged to avoid buying South African gold shares until the risk and reward ratios are greater.

The gold sector is on a prospective yield of 8,9 percent, and these yields are not high enough to attract investors back into South Africa after the recent bout of selling, says the June quarterly gold mines report by W Greenwell and Co.

Although they are bullish on the outlook for the gold price, W Greenwell and Co say any increase in South African gold share prices will lead to renewed selling.

W Greenwell and Co believe the rand price of gold will average R625 for 1985 and R630 for the September quarter.

But the impact of the increased surcharge, rising working costs and high capital expenditure will have an adverse effect on the earnings of the mines, the report adds.

It expects the final dividends coming up in September to be lower than the interims paid in March.

And it says Western Deep Levels, Randfontein, Ergo, Vaal Reefs, President Brand and Free State Geduld are the better buys for investors wanting to buy South African gold shares.

The initial flow out of the dollar into the other major currencies has occurred.

Gold has marginally improved but W Greenwell and Co say gold stands to gain more in the future.

BENEFICIARY

"The dollar may hold up in the short term, but we anticipate further selling of dollar denominated securities as investors see the time right to move out of the dollar over the next 12 months.

"This time around we see gold as a major beneficiary of the dollar sell-off.

"Both the US investor and investors in other currencies should be buyers of gold," says the report.

SAA cuts 30 flights

30 flights from City service

Cape Times 6/8/85

49

By ROGER WILLIAMS
Chief Reporter

SOUTH AFRICAN AIRWAYS yesterday announced drastic cuts in its internal schedules, with 30 flights a week on the Cape Town-Johannesburg service cancelled with immediate effect.

The airline said the cancellations had become necessary because of a sharp decline in the number of passengers using domestic services. It ascribed this trend to the state of the national economy.

SAA also announced that smaller aircraft would be used in place of wide-bodied planes "subject to passenger demands", and warned that further flights might be cancelled at short notice if they did not attract enough passengers.

It apologized for any inconvenience caused to passengers, but said it was sure air-travellers would appreciate that the cancellation of uneconomic flights was in their own interest.

The statement said SAA wished to ensure that losses incurred through uneconomic flights were not passed on to the consumer.

The flights on the Cape Town-Johannesburg route that have been cancelled with immediate effect are:

- SA-303, JHB-CT, Mondays through to Sundays.
- SA-302, CT-JHB, Saturdays.
- SA-309, JHB-CT, Fridays.
- SA-330, CT-JHB, Fridays.
- SA-312, CT-JHB, Mondays through to Fridays.
- SA-316, CT-JHB, Sundays.
- SA-324, CT-JHB, Sundays.
- SA-318, CT-JHB, Mondays to Fridays, and Sundays.
- SA-319, JHB-CT, Mondays to Fridays, and Sundays.
- SA-333, JHB-CT, Saturdays.

Mr Peter Hugo, vice-president of the Cape Town Chamber of Commerce, said last night that while the chamber fully understood SAA's need to reduce the number of uneconomic flights, the move was a further indication of the deterioration of the economy of the Western Cape.

This had been exacerbated by a drastic fall-off in tourism, particularly from abroad.

"Although most of the cancelled flights are during the off-peak periods, the cutbacks will obviously put extra pressure on flights during the peak periods which are the ones used mainly by businessmen.

"It is therefore likely that businessmen will be inconvenienced by the cancellations.

"It is hoped that SAA will monitor the situation closely and reintroduce flights at peak periods as they become necessary.

"It is also disturbing to note that further flights may be cancelled at short notice and the chamber requests the airways to give sufficient notice to businessmen to enable them to plan trips accordingly."

Mr Hugo said this move by SAA underscored "the importance of finding urgent solutions to our political and economic problems".

The Progressive Federal Party spokesman on Transport, Mr John Malcolmes, said: "As a business decision SAA's cancellation of flights is understandable but as a State monopoly SAA has a responsibility to the public which it is now ignoring.

"This massive cutting of schedules will create problems for the business sector and the general public and is another result of government handling of the economy and the declaration of the state of emergency.

"In the first place it is high time that State monopolies are dispensed with and market forces allowed to operate.

"The answer to our problems is to negotiate with all our people to share power. Until we do this moves such as the SAA cuts will be everyday news."

● Air Times, page 13

The Natal Mercury,

Bleak outlook, but rand will revive, says De Kock

(49)

Mercury 7/8/85

London Bureau

RESERVE Bank Governor Gerhard de Kock has painted a bleak picture of South African economic prospects during the coming year.

At a Press conference here, he forecast low economic growth, high unemployment, high inflation and rising interest rates because South Africa would have to use its export revenues to eventually repay foreign debts.

But he said South Africa needed no extra cash at present to weather its economic crisis.

He forecast that the rand would appreciate in the next four months while the foreign debt freeze was in force. The surplus on current account of the balance of payments — exports less imports plus foreign interest payments — was around R440 million a month.

Support

'Foreign exchange reserves and the rand would rise substantially, Dr de Kock said, because loan repayments would be frozen. This surplus of dollars would be used to repay loans after the debt suspension was lifted.

In London, however, the commercial rand fell to 38,5 c from 40 c partly because of a strong dollar and fears about Nedbank's international problems.

Dr de Kock emphasised, however, that the Reserve Bank would support Nedbank and when the bank's short-term difficulties were resolved, the rand would recover. He said the U S authorities intended allowing Nedbank to trade on the foreign exchange markets in New York again very soon.

'If the pressures of the kind we are now experiencing continue to be exerted on us and we have to become a capital-exporting nation, there is no question that that would retard economic development in sub-Saharan Africa,' he said.

Commenting on the prospect of a vote by the U S Congress in favour of economic sanctions against South Africa, Dr de Kock said: 'Even if it is passed, that in itself would not constitute a very serious problem for us.'

But he said the economies of Zimbabwe, Zambia, Angola, Mozambique and Swaziland could all be harmed by curbs on foreign investment in South Africa.

Insisted

'It would be a terrible misunderstanding if attempts made by well-meaning people, here and elsewhere, to promote the cause of black development — if that was somehow counterproductive'— said Dr de Kock.

He denied there was was any intention at this stage to swop South Africa's monetary gold reserves.

He insisted that the South African authorities had decided on a unilateral freeze of South Africa's short-term debts before he had gone on his trip abroad. International bankers were sceptical, however, and believed that the Governor was forced into the unilateral option because Dr de Kock could not raise credits abroad.

Dr de Kock said South Africa's short-term debts totalled R31 billion and these loans had to be repaid within a year. Of these loans, R16 billion were borrowings between bankers' 'interbank loans' and these credits were affected by the debt freeze. South Africa's total foreign borrowings were between R54 billion and R56 billion.

Sympathetic

Sapa reports that Dr de Kock admitted that his task in dealing with South Africa's financial problems would have been made easier if the pace of political reform at home had been quicker.

Dr de Kock said he had received a sympathetic hearing from British banks.

He emphasised several times that the South African economy remained strong, with a balance-of-payments surplus.

● See also Page 18

'Economic situation main cause of unrest

STAR 8/8/85

49

South Africa's bad economic situation was responsible for the unrest in black townships, Mr Brian Goodall, PFP MP for Edenvale, said at a party meeting in his constituency last night.

Mr Goodall told a gathering of about 100 people that militancy among blacks was due almost entirely to economic deprivation and that it would worsen if unemployment reached a projected 50 percent by the year 2000.

One need only look, he said, at the economic performance of the Eastern Cape in relation to unrest in that region.

He referred to the recent Human Sciences Research Council's report on apartheid which stressed the need for faster economic growth if South Africa was to solve its problems and that unrest is also caused by the political deprivation of blacks in a tricameral system.

Insolvencies double this year

(30) (49)

4/8/85

STAR

By Sue Leeman,
Pretoria Bureau

The recession is forcing many individuals and companies to go under — a fact borne out by the latest statistics which show the number of insolvencies between February and April is double that of the same period last year.

According to figures from Central Statistical Services in Pretoria, there were 656 insolvencies from February to April this year — an average of over seven a day.

And the number of liquidations each year has risen by nearly 93 percent since 1980 — from 1 441 in that year to 2 675 in 1984, the figures showed.

Voluntary liquidations in particular rose sharply from 874 in 1980 to 1 752 last year.

Auctioneers and trustees of estates report twice as much business as usual, saying people in all financial brackets are going out of business.

A spokesman for Barnett Sales auctioneers in Johannesburg said his company was selling off businesses that had been in operation for 30 or 40 years.

"We are also selling off a lot of household effects — antiques and paintings, that type of thing," the spokesman said.

SA currency appears to be undervalued — bank

STAR 12/8/85

49

The rand's volatile performance last week was once again politically motivated, as the local currency fluctuated within a fairly wide $0,4370/$0,4730 range, the Standard Bank says in its weekly currency report.

The apparent lack of confidence in the local currency was basically due to the market's preoccupation with external political pressures and local unrest. In view of the currently easier tone for the dollar, a firmer gold bullion price and generally improving economic fundamentals, the rand does appear to be 'undervalued' in terms of its levels earlier on this year.

However, concern about foreign bank capital withdrawals and possible economic sanctions against South Africa have combined to erode confidence in the rand.

Although there were no fresh moves in this direction last week, congress's return from recess next month may result in renewed downward pressure on the local currency in due course. With much of the political uncertainty already discounted in the current rand levels, some upward movement of the rand is possible particularly if the dollar drifts lower as expected.

But Standard cautions that foreign exchange rates for the rand have been extraordinary volatile and, dispite potential dollar easing, the rand remains vulnerable to negative political influences and an ongoing capital outflow from South Africa.

State President Mr P W Botha's expected announcement this week of measures aimed at improving the position of local blacks may inspire some confidence and the rand may well derive support from this move. However, the benefits for the rand may well prove to be only short-term in nature.

Although external factors make forecasting particularly difficult, the rand may well derive some support from further dollar easing during the the week.

Therefore, importers with dollar payables would be advised to consider an element of cover at current forward rates and to increase cover levels with any appreciation of the rand.

Exporters could consider cover on very short terms export commitments. Standard forecasts that the rand will tend to fluctuate between $0,4600/$0,5100 this week, while the gold bullion price is predicted to trade in a $322/$332 range.

SS

o double its ... ver figures

American headquarters is ... African Mr Colin Christie, p... nel director of the Sandton-... operation, who becomes he... personnel internationally.

This move is also in line ... Sperry's policy of having ... Americans in control of acti... around the world.

"That way, there is no ... nance," says Mr Christie. "... wise policy. It should be re... bered that South Africans, fo... stance, have the European ... in their business approach."

Mr Christie's most challen... task in the US will be the mo... ing of people policies, particu... as they affect South Africa.

His area of concern, of co... will be the continual upgra... of the Sullivan principle for b... advancement.

...ility to ... from ... ques- ... s there ... short- ... have ... weak- ... annes- ... sts es- ... oreign ... a rela- ... e debt ... "defini- ... l per- ... how- ... from ... diffi- ... terna- ... ncial ... a col- ... anks ... se to

...bing outflow of short-term capital

extend the short-term lines of credit on which the country depends.

Worries about dependence on short-term debt are effectively countered by a healthy surplus of the current account.

The balance swung into a surplus of R1,3 billion in the first quarter.

This performance was aided by strong exports, resulting partly from a weaker rand, a rise in gold output and stagnant imports.

Capital account

The weaker rand raised the rand value of debt service payments, increasing net service payments.

The performance of the broader capital account has not been so encouraging.

In 1984 short-term net capital outflows of R3 billion only just exceeded net long-term capital inflows of R2,7 billion.

But the short-term flows were accelerating rapidly at the end of the year, and this trend continued into the first quarter. STAR

Long-term inflows, mostly purchases of securities listed in Johannesburg, totalled R366 million, but short-term outflows rose to R2,79 billion including R2,87 billion from the private sector.

The Reserve Bank argued that this was due to repayments of short-term foreign debt and increases in foreign short-term claims as a result of rising exports.

But economists doubt this, especially as they have no evidence that short-term debt has been reduced.

A flight of private capital, though having detrimental effects on the economy, should not immediately affect the country's foreign borrowing requirement.

But the chart shows that bond issues by South African borrowers have, if anything, been increasing.

Many US banks have been forced by domestic political pressure to cease lending to the South African public sector, but most have been reluctant to extend the ban to the private sector as well. 13/8/85

So far there has been no evidence that the country's borrowers have had difficulty in replacing short-term credit lines.

The introduction of sanctions would be unlikely to change this picture.

A cut-off in new investment would take many years to work through to the economy to the ~~extent~~ that, for example, old plant needed replacement.

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Confidence

A ban in Krugerrand sales would have little impact on gold sales overall, and could even stimulate worldwide interest in gold because of investor interest in US, Canadian and the recently announced Australian-made coins.

Foreign banks' confidence could be sapped by a marked deterioration in the domestic economy, particularly if this were to affect the health of the South African banks.

In this context, banks must view with some concern the boycotts of retailers which is part of the current unrest.

A gold miners' strike or a rapid exodus of private capital could cause similar and more immediate consternation among banks.

Some economists believe the Government must already have taken steps to counter such possibilities, perhaps with quiet words to friendly bankers likely to offer to maintain their lines, come what may.

In the last resort, the Government does have a further armoury of measures.

It could re-impose foreign exchange controls, though this would be seen as an admission of a problem.

It could increase the prescribed amounts which South African institutions are required to invest in government paper, or it could undertake gold swops. — *Financial Times*.

Currency weakness lifts gold revenue to new high levels

13/8/85 By Stan Kennedy (49) STAR

The state of emergency has had little direct effect on South Africa's gold mines except that the resultant rand weakness has pushed gold revenue up to new high levels in rand terms

Currently, it is more than R23 000 a kg compared with an average of R20 200 a kg in the last quarter

Stockbrokers SG Warburg, Rowe & Pitman, Akroyd (Rowak) say in their August review of gold and SA gold mining shares, that being unable to judge when order will be restored, what effect the sanctions proposals will have and the possibility that South Africa may be forced to tighten exchange control, they can only recommend great caution when buying gold shares.

As a result of the higher rand gold price, dividend prospects in rand terms have been enhanced But this is not likely to be a very significant short-term factor compared with the political problems and shaken confidence of overseas investors.

The gold mines index has fallen by nearly 20 percent in the past two weeks as selling has come from all sides.

While the state of emergency continues and the outlook remains uncertain, Rowak expects a further weakening of the index

As the dollar price of gold is uneasily poised between a weak oil market and low inflation on one side and a weakening dollar, a slowing US economy and mounting bank and debt problems on the other, Rowak thinks that the price has seen its worst.

"The comparative lack of effect on the gold price of the fall in the dollar over the past two months has been disappointing but not entirely unexpected," it says.

"Also, there are several very strong conflicting forces acting on the market, namely a possible collapse of oil prices and a major debt and bank crisis Being recent developments, their consequences are difficult to foresee"

Rowak says the main negatives remain the weak oil price, low inflation and the high real interest rates, making gold an unattractive investment

FABRICATION DEMAND

On the positive side, its attraction as a hedge and avenue for asset diversification are improving. More production is coming from non-South African sources and Russia is selling more

On the demand side, the fall in Krugerrand sales has not yet been made up by other coins, such as the Maple Leaf

"The market is consequently not getting much direct support from fabrication demand but net investment, hoarding and hedging demand seem to be improving gradually.

"As for the banking and debt problems these are not really under control, with Peru planning to limit service payments and Mexico feeling the effect of weaker oil prices and demand. Also, while an oil price fall is disinflationary, it will exacerbate the debt problems of several oil producers"

S A's credit hit in Eurobond market

Mercury Correspondent

SOUTH Africa's poor political image abroad has severely affected the country's credit standing in the Eurobond market and the willingness of European banks to handle S A business.

49

As a result, at best, there is ~~likely to~~ be a significant boost in the cost of future loans on the Eurobond market and, at worst, new loans other than on the most unfavourable terms could be in jeopardy.

15/8/85

Borrowers

S A merchant bankers believe the damage to the country's credit rating runs deeper than observers are prepared to concede. Whil

While the local capital market is shrugging off the effects of the state of emergency the Euromarket has turned off the tap for the three largest S A borrowers: Escom, Sats and Post and Telecommunications (PT).

European bankers are reticent when they discuss S A. But the S A public sector has not floated a public issue on the Euromarkets since June.

Some foreign investors appear to be prepared to trade Escom, Sats and PT bond issues on the secondary market only at escalating discounts to par or a 100/pc pricing. There is no doubt the big three borrowers will have to shoulder the cost of S A's blighted image abroad.

Foreign banks might be prepared to act as underwriters, but at a price. As it stands the stiff premiums above the London interbank offered rate (Libor) are around 2,5pc on U S dollar loans, 2pc on marks, 1,2pc on Swiss francs and 2,5pc on ECUs for S A borrowers.

Banks participating in syndicated loans fear they might have to retain any new S A loans on their own books if private European investors refuse to take up new S A paper coming on to the Eurobond market.

Delay

MERCURY

Parastatal treasurers are being advised to delay for as long as possible before testing the Eurobond market again. They said they had completed their foreign borrowing programmes for the current fiscal year.

Sources, however, believe some of the parastatals are still hunting for funds and that further loans are in the pipeline.

The combined foray by these corporations into world's biggest borrowing pool — the Eurobond market — is believed to have yielded in excess of R2bn for 1984.

Credit ratings are not usually divulged by banks. However, Frost & Sullivan, an international consulting firm, says S A's credit rating is C+, against A+ for countries such as Australia. The lowest rating on the scale is D-for, among others, Chile.

Rand plunges in wake of PW speech

~~304~~ 49

STAR 16/8/85

The rand plummeted to 38,5 United States cents in early trading on the Johannesburg foreign exchange market today — reflecting the bitter disappointment in South Africa and abroad at President Botha's speech last night.

But by noon — after fluctuating during the morning - it had picked up slightly to 40,50. It closed yesterday at 44,50.

While there was little actual trading early today at the 38,5 level, there is no doubt the uncertainty reflected the general sense of confusion in the country.

Against sterling, the rand fell to R3,47. But gold continued to firm and was $335,25 at noon.

Minister of Finance Mr Barend du Plessis said the rand drop was temporary emotional reaction to the President's speech. Based on purely economic factors, its strength had to improve, and political considerations would not interfere once the full impact of Mr Botha's speech was understood.

London reacts coolly

President Botha faces renewed local and foreign demands to accelerate the process of internal negotiation in the wake of his commitment last night to hold "give-and-take" talks with the leaders of all South Africa's people.

The United States Government said Mr Botha's speech was important and it wished to study it carefully.

Diplomats at the meeting last night said it was significant that the President had neatly reversed the position and had committed South Africa to an open-ended negotiated future.

Previously, they said, the Government had been criticised for making decisions on behalf of other race groups. Last night Mr Botha said no solution would be forced or prescribed for other groups — any solution had to be negotiated with all people concerned.

Reaction in London ranged from cool to dismissive — with only Mrs Thatcher's government trying to sound vaguely optimistic about what was widely considered to be a crucial moment in South Africa's history.

Calling on the international community to withdraw all support for the apartheid regime and throw their lot in with the people's struggle, the United Democratic Front said Mr Botha had shown himself to be bankrupt of creativity and totally unwilling to address fundamental problems.

Ultimatum

"His speech does not even try to rehabilitate apartheid, as many reformists had hoped," said acting publicity secretary Mr Murphy Morobe. "What he ... undertook was to intensify the brutality of the system should this be necessary for its continuation."

Azapo president Mr Ishmael Mkhabela said: "Botha's speech was a naked declaration of war and an ultimatum to the opponents of white racist rule. If there is anything which the speech achieved, it was to inflame and anger and fuel the conflict and crisis in the country. — Political Correspondent, staff reporters, Sapa-Reuter-AP.

● More reaction — See page 13.

SA now depends on gold more than ever

49

STAR 16/8/85

Science Reporter

Although South Africa's gold production has fallen by some 30 percent over the past 13 years the country is now more dependent on gold than at any time during the past 35 years, according to the new president of the South Africa Institute of Mining and Metallurgy, Mr Henry James.

In his presidential address at Kelvin House last night, Mr James said that to reduce the country's dependence on gold — which now earned half the revenue from exports compared with 30 percent in 1950 — a much higher priority would have to be given to mining, processing and exporting the 59 other minerals produced in South Africa.

Beneficiation of chrome to produce stainless steel, for instance, could earn SA another R4 000-R6 000 million a year.

Mr James, senior vice-president of the Council for Mineral Technology (Mintek), said that South Africa had produced almost 40 000 tons of gold since the early 1870s.

Deadline

It was estimated that South Africa could produce another 20 000 tons until gold mining would run out altogether by the year 2020, according to one estimate. Only 5 000 tons of this gold would come from new mines.

In recent years, he said, the non-gold sector had made an increasing contribution to mineral exports, increasing by 26 percent in 1984 to almost R4 500 million, or almost 28 percent of all mineral exports.

"The challenge to further process more of these minerals was formidable but the rewards will be enormous".

South Africa clearly needed a national commitment and an overall strategy to unlock this latent potential.

Rand plummets as market reacts to Botha's speech

44 (49) 16/8/85 STAR

By Financial Staff

Traders in the foreign exchange, money and stock markets were in a welter of confusion today following President Botha's non-statement last night.

Expectations had built up that the speech was to point the way to change but because Botha decided not to, the markets have been left uncertain concerning government policy in the face of the state of emergency and immediate black expectations.

The rand plummeted to an all time low of 38,50 US cents from yesterday's 44c in small trade in conditions which dealers described as chaotic and panicky, but recovered to fractionally over 40 cents at midday.

Dealers were constantly on the telephones, particularly to foreign dealers questioning developments in this country.

The Reserve Bank was in the market but it operates to smooth out trading and not support crackpot sales at 38 cents.

The local currency market has been thrown off course in recent days due almost entirely to political uncertainty.

On the internatonal markets, the dollar has fallen against most major currencies and the price of gold has now broken out of its narrow trading range to above $300 an ounce and moved higher than $330.

This trend continued in the markets this morning and on any normal day this, coupled with the weak dollar, would have been sufficient to push the rand solidly higher.

Positive

In fact the country's trading position, as measured by its balance of payments on the current account, is so positive that the rand's weakness is clearly a result of inept political management.

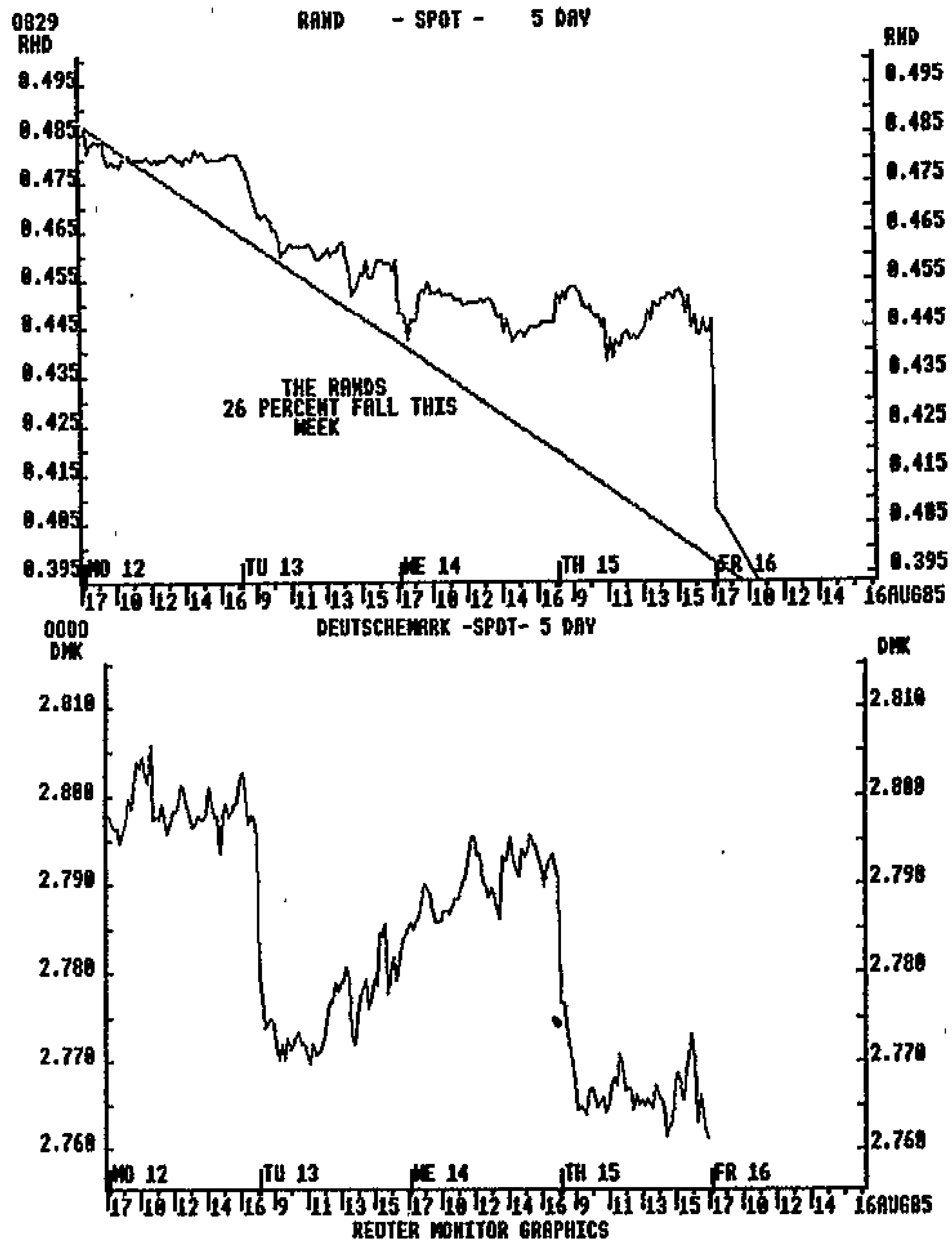
It is a curious fact that while the gold mining industry continues to be embarrassed by the plummeting rand and strong gold price, the rest of the economy struggles with excessively high interest rates, inflation rates, import prices and unemployment.

Gold shares were higher on the stock market today as investors moved in to take advantage of the firmer gold price and low rand.

The rand traded to R3,47 against sterling and 1,15 to the D-Mark.

Foreign exchange dealers said actual turnovers in the market were very small and Barclays chief dealer Autry Wilkie said some of the sentiment in the market was quite silly.

He expects exporters to move into the market quickly at these levels and in fact the rand began to recover towards mid-morning as buyers came into the market.



The rand moved quickly above 40 cents and now that the initial panic has worked through the market it was expected to move back towards the 45 cent level.

'P W's real message will boost the rand yet'

(49) 17/8/85 Mercury

ORMANDE POLLOK
Political Correspondent

THE battered rand, reeling after a disastrous plunge on early trading yesterday, would recover once the implications of President Botha's Durban manifesto speech were understood, Finance Minister Barend du Plessis said in Durban yesterday.

People would come to appreciate the major effect Mr Botha's speech would have on South African politics, he said.

The rand crashed to U S 38 c before recovering slightly to 41 c. Mr du Plessis attributed the fall to reaction after exaggerated expectations had been created before the President's speech.

'The drop in the rand value was a political reaction to the speech, but people will realise that it was a milestone in the political history of South Africa.

'On economic factors, the rand will recover. Inflation has peaked and we are poised for expansionary forces in the economy,' he said.

The expansion of the economy depended on international reaction to events in South Africa and difficulties being experienced with international banks were not related to the economy but to politics.

'We cannot just one-sidedly stimulate the growth of our economy, which will put further pressure on our balance-of-payments position or our reserves, until such time as we know how far the disinvestment campaign will go and how far banks will react to banks in South Africa.'

For the same reason it was difficult to make firm predictions about the economy, Mr du Plessis said, but he felt it was turning around.

He was unable to set a date when civil servants would be remunerated for sacrifices made this year, but he assured them the Government would not forget their contribution.

He also said South Africa faced another strict budget next year.

Dallas's former Miss Ell

LOS ANGELES—Actress Donna Reed, replaced by Barbara Bel Geddes as the long-suffering Miss Ellie in the hit television show *Dallas*, would be paid more than R2 320 000 by the show's producers, her lawyer said yesterday.

'Donna is ecstatic that this has worked out so well,' Mr Michael Donaldson, said.

Miss Reed, 64, sued Lorimar Productions, which produces *Dallas*, for R17 million when she was replaced last April.

'In an out-of-court settlement, she will receive two years' salary and will have complete freedom to act in

Figures show jobs slashed by recession

E. Post. 19:08:85

(49)

By LOUIS BECKERLING
Business Editor

LATEST figures from the motor industry show the ravaging effect on jobs of the economic recession and the Government's austerity measures.

In the 12 months since July 1 last year — when GST was raised from 7% to 10%, and weeks later when credit instalment rates shot up 3% and HP contracts were shortened — some 6 600 jobs have been lost in the industry as a result of lay-offs following the steep decline in demand for motor vehicles.

And the 14,5% decline in jobs to a total of 39 056 (across all sectors, from manufacturing and component, supply to retail distribution) does not take into account the impact on income levels of capacity utilisation reduced to 50% and lower in some motor vehicle plants — which translates into short-time and shrunken pay packets.

At current levels employment in the industry is 22% below a peak reached in 1982.

Some light was cast on the gloomy figures contained in the latest quarterly report from the National Association of Automobile Manufacturers (Naamsa).

Director Mr Nico Vermeulen said today all indications were that the bottom had now been reached, and if the tentative improvement shown in car sales during the month of July were sustained, this would help stabilise employment figures at their current levels.

Big bank rate cut a boost for economy

(49)

20/8/85 Mercury

Mercury Correspondent

CAPE TOWN—In a surprise development the Government yesterday signalled their intention to reflate the South African economy by a sudden 1,75 percent cut in central bank lending rates to 16 percent.

The Reserve Bank is cutting its interest rates on overnight loans to discount houses and banks as well as its rediscount rates. Prime rate and mortgage rates are expected to follow.

'The inducement for banks and their borrowing clients to use offshore credits will not be diminished, as the Reserve Bank will make appropriate adjustments to the margins it quotes on forward exchange,' Dr de Kock said.

Reasons for the move included the fact that the restrictive monetary policy applied over the past year and fiscal measures introduced in the March Budget had fully achieved their initial objective of curbing spending.

South Africa's real growth rate was currently negative and the lower turning point of the business cycle had not yet been reached, he said.

The managing director

◆ TURN TO PAGE 2

Big bank rate cut

◆ FROM PAGE 1

of the Natal Building Society, Mr John Bennett, said he had expected bond rates to fall in October and yesterday's announcement reinforced that prediction.

'But it all depends on what the other banks and building societies do It is very much a follow my leader affair — we are all in a pack waiting for someone to make a move.'

Mr Bennett did not want to speculate on how much any fall in bond rates would be. 'When a bank or building society finds it is unable to lend enough money at the present rates, it will drop the rate accordingly.'

The drop has been coupled to the reintroduction of the old bank rate, and Reserve Bank Governor Dr Gerhard de Kock forecast last night that prime rates of commercial banks would fall from the current 21 percent down to between 19 percent and 20 percent.

This will be the fifth cut in the prime rate this year from the record 25 percent level

Significantly, Dr de Kock also gave the nod to building societies to cut their rates, saying that bond rates can be expected to move lower in time. Hire-purchase and leasing rates will move down in tandem with prime.

While the fall in interest rates will be widely welcomed, particularly by the depressed motor industry, there is little doubt that current unrest in black areas and high black unemployment were key factors behind the timing of the decision.

The Minister of Finance, Mr Barend du Plessis, has largely achieved the objectives of the austerity package last August.

Inflation is expected to decline rapidly soon to around 11 percent, reflecting the economy's severe cooling off period.

However, the new depreciation of the rand due to black unrest and the lack of reform measures seems bound to inject fresh inflationary pressure into the economy in the short term

The inflation rate and interest rates may fall sharply in coming months but could rise swiftly again once the impact of the weaker rand is felt in the economy.

In pushing interest rates lower, the central bank is showing its determination not to allow recent political events to slow the downtrend in interest rates which began earlier this year.

Surplus

Money market rates as well as gilt rates have been under some pressure in recent weeks and without the Reserve Bank action rates could easily have firmed once again.

Rising exports and falling imports are steadily creating a net surplus on the country's trading account. Not only is the surplus mounting but the rate of the rise is increasing.

The rand's depreciation will, however, add heavily to the import bill but at the same time the gold mines are receiving more than R800 an ounce for their gold.

Last night Dr de Kock said that the reintroduced bank rate would be set and varied by the Reserve Bank.

Plunging rand, unrest, drag down tour business

20/8/85

49

Mercury Correspondent

CAPE TOWN—The falling rand and related factors have caused a further sharp slump in leisure travel abroad for South Africans. Tour operators were reported yesterday to have suffered a fall-off in overseas business of up to 80 percent compared with this time last year.

Mr Peter Botterill, chairman of the Association of Southern African Travel Agents, said from Johannesburg: 'We are really feeling the pinch both ways now.

'While there was a marked fall-off in the number of South Africans travelling abroad, particularly to areas with a high dollar content, there is now also a sharp tailing-off in the volume of foreigners visiting this country — because of the adverse publicity we are getting abroad.

'This is in spite of the fact that on present exchange-rates, a holiday in South Africa has become a virtual give-away for American and other foreign tourists.

'Our hotels have obviously been badly hit by this trend. But on the positive side I would say to South Africans — now is the time to take advantage of the attractive domestic packages being offered, and of much-reduced hotel rates for holiday-makers wanting to travel in their own country.'

Mr Clifford Foggitt, managing director of the biggest of the tour operators, TFC Tours, said the 'leisure' side of the business was down 35 percent to 40 percent on this time last year, but that the business travel side was up.

'It is far easier at present to sell business trips abroad than it is to sell an overseas holiday.'

Mr Foggitt said he undertood that TFC had been affected less than most operators of overseas tours, and that others had experienced slumps of up to 80 percent in leisure tour business.

As an example of the way tour costs have soared in the past year, a 13-day TFC package to Taipeh, Bangkok and Hong Kong which cost R2 375 in August last year, now costs R2 985, and a surcharge of about R150 is now being added to allow for the sharp plunge the rand took at the end of last week, after Mr Botha's speech to the Natal congress of the National Party.

The South African tourist now fares worse than ever in the sterling, as well as in the dollar areas. It has been estimated that on current exchange rates a family of four visiting London and staying at a 'reasonable' hotel and pursuing normal tourist activities would have to pay the equivalent of more than R700 a day.

The battle to conserve foreign exchange

Forward cover burden of State organisations

(49) STAR 22/8/85

By Stan Kennedy

Since the rand was allowed to float in September 1983 and the spot-swop system was introduced, the interbank market for forward rand/dollar transactions has expanded and swop transactions between banks have assumed increasing importance, says Dr Roger Gidlow, writing in the Bank of Lisbon's August *Economic Focus.*

Because of the large losses incurred on forward exchange account in recent years, the Reserve Bank intends to phase out the swop facilities it provides for banks by September next year.

IMPORTANCE

The losses first assumed importance in 1975 when the rand was devalued and they have become particularly prominent during the spot-swop period.

THe Reserve Bank stands to lose about R2 000 million from furnishing forward cover facilities to parastatal organisations as well as private sector entities in the year ended March, 1985.

This follows on the heels of a R655 million loss incurred by the Reserve Bank in the year to March, 1984 and is a reflection of the imbalance which prevails in the local forward exchange market.

With net commitments to sell every time there is a fall in the spot value of the rand against the dollar.

Even if the swop facilities are withdrawn, however, it appears that the system will still face the burden of providing forward cover for public corporations.

He says the forward market is still unbalanced as forward purchases are usually more than forward sales of dollars.

"This feature was exacerbated by the decision of the Reserve Bank in January, 1985 to transfer only half of the dollars obtained form gold bullion sales to the mining houses for subsequent sale into the market.

"The market would clearly be less unbalanced if all the dollars from gold bullion sales could be sold by the mining houses. It would create a more competitive market while the degree of intervention by the Reserve Bank could be reduced."

From time to time, the Reserve bank has supplemented the operations of the spot-swop system by means of outright forward sales of dollars. Dr Gidlow says these could help to support the rand without the Reserve Bank losing dollars immediately.

Such transactions are not free of complications. The central bank has found that outright forward sales of dollars can lead to the building up of substantial commitnique by selling dollars forward on an outright basis. This is making it difficult for banks to swop out of their positions by buying spot dollars and selling forward to the Reserve Bank.

Dr Gidlow says this ploy has been motivated by the desire of the central bank to conserve its foreign reserves.

"It has been criticised in some quarters on the grounds that it disrupts the working of the forward market.

"The Reserve Bank, however, has conducted this policy openly and the banks have been under no obligations to buy any dollars on an outright basis from the central bank."

MANIPULATION

On the other hand, the practice could create ill-feeling towards the Reserve Bank on the part of the small number of banks which are active in the forward market, says Dr Gidlow.

It may create the impression that the Reserve Bank is conducting intervention operations which are partly designed to manipulate the value of the rand so that it reaps a profit.

"If this practice remains part of the intervention tactics of the central bank, the danger could arise that some banks may scale down their involvement in the market.

Weak rand to hit fuel price?

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Dispatch Correspondent

DISPATCH

PRETORIA — Another increase in the price of fuel — it would be the second this year — is threatened if there is no substantial improvement soon in the exchange value of the rand.

22:08:85

Earlier this year, when he announced the 40 per cent petrol price hike, the Minister of Mineral and Energy affairs, Mr Danie Steyn, warned of the threat of another fuel price hike later in the year.

Yesterday, the director general of mineral and energy affairs, Mr Louw Alberts, said the price increase announced in February was based on a rand-dollar exchange rate of 50,5c and "for quite a few months" the rate hovered around 52c and 53c.

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"The result was we were able to build up our 'slate' fund in the interests of the motorist."

"At present the fund is being used to support and maintain the current price and the motorist is actually now paying less than he should be paying."

However, when the fund was empty and there was no indication of a substantial strengthening of the rand, "we will have to look at the situation again," Mr Alberts said.

● The rand fell yesterday to a low of 39,6 US cents in a thin, nervous market but closed at 40 US cents.

Economy was about to take off

49

By Duncan Collings

The annual economic report of the Reserve Bank issued today ahead of tomorrow's annual meeting of the bank consists almost solely of historical data, but it does highlight just how poised the economy was for an upturn before the emergency measures stopped progress almost overnight.

In an introductory preamble to the report, the bank says that in terms of short-term objectives, the adjustment in the economy had by the middle of this year succeeded in bringing about a substantially improved balance of payments, a more stable rand exchange rate and signs that inflation had peaked and would shortly start declining.

However, says the report, the political unrest and state of emergency "provoked an intensified disinvestment campaign, partial economic sanctions and diplomatic actions against South Africa".

This resulted in a nervous foreign exchange market, a net outflow of funds through the stock exchange and further repayments of foreign short-term debt.

STAR

"In consequence, the effective exchange rate of the rand declined abruptly by 12,5 percent in the last few days of July and the declining trend in interest rates was temporarily reversed."

26/8/85

INTEREST RATES

"All in all, however, the financial markets did well to absorb these shocks without any significant disruption," comments the bank.

"The exchange rate of the rand soon showed some recovery and interest rates resumed their downward movement."

It is against this anomolous situation of a fundamentally improved economy — poised for a renewed period of upturn — against the background of the worsening political and international diplomatic situation that governor, Dr Gerhard de Kock will address tomorrow's annual meeting.

With inflation having to remain the number one priority but set to be severely strained again by the recent fall in the rand, Dr de Kock will have to keep the clamps on the economy for some while yet.

Forex regulations 'won't be tightened'

Political pressure stunts the economic turnaround

(49) STAR 27/8/85

By Trevor Walker
Financial Editor

South Africa will not tighten its foreign exchange regulations unless forced to do so by its major trading partners and, in the present unhelpful climate, can continue to finance net capital outflows of more than R400 million a month.

This was the forceful message delivered by the Governor of the Reserve Bank this morning at the annual meeting of the Bank in Pretoria.

Dr De Kock was able to show point by point how, in an astonishing 12 months, the economy has been turned, both monetarily and fiscally.

Irrespective of this country's political ineptitude, the monetary authorities have demonstrated their ability to handle the exceptionally difficult trading conditions in the economy.

De Kock said during the past 12 months short-term monetary and fiscal strategy was designed to curb inflationary overspending and improve the balance of payments.

Strategy

This was to unfold in four stages:

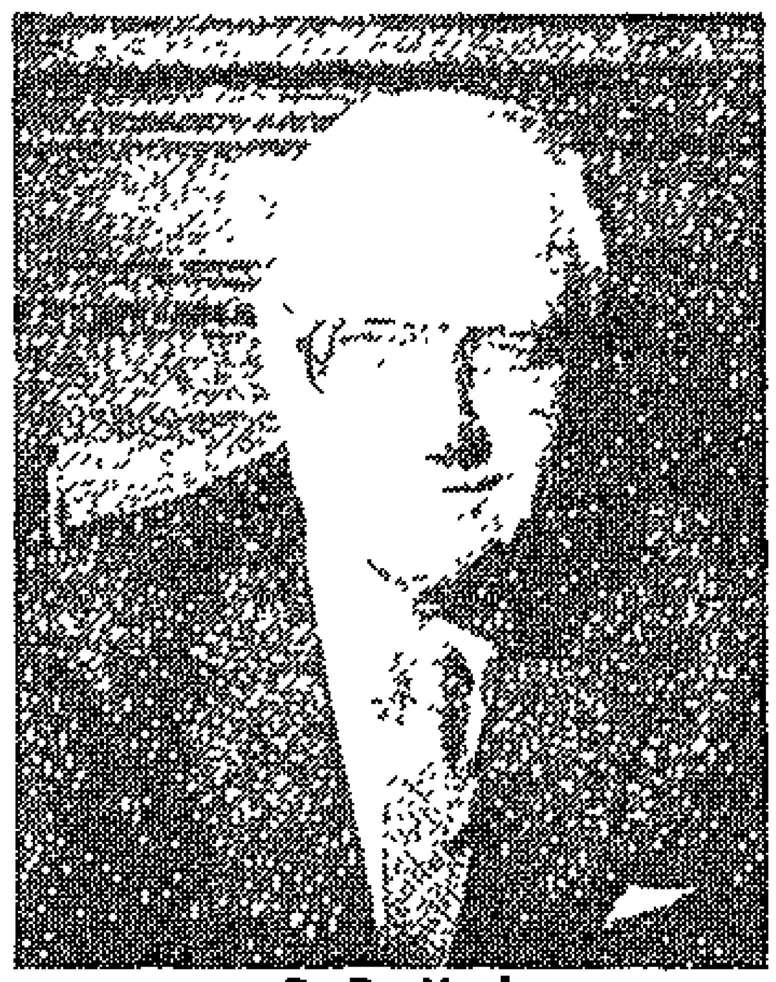
Eliminate excess demand, produce a surplus on the current account, reduce inflation and push economic activity and growth higher.

There is no doubt that in the short term, these objectives have been largely attained.

Growth is still fledgling and inflation a major problem, but as an exercise on how to manage a quick cure, the Reserve Bank has a lot to point to.

De Kock is adament that the pressure on the capital account can be handled.

But, he says "this does imply some combination of a weaker exchange rate, a higher level of interest rates, a higher inflation rate and a lower rate of economic growth than otherwise would have applied."



Dr De Kock

That is the nub of this country's economic woes at the moment. Politically we are under pressure, but monetarily we are as sound as we are able.

Political pressure is by nature a blunt instrument and as De Kock points out the impact of this "applies not only to the Republic of South Africa, but to Southern Africa as a whole, and means a lower average standard of living per head of the population of this sub-continent than would otherwise have been attained."

The need, as imposed by our major trading partners, to be a "capital exporting country" naturally imposes contraints on economic growth and it would be unfortunate if South Africa was left little option but to protect itself by imposing additional restrictions on capital movements.

"As long as we have a choice, we would prefer not to move in that direction.

"We remain convinced that that the enormous growth potential of Southern Africa can best be realised in a private enterprise and basically market-oriented system.

"It is only in such a system that adequate incentives can be provided for profitable investment by both foreign and domestic business enterprises.

"With goodwill on all sides, progress can and will be made in solving South Africa's socio-political problems. In the meantime, however, there is little to be gained by depressing domesitic economic activity still further.

"To tighten monetary policy at this stage would only exacerbate the recession and create more unemployment.

"Monetary policy in the months ahead will be designed to promote economic recovery without creating new inflationary pressure or harming the balance of payments."

De Kock says there is every reason to expect a new economic upswing and an improved growth performance next year.

Key forces

Certain key expansionary forces are already at work. Non-gold exports have been rising for months in both volume and foreign currency terms.

In view of the depreciation of the rand, the rand value of these exports has shown an even larger increase.

Taking into account the usual "multiplier" effect, these large increases in export-generated income must already be exerting significant expansionary effects on the economy.

The marked decline in interest rates that has already occurred since March should, in due course, lead to increased income generation through fixed and inventory investment, and therefore also to rising consumer demand.

Both the timing and vigour of the new upswing will be influenced by factors such as the performance of the economies of the major industrial countries, the movements of the dollar price of gold, the state of the commodity markets and climatic conditions.

"Barring unforeseen developments, however, the expansionary cyclical forces now building up should prove strong enough to bring about a distinct economic recovery next year.

De Kock accepts that inflation remains a major concern. The recent fall in the rand, even though not caused by overspending, clearly represents, he says, a setback in the fight against inflation.

The expected decline in the rate of price increases will now probably be retarded by a further rise in import prices.

Nevertheless, the rate of inflation is still expected to moderate in the months ahead.

"To ensure that this happens, any resurgence of inflationary pressures from the demand side must be avoided.

"While the rates of increase of money and credit must be kept high enough to promote economic recovery, they must be kept low enough to avoid rekindling the fires of inflation."

The main problem at present is the net outflow of short-term capital resulting, among other things, from the hesitancy of some foreign banks to roll over maturing credits.

The fact that this is not justified by economic fundamentals does not make it less worrying.

Neither does the fact that it is to a large extent based on distorted perceptions of the nature, extent and possible consequences of the country's domestic political problems.

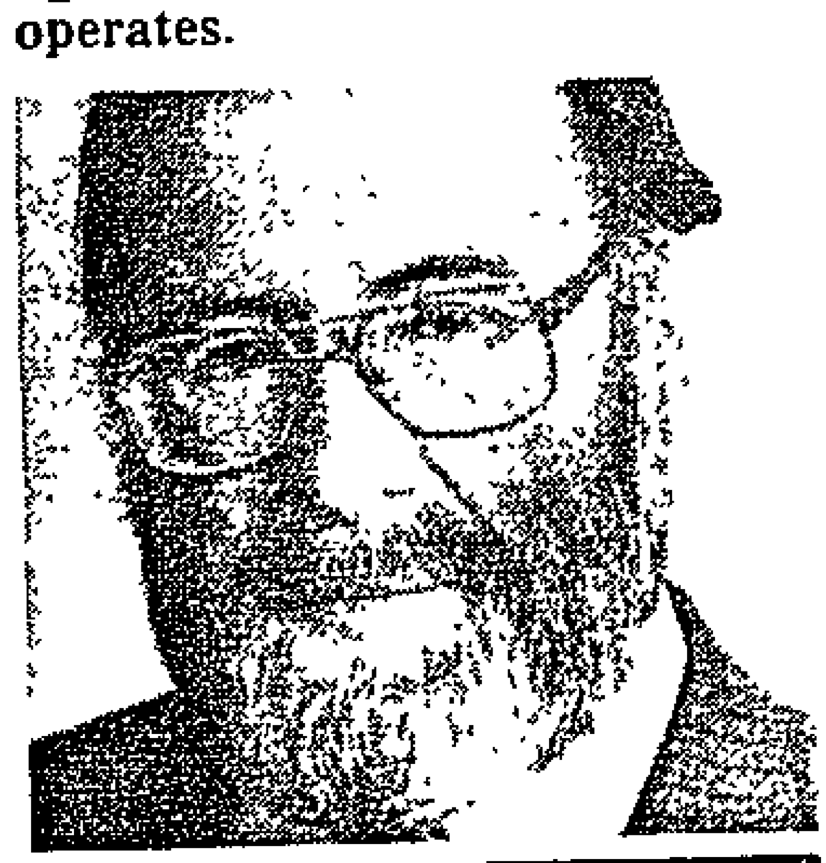
Until these political perceptions improve, the net capital outflow is a reality and that has to be taken into account by the monetary authorities.

Spotlight on important economic agreement

STAR (49)

27/8/85

The 16-year-old SA Customs Union Agreement has been reassessed on behalf of the Government by Professor C L McCarthy of Stellenbosch University. The agreement, which controls customs and excise revenue for all the governments of countries within the borders of the old Union of South Africa, is of great importance to the economies of these nations, which include four independent homelands. JOHN D'OLIVEIRA, of *The Star's* Africa News Service (below), sketches the background to the agreement and explains how it operates.



The South African Government is studying a report which could have a significant bearing on economic relationships in Southern Africa.

It was prepared by Professor C L McCarthy, head of the Department of Economics at the University of Stellenbosch, who was quietly appointed at the beginning of last year as a one-man Commission of Inquiry into the operation of the 1969 South African Customs Union Agreement.

The 16 year-old agreement is the most important source of revenue for the governments of Swaziland, Lesotho, Transkei, Venda, Ciskei and Bophuthatswana. After revenue from mining, it makes the biggest contribution to the Botswana exchequer.

In terms of the agreement, South Africa sets customs and excise policy and collects the resulting revenue for the whole region.

It then pays hundreds of millions of rands in compensation every year to the so-called BLS countries and to the independent homelands.

The payment is calculated according to the formula accepted by the different parties in 1969.

In terms of the formula, each country receives the amount of money it would have collected had it operated its own customs and excise service, increased by 42 per cent to compensate for the disadvantages of being in a customs union with a more developed country.

The disadvantages are clear: loss of fiscal discretion, the negative effects on the local economies of South Africa's unilaterally-determined protective tariff structure and the inevitable concentration of development in South Africa.

What is left in the customs and excise pool goes to South Africa.

The South African Government has thus far refused to disclose exactly how much money is paid every year to the BLS countries and to the independent homelands under the agreement.

However, researchers have established that Botswana received R116 million in the 1981/82 financial year (the most recent year for which complete statistics are available), Swaziland received R117 million and Lesotho R71 million.

Revenue from the Customs Agreement provided the Botswana Government with 32 percent of its revenue, Lesotho with 37 percent and Swaziland with a massive 61 percent.

Although the BLS countries received an enormous boost in their customs revenue when the 1969 agreement came into operation, they are less than satisfied with the effect it has on their own industrial development and on the level of compensation they receive.

In 1981 and 1982, Botswana, Lesotho and Swaziland tried to negotiate an amended revenue-sharing formula which would increase their share of the customs and excise pool but South Africa rejected the recommendations made by the South African Customs Union Commission.

At the time South Africa said the existing formula was already more than generous and that the BLS countries were not making use of provisions in the agreement which could be used to promote their own economic development.

However, dissatisfaction with the agreement continued.

On the South African side, there has been concern at the increasing sums of money that have had to be transferred to the BLS countries, not to mention the money that has had to be paid over to the independent homelands which, for all sorts of reasons, could not be treated less favourably than Botswana, Lesotho or Swaziland.

In an article in the October 1982 issue of *Contemporary African Studies*, Dr Gavin Maasdorp, Director of the Economic Research Unit at the University of Natal, wrote:

"For the last few years there has been some indication that Pretoria has felt that the emphasis of the agreement should be shifted away from the revenue-sharing aspects to economic development per se."

It was against this background that Professor McCarthy was appointed to examine the 1969 agreement and determine how its emphasis could be shifted towards development.

He has listened to evidence, heard the views of the different countries involved and he has submitted his report to the South African Government.

Officials have refused to say anything about the report or the professor's recommendations — and there has been no sign thus far of the South African Government's reaction.

However, the Customs Union Agreement is so fundamentally important to the economies of Southern Africa's smaller countries, that almost any change will have a significant effect on the region's economic inter-relationships.

Sharp rise in the rand is expected

By Trevor Walker

STAR 28/8/85

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The rand is expected to be quoted sharply higher when the foreign exchange market is reopened on Monday.

Bankers speculated today that the rand could be quoted at anything up to 55 to 60 US cents which would mean an upward valuation of over 50 percent from its closing level yesterday of 35,65 US cents.

Overseas banks quoted the rand over a huge 10 cent buying and selling spread of 37 to 47 US cents this morning.

While this was largely academic it did tend to show that banks were expecting the rand to move higher on Monday.

The dramatic loss of confidence in South Africz abroad and a sharp fall in foreign loans, amounting almost to a capital boycott, have forced the Government to close the foreign exchange and stock markets until Monday.

A wide-ranging package of measures is anticipated which could include lower interest rates, possible import curbs to hold down the inflation rate and restrictions on the amount of loan repayments to those foreign banks that have not only refused to lend money to this country, but that have been calling in existing loans.

However, for the financial package to be convincingly effective it will need to be accompanied by some political statement.

As the Governor of the Reserve Bank said yesterday in his annual address to shareholders, the country's present sound economic recovery had been undermined by political influences.

South Africa's major trading partners have been calling for some statement of intent from the Government.

The difficulties the commercial banks have encountered in rolling over foreign loans and a general lack of dollars in the market saw the rand sold down to a record low of 34,80 US cents yesterday.

Stock market trading volume soared to R58 million yesterday compared with R21 million on Monday and the normal level of around R15 million.

On the foreign exchange market the rand plunged to less than one German mark and to nearly 25 British pence, or less than half its value a year ago.

The foreign exchange and stock markets have been closed on numerous occasions but, other than the closure after Sharpeville in 1960, these closures were generally of a technical nature.

The latest closure is a direct result of political influences. Despite the strong recovery in the country's trading position, the lack of political confidence has spread to the foreign investment community.

Johannesburg Stock Ex-

● To Page 3, Col 4

Travellers' cheques up to R6 000 can still be bought

Travellers going overseas before Monday should be able to buy travellers' cheques.

There was much confusion at the outset of business today after last night's announcement of a suspension on foreign exchange transactions, with several foreign exchange dealers refusing to trade at all.

However, this morning the Reserve Bank gave travel agents permission to sell travellers' cheques up to a limit of R6 000 — the full travel allowance — to people booked to leave the country before Monday.

Commercial banks were directed to issue cheques "for reasonable amounts".

Mr Gordon Young, managing director of American Express, said his company was selling cheques for the full travel allowance, although it could cash cheques only up to R2 000, and then only to "genuine foreign travellers".

EMERGENCY

Thomas Cook Rennies Travel will sell cheques for up to R6 000 and will cash cheques for any amount provided "it can be shown that the money was brought into South Africa as foreign currency", said managing director, Mr John Trathen.

The Standard Bank said today it would sell travellers' cheques for the full travel allowance and would assist travellers on an emergency basis by cashing cheques for up to R500.

Mr Jimmy McKenzie, managing director of Barclays Bank, said Barclays would handle each case on its merits. Clients would experience no problems, but some form of collateral would be sought from "people coming in from the streets", in case Monday's rates are markedly different from the rates at the time of the transaction.

Barclays would cash cheques for up to R100, he said.

Cape Times 28/8/85

Govt stops JSE trading

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Staff Reporter

THE Minister of Finance, Mr Barend du Plessis, last night announced the suspension of trading on the Johannesburg Stock Exchange and the South African currency market until September 2.

In a statement, Mr Du Plessis said that "flowing from the abnormal pressure that has arisen over the past weeks on the capital account of South Africa's balance of payments, as the result of reasons unrelated to the healthy underlying economic conditions in the country, the government has, after careful consideration, decided to suspend trading on the South African currency markets and the Johannesburg Stock Exchange.

"During the next few days, negotiations with all affected parties will take place and the necessary arrangements will be made to allow orderly circumstances to prevail and normal financial trade relations to proceed," he said.

Mr Du Plessis said a proclamation announcing the suspension would be issued in an Extraordinary Government Gazette today.

Decline

Finance Editor **Paul Dold** said the suspension of trading on the JSE was an attempt to stop speculation against the rand to give the government "breathing space".

"The rand is under heavy pressure due to money leaving the country. There is a run on our foreign currency reserves. This move is an attempt to stabilize the currency and prevent speculation against the Rand."

● Mr Hugh Boonzaier, the chairman of the Johannesburg Stock Exchange, said last night that any means to restore confidence and stability to the foreign exchange market would be welcomed.

● **Rand slumps, page 11**

Concern over sanctions pushes rand to new low

(49) STAR 28/8/85

NEW YORK — The American dollar turned broadly higher yesterday but finished below its highs of the day after some interest rates fell in the United States.

Currency dealers said traders focused most of their attention on the South African rand, which fell to a new low against the dollar because of concern over possible US economic sanctions in protest of the government's apartheid policy.

The price of gold was mostly higher. Republic National Bank of New York said gold bullion was bid at $336,75 a troy ounce at 16h00 EDT (22h00 SAST), up $1,10 from the late bid Monday.

Trading resumed in Britain, Singapore and Hong Kong, where financial markets had been closed for a three-day holiday weekend. The dollar failed to hold on to all of its gains, giving ground late in the day as bond market interest rates dipped in the United States.

Mr Howard Kurz, chief currency dealer at Bank of America's trading centre in New York, said most talk among traders centred on the rand, which fell to a new low of 35,75 US cents in Johannesburg, plunging from its opening level of 38,50 cents.

"All South African companies are needing dollars," Mr Kurz said.

He said South African traders told him that businesses in their country are buying dollars and other foreign currency because of fears that foreign credit lines will be withdrawn and foreign loans will not be renewed in an economic protest at the racial turmoil and continued state of emergency.

By the end of the trading day in the United States, the dollar had settled at 237,025 Japanese yen, against 236,75 yen late Monday. The British pound was quoted at $1,3985, down from $1,4005 late Monday. Other dollar rates in New York at 16h00 EDT (22h00 SAST), compared with late rates Monday, included:

- 2,77135 West German marks, up from 2,7676;
- 2,2720 Swiss francs, up from 2,2645;
- 8,4650 French francs, up from 8,46125;
- 1,35975 Canadian dollars, up from 1,35795.

On the New York Commodity Exchange, gold bullion for current delivery closed at $337,10 a troy ounce, up $1,20 from Monday. — AP.

Revaluation possible

49 STAR 28/8/85

By Peter Farley

A major revaluation of the rand against foreign currencies and the concomitant introduction of some form of foreign exchange control appears the most likely scenario when the foreign exchange and stock markets are re-opened next Monday.

Though no details of what the financial authorities are planning to introduce are known, banking sources suggest that a comprehensive package is likely to be announced aimed at restoring confidence in the economy.

Already the UK divisions of Barclays and Standard are quoting the rand against the dollar this morning on a spread between 37c and 47c. It is clear, therefore, that bankers are expecting developments which will enhance the rand's international value.

Locally, however, bankers do not expect the rand to be allowed to rise to much more than 55c, so that the full benefit of export earnings still flows through. Nevertheless, all major parties involved are likely to be having discussions with the authorities in the next few days on what the new package will consist of.

The composition of such a package remains complete speculation at this stage, but senior banking sources says that a limited form of debt rescheduling may be introduced.

Repayments

This would in effect limit the amount of repayment in any given month by South African companies and banks of offshore liabilities. The refusal of roll-over facilities by foreign banks, effectively calling in loans, has been a prime factor behind the recent run on the rand.

A moratorium of sorts, with a continuation of debt servicing, would alleviate some of this pressure that has built up in the past couple of weeks.

In conjunction with moves in the foreign exchange market many bankers expect the authorities to announce other measures aimed at stimulating the domestic economy.

In the forefront of these could well be another reduction in the new Bank Rate. This was set last week at 16 percent, down 1,75 percentage points on the old rediscount rate.

In addition, measures to boost employment and encourage import replacement could come in the form of limited import controls.

Banking sources today said that a re-introduction of the financial rand and two tier exchange rate system at the currency's currently depressed levels is extremely unlikely.

They said, however, that the rand could not be revalued without some form of protection being introduced to prevent a resumption of the sharp capital outflows that have taken place in recent weeks.

A two-tier rate may well, however, be re-introduced at a higher rand rate.

Of more immediate concern in stockmarket circles, however, was the precarious position of the gilts (government stock) market. More particularly, the exercising of options falling due today and tomorrow.

Confusion reigned in the gilt market today, with official dealings in the stockmarket suspended but active trading still taking place through grey market dealers.

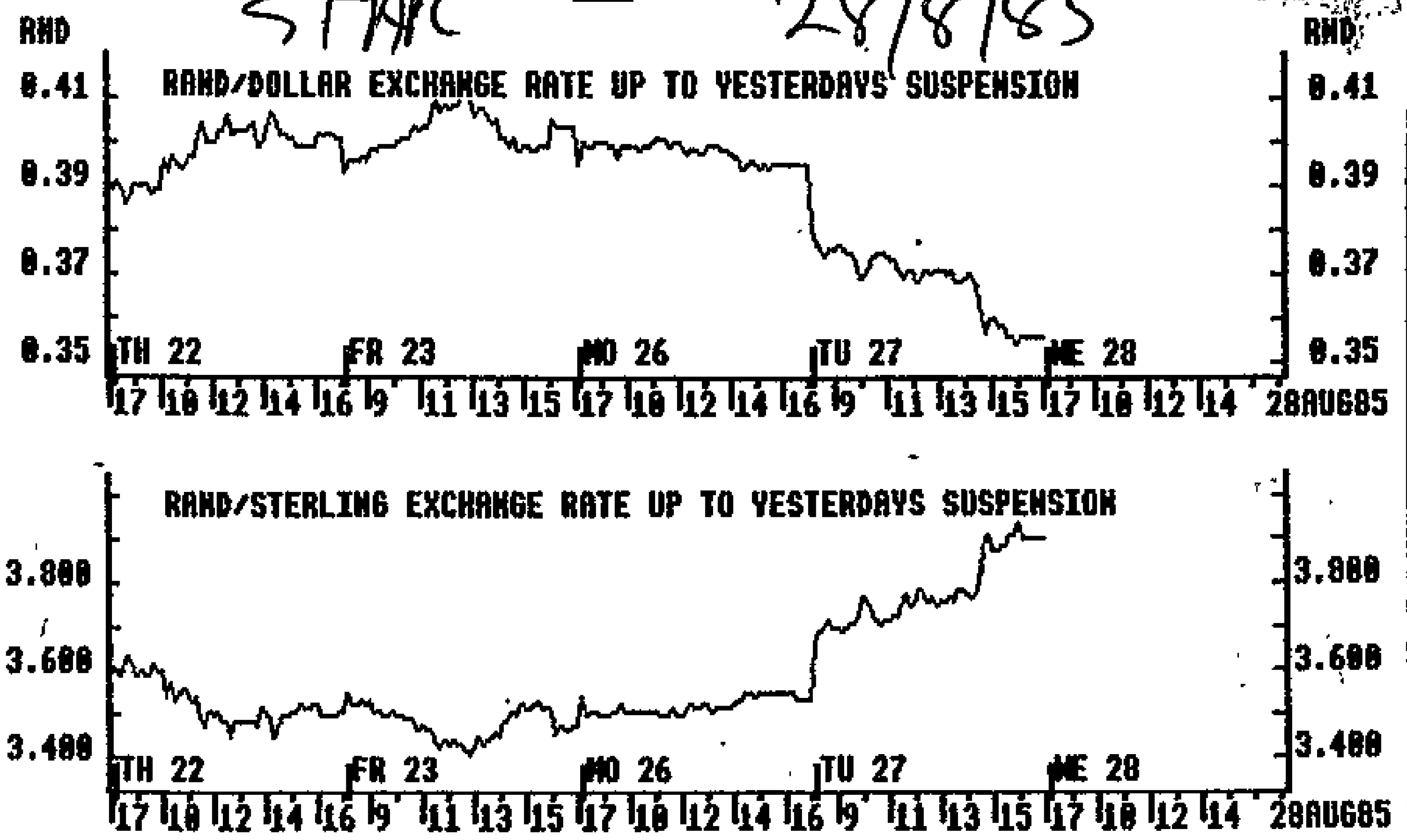
Abnormal pressure

In announcing the suspension until Monday of trading on the stock exchange and foreign exchange markets Finance Minister, Mr Barend du Plessis said that these flowed "from the abnormal pressure that has arisen over the past week on the capital account of South Africa's balance of payments as a result of reasons unrelated to the healthy underlying economic conditions in the country."

"During the next few days, negotiations with all affected parties such as, amongst others, our partners in Southern Africa, will take place and the necessary arrangements will be made to allow orderly circumstances to prevail and normal financial and trade relations to proceed.

"These steps have been taken so that South Africa can continue to meet all international obligations.

Dealers in the major banks, however, were less critical and felt that the breathing space was necessary in the foreign exchange market where reaction was becoming overheated and reaching panic proportions.



REUTER MONITOR GRAPHICS

Dangers of political intervention

By Trevor Walker

If the South African Government forces the monetary authorities to introduce foreign exchange controls and a split currency as part of a package of measures to protect the rand — the effect will be disastrous.

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Bankers said the latest run on the currency had come about solely because of the strictures on foreign credit lines by certain overseas banks.

The outflows via the stock market have not been a major worry to the monetary authorities.

STAR

Foreign exchange restrictions will do nothing to protect the rand, and the rate could well fall to 30 cents if they are introduced.

28/8/85

Foreign confidence in South Africa has waned sharply in recent weeks and the closure of the foreign exchange and stock markets has done nothing to alleviate overseas concern.

In fact a number of bankers said today that panicky phone calls were the order of the day, particularly from Europe.

Import controls, lower interest rates and debt rescheduling would no doubt boost the rand in the short term, but unless overseas confidence is restored the withdrawal of invested capital will continue.

If the monetary authorities are able to organise substantial new lines of credit over the next few days, the markets could be re-opened with no measures being necessary.

However, yesterday's decision was taken by the politicians, presumably to the consternation of the monetary authorities.

If these politicians now fail to come up with some form of commitment themselves, then they will merely have managed to damage even further the economy which had just begun to show signs of a positive recovery.

The Association of Chambers of Commerce chief executive, Mr Raymond Parsons, said today that a strong and imaginative statement of political action is required. Direct controls over the movement of capital were only palliative and led to serious distortions in the economy, he said.

Drive to save rand gets into top gear

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29/8/85 STAR

By Trevor Walker

South Africa's drive to raise overseas loans and lines of credit swung into top gear today as the Governor of the Reserve Bank, Dr Gerhard de Kock, arrived in London this morning.

Treasury officials and commercial bankers were equally active in attempts to negotiate additional credit.

Finance Minister Barend du Plessis's statement this weekend will depend to a very great extent on the success of this drive to solve the country's immediate short-term borrowing crisis.

However, the longer term financial situation will be heavily dependent on political measures adopted by the Government.

The country's reputation in the international business community has worsened sharply during the state of emergency and it is these worries over South Africa's political future that led to the crisis of confidence.

Mr Rob Abrahamsen, chief executive of the Nedbank Group, said that —had the recent drain on the country's foreign reserves and the pressure on the exchange rate been precipitated by a sudden weakening of export markets or the gold price, or a resurgence of domestic demand — the steps announced by the Government would have been inappropriate.

Options limited

"In the present circumstances, where the pressure is related solely to changed political perceptions, the options are limited.

"Recent political events have cast a shadow over immediate economic prospects."

The Minister of Finance, Mr Barend du Plessis, was quoted on the SABC news this morning as saying the Reserve Bank had held talks with the country's major banks, its neighbours in the Rand Monetary Area and financial experts to evaluate the situation and discuss possible solutions.

Controls

Mr du Plessis said the closing of the currency markets until Monday, to review strategy, should not be seen as a return to direct control.

The Official Opposition spokesman on finance, Mr Harry Schwarz, said President P W Botha should lead the country in dispelling the perception overseas that there was inadequate will to solve the country's political problems and that instability lay ahead.

"I therefore appeal to (Mr Botha) to address the nation, and so the world, and demonstrate there is a will and a plan for peaceful co-existence," he said.

'Politics cripple economy'

A WARNING against the re-imposition of direct controls over capital movements was sounded by Assocom yesterday, following the Government's decision to suspend trading on the Johannesburg Stock Exchange and foreign exchange markets.

Mr Raymond Parsons, chief executive of Assocom, said: "There is ample experience in South Africa and overseas that such direct controls are only a palliative and lead to serious distortions in the economy."

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He described the decision to close the JSE and forex markets until Monday — announced by the Minister of Finance, Mr Barend du Plessis — as a "regrettable necessity."

"A breathing space is necessary to enable both the Goverment and the private sector to develop new strategies in view of

SA PRESS ASSOCIATION

the excessive strain on the rand exchange rate," he said.

Sowetan

"Assocom believes that the position of the rand is considerably undervalued in terms of economic fundamentals, and that the exchange rate crisis is attributable entirely to political factors. To overcome these negative political perceptions requires a strong and imaginative statement of political action in South Africa which will reassure businessmen and investors."

29/8/85

After the decline of the rand on Tuesday to an all-time low of 35,50 US dollars, the governor of the Reserve Bank, Dr Gerhard de Kock, said the bank had sufficient dollars to intervene in an attempt to strengthen the rand's value on foreign exchange markets, but that it "only" intervened when unnecessary fluctuations in the rand-dollar exchange rate occur. — Sapa

(49) FM 30/8/85

Financial Mail

MONETARY POLICY

Feeling the heat

In his annual address to shareholders, the Governor of the Reserve Bank, Gerhard de Kock, quotes some impressive figures to show that the economy is on a sounder footing than it was a year ago.

For example, the ratio of personal saving to personal disposable income has leapt to 7,5% in the second quarter this year, compared with a negative figure last year. A deficit of 2% of gdp on the current account has been transformed into a surplus of 4% of gdp. The economy, which was borrowing abroad on a large scale, is now repaying sizeable short- and long-term debt. Growth in money supply aggregates is under better control.

"On strictly economic grounds there is every reason to expect a new economic upswing and an improved growth performance in 1986," says De Kock.

Prompted by this, the Reserve Bank has begun preparing the ground for growth next year by lowering its basic interest rate five times since early May.

But — and this is the crux of the matter — the political upheavals, and hardline reactions by government, are threatening to pull the plug. Significant drops in rates, or other attempts to reflate the economy, are simply flying in the face of a desperate shortage of credit and a disappearing rand. With the currency nervously hovering around US38c, the hard-won gains of a year's stringent monetary policy are in danger of being thrown to the wind.

At present the rand is feeling the heat from a net outflow of short-term capital, mainly due to foreign banks balking at rolling over loans to this country. And every drop in the rand increases inflationary pressures. "The expected decline in the rate of price increases," comments De Kock, with justice, "will now probably be retarded by a further rise in import prices in terms of rands."

This fact increases the temptation of resorting to direct controls to sort out the mess — the ever-present lobby for direct controls is always more vociferous when things go haywire. That would only further dent confidence.

The economy, we are told, is capable of financing repayments and capital outflows to the tune of R400m a month. Although no definitive figures are available, by all accounts the pressure on the capital account is intense and growing.

De Kock states frankly: "It would be unfortunate if this state of affairs left SA little option but to protect itself by imposing additional restrictions of one kind or another on outward capital movements. As long as we have the choice, we would prefer not to move in that direction."

More than ever before SA needs economic and political policies that *encourage* investment, output and employment. Like it or not, these are contingent on widespread political reform. Fortunately, the economy's inherent strength *has* given us room to manoeuvre — but the big question remains: does P W Botha have the will, or is he, in the words of the respected political commentator Stanley Uys, "yesterday's man"? ■

FOREIGN RELATIONS

Political Ramboism

Whether or not the visit of the three European Economic Community (EEC) ministers is a fact-finding or a fault-finding mission is irrelevant. Its fate was in mid-air as the *FM* went to press because Roelof "Pikkewyn" Botha — possibly in a bid to sweep away his reformist tracks because his President has wrong-footed him and he wants the other Botha's job one day — was busily demanding "urgent clarification" of what the EEC three actually want here.

What they want is information on whether *not* to disengage from SA. They already have sufficient information to lead them to believe they should — but that's all the more reason to let them come, then try to talk them out of it, unless your death wish is sincere.

Ever since President Botha stood on his tongue in Durban, his flunkies have got the message: get out there and bare your hairy chest like Sylvester Stallone. Political Ramboism is the order of the day. What, one despairingly wonders, will it take to get the message across to government that it needs to lie down and wait until its temperature comes down? A 36c rand? A 28c rand?

Denying the EEC representatives access to Nelson Mandela — while opening his cell door to curious people who believe the earth is flat — only hardens foreign attitudes. "Don't push us too far," sneered P W. But it's really the other way round: Pretoria is pushing the world too far. As a financial journal we feel it necessary to point out, again, that this *kragdadigheid* — and its physical reflection in deferred recovery, renewed inflation, the botharand, the State of Emergency which doesn't appear to be working — must all be paid for.

We don't mean in ostracism: we mean in cash. The burgeoning revenues of the taxman, which could have been used to cut taxes and thus springboard growth, are being squandered in paying for apartheid.

Only the uncivil servants are assured of jobs these days. *They* don't talk about retrenchment. Perhaps it's time for a tax revolt. ■

THE DOLLAR

Soft, but not happy landing

The rapid weakening of the US dollar in response to domestic economic slowdown and easier interest rates has been widely welcomed by the rest of the industrialised world. The currency has fallen 13% in trade-weighted terms from its February peak, and positively plummeted against some of the major currencies.

The dollar is down 20% against the Deutschemark, even though real returns available on US Treasury bonds still outstrip those from comparable German financial assets by nearly three points.

The benefits of the dollar's dethronement, however, are not uniform. Of course, it immediately has an impact on inflation as dollar-priced oil and other commodities (which are already some 17% down from this year's peaks) fall in local currency terms. And it should make US manufactured goods more competitive against imports and in export markets.

In turn, many are hoping, this will dampen the protectionist heat fired up in Washington, where the US Congress has before it nearly 300 legislative proposals aimed at stemming the tide of foreign imports — mainly from Japan, which is running a $50 billion trade surplus with America.

Reagan

Yet the drop is still not enough. The dollar stands some 40% above its 1980 trade-weighted value and American industry continues to suffer market losses abroad. And now profit margins are falling at home. This was a point rubbed in by the National Association of Manufacturers when it urged Treasury Secretary James Baker that active intervention in the forex markets was needed to get the dollar down.

Volcker

There is no shortage of estimates of where the dollar *should* be to help US industry and make inroads on the ballooning current account deficit. This is set to soar from $102 billion in 1984 to $125 billion this year and a forecast $145 billion next year. Rimmer de Vries, senior vice-president of Morgan Guaranty Trust, has said that to make any difference the dollar needs to fall to DM2,50 and to 210 yen. Others (see table) think it should go

With the decline in the value of the US currency, international sentiment is growing that there has to be an acceleration in the growth rates of other major industrial countries. Without this, growth in the world economy as a whole could be slowed to unacceptable levels. But it would be good for gold.

further — another 25% down in DM and 17% in yen. The implications for the gold price, so far up 17% from its dollar low this year, are obvious.

America's trading partners in the industrialised world would also have to play an active part. As the Bank for International Settlements' annual report stated: "For the growth performance of the industrial countries to remain at around 3%-3,5% (compared with the exceptional and unsustainable 5% achieved in 1984), a soft landing of the US economy would require as a counterpart some acceleration in the rate of growth of domestic spending of other industrial countries as a group. Without such an acceleration, a declining US current account deficit ... would necessarily be accompanied by a weakening, not only of US growth but also of growth in other industrial nations."

Thatcher

Yet the desirability of lowering the dollar, maintaining global growth and defusing protectionist bombs, is complicated by a minefield of conflicting interests and consequences. Paul Volcker, chairman of the Federal Reserve Board — who, according to some commentators, is effectively running the US economy now — is against a sharp devaluation that would halt, or reverse, the foreign capital inflows which are helping to finance the American deficit. There are two choices open to Volcker, and both are unacceptable.

He would have to jack up interest rates, thus exacerbating the growth recession which is likely to hold the US economy down to a rate of under 3% this year — against administration hopes of 5%. Or the Fed could open the money supply taps, risking an upturn in inflation and driving even more people out of the dollar.

"If the dollar suffers a hard landing, falling another 20% in the next few months, you could see the development of a spiral in the currency, and inflation," said Tony Baron, chief economist at London brokers, Laurie Milbank. "A sudden adjustment would feed through to higher prices more quickly than output as US domestic producers recouped their profit margins. And the Fed would then be forced to put the screws on — unless all its successes since 1979 are to be wiped out — inducing a deep recession in order to bring domestic demand for funds into line with domestic savings. That would clearly be bad for the rest of the world."

So far the betting is on a soft landing for the dollar. The West German Bundesbank, followed by the Netherlands, has responded cautiously to the weaker dollar and a capital inflow, by cutting short-term lending rates by half a point (*FM* August 23). With the first tranche of the Bonn government's planned DM20 billion in tax reductions due next year, this should help stimulate German investment and domestic consumer demand. But, on the other hand, by opening up the interest rate differential with the US, it will keep German exports to America competitive. Most German exporters have consistently based their US selling prices on an exchange rate below DM2,80.

It remains to be seen whether the other big European economies, notably Britain and France, will take similar action to boost their sluggish economic growth, given the disinflationary effect of the easier dollar. "Reflation is not in my government's vocabulary," noted UK Prime Minister Margaret Thatcher.

Japan has decided to do nothing. In spite of calls from bodies such as the Bank for International Settlements for Japan to expand its domestic demand and so redress its huge current account surplus of $45 billion, the Bank of Japan's Governor, Satoshi Sumita, rejected any stimulus via lower interest rates. It was not necessary for Japanese growth and would only make the yen cheaper, worsening trade relations with the US.

Sumita did not attempt to square this position with the fact that one of the reasons why the yen remains low (it has gained only 10% against the dollar in the recent swing), has been Japanese demand for dollar invest-the death certificate and autopsy report. But she was told the claim could not be met until the inquest report was available (and this would take many weeks if not months) as her husband had died an "unnatural" death.

Also, since the claim had occurred within two years of effecting the policy, the life company looked to two areas to ensure they were paying a valid claim:

☐ The question of suicide, the only exclusion which could apply in the first two years of a policy; and,

☐ A false statement on the proposal form.

With this in mind, the assurer requested further details, such as press cuttings relating to the circumstances of the accident, and a certificate by the deceased's usual medical attendant regarding his history.

His wife pointed out there were no press cuttings relating to the accident but sent a completed medical attendant's report. This showed that, about one year before the proposal, her husband had consulted his doctor once for "anxiety, tension, and stress."

As the delays continued, the deceased's wife enlisted the support of her employer who lobbied the assurer further on her behalf, demanding that interest be paid on the money due. The company denied liability since the delay was due to normal procedures that had to be followed.

Some two months after the husband's death the capital sum of about R77 000 was paid to his wife, but without interest. However, the employer took the view that, whereas the delay itself might be acceptable, it still did not absolve the life company of interest due.

Her boss then pressed the life company further, and after some two weeks an amount of R1 550 was paid, representing annual interest of 13%.

Says Dick Geary-Cooke, executive director of the Life Offices' Association: "Our members have to act to protect other policyholders' assets from possible fraud." He adds that suicides, and suspected suicides, for example, have to be looked at very closely.

"Besides this, the policy conditions provide for payment, not from the date of death, but from the date of settlement of the claim," he says. "If they did pay interest from the date of death then premiums would have to be increased slightly to cover the cost."

Geary-Cooke points out that, legally, a man is not dead until the death certificate has been issued. And this is one of several documents required by the life company in considering a claim.

He says claims are usually paid promptly, say, within two or three days. If there are delays it is usually the fault of those required to provide the documents — the broker or client, for example.

"Where the life office is responsible for a delayed payment of a claim," says Geary-Cooke, "then it will usually compensate the claimant accordingly." ■

KANTOR COMMENTS

Calling for reflation

49 F-M

Brian Kantor is a professor of economics at the University of Cape Town, and a frequent contributor to the *FM* on economic affairs.

Generals have to be cautioned against fighting the last war. The South African economic generals can do with similar advice.

Yesterday's economic battles were fought against overspending and inflation. But the more particular objective of the war was to increase foreign exchange reserves, threatened as they were by rising imports and falling exports.

Our generals seem to believe they succeeded — even if success took a lot longer than they would have preferred. Spending certainly was crushed and the desired foreign exchange reserves did eventually arrive in the second quarter of 1985; they arrived in time to counter a new threat to the economy in the form of capital outflows.

The reserves, however, were clearly not sufficient to prevent a massive further devaluation of the rand. If the gains and losses are to be weighed up realistically, the outlook for inflation for the next 12 months is significantly worse than the outlook viewed in August 1984 when the battle against spending was launched.

We will never know what the economy may have looked like had spending been less severely dealt with: it could have been healthier, employment levels higher and the unrest less destructive. But, putting might-have-beens aside, the damage to the economy now is not being caused by too much spending, but by too little.

It is a different war and very different tactics are called for.

Without confidence, private spending will not recover; without economic recovery, capital will continue to flow out; without a stronger rand, prices will continue to rise at a faster rate.

Recovery will mean a stronger, rather than a weaker balance of payments and attempting to squeeze domestic spending even more, to promote surpluses in the trade balance, will be highly counter-productive. Exports already have more than sufficient encouragement and import volumes are bound to remain depressed for a long while.

A revised battle plan for economic recovery must be implemented as a matter of the greatest urgency. It will have to be founded on more, rather than less government spending and lower, rather than higher tax rates.

The plan must also be augmented by deregulation — especially of the labour market — and by a simple tax system designed to replace foreign savings with domestic savings. The battle plan for economic recovery must be clear and highly visible. It must give the shell-shocked participants in the economy a very strong sense of urgent commitment to economic recovery.

The essence of such a plan was implicit in President Botha's Durban speech. The "Botha emergency-plan", as it may be called, can be based on urbanisation and deregulation. The R1 billion the President said would be spent on improving the urban environment, as the basis for black self-help housing, should be spent as soon as possible rather than over five years. The sooner the money is spent, the less it will cost.

Such spending now will not mean printing more money. It can easily be financed by genuine government borrowing. Resources in the form of labour, equipment and building materials necessary for these developments are standing wastefully idle, with little prospect of immediate alternative employment for them. The houses that will be erected on the land prepared for them will provide enormous scope for small business, both black- and white-owned.

The sense of economic improvement associated with such developments can do much to improve the political atmosphere, particularly if ownership of the serviced plots were transferred to their occupiers at zero cost. In this way, a new property-owning class will have emerged overnight. One of SA's business giants, with a reputation for energetic leadership and administrative skill, should be given immediate responsibility for spending the R1 billion over the next 18 months.

It should be allowed to select its staff from the public and private sectors, required to report regularly to Parliament and the Auditor General on progress made. Another small task force must be assembled to override, with all the President's authority, those vested interests that will be threatened by deregulation. The trenches to be overrun will stretch across Pretoria. Such a task will be much tougher than spending a quick R1 billion, but it will be more important.

A quick economic recovery in SA can be won. It will take no more than an extra 4%-or-so of current government spending. But it will need the right men and, more important, the right sense of urgency. ■

representations to government.

Gallimore, who chairs the Sasria committee of the SA Insurance Brokers' Association (Saiba), believes there is "now a need to involve major clients who will be affected by the intransigence of Sasria."

Schneeberger

The problem is that holding companies, together with their subsidiaries, are regarded by Sasria as one entity, no matter how vast their interests, and are limited to R100m worth of cover.

So one company, worth R100m, will be able to obtain the same cover, "as for example, a holding company with well over 1 000 subsidiaries and assets totalling more than R20 000m."

The situation is further complicated by the fact that the initial layer of cover must, by law, be obtained from Sasria. Mega-groups have no alternative but to make additional — and therefore more costly — arrangements to ensure they are adequately covered.

The situation also generates a host of technical and practical problems. With the escalating unrest experienced in SA since last September, effective cover has now become a burning issue.

"The violence at home and the generally reduced capacity of the international insurance market, makes it essential for companies within a group to have their own limits," says Gallimore.

This has been put to Sasria but with no success.

"After several meetings with the Sasria Board, and also the Registrar of Financial Institutions, over the last year or so the committee has had to acknowledge defeat," says Gallimore.

He has now sent a memorandum on the subject to the Afrikaanse Handelsinstituut, the Federated Chamber of Industries and the major brokers.

Sasria MD Rodney Schneeberger contends that, whatever arrangement is made, it will be to someone's disadvantage. He points out that the R100m limit was not a Sasria Board decision but "was imposed on us by the ultimate reinsurer, the government — representing the taxpayer.

"The board has taken into account the position and interests of all parties: the insured, the insurance companies which are Sasria's agents, the brokers and other intermediaries, as well as those of Sasria itself." ■

LIFE ASSURANCE

Lapsing in recession?

Part of the art of selling is knowing when not to. This is the lesson the recession is teaching people who sell life assurance. For the success of a sale is not simply its conclusion but its permanence.

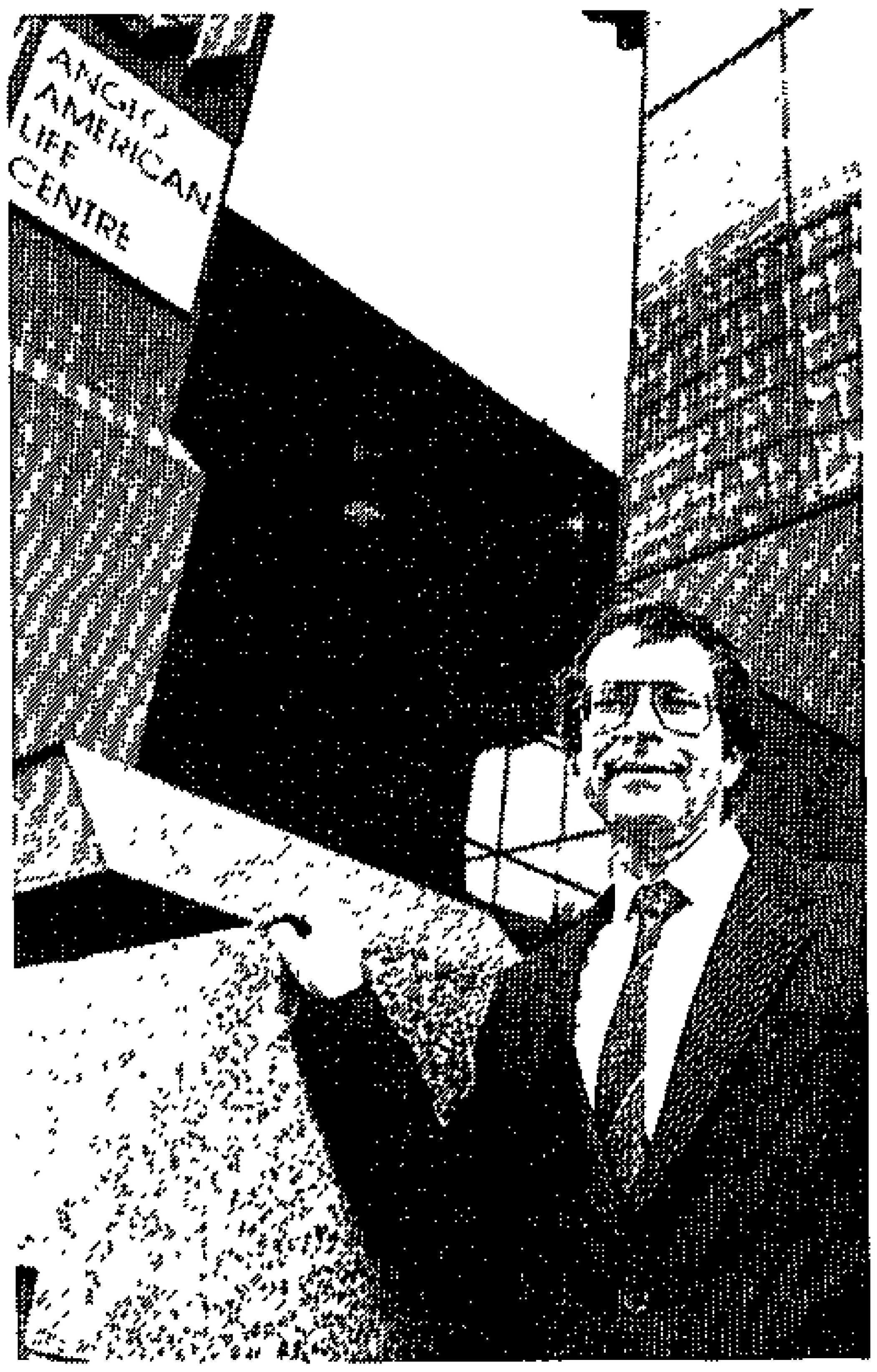
Lapses (which occur before a policy has acquired any value other than on death) and surrenders (which are worth their cash value) penalise the policyholder, his intermediary and the assurer. The huge increase in "discontinuances" over the past 18 months therefore is a worrying development, and one receiving the close scrutiny of the industry.

"It's quality, not quantity that we need," says Morris Bernstein, deputy chief executive of Southern Life and chairman of the Life Offices' Association.

And to ensure the sales representative has a vested interest in the quality of the business, many companies practise a reversal of commission. This means that, if the policy lapses within the first few months, commission is recovered from the intermediary in full. Thereafter it often reverses on a sliding scale, depending on the age of the policy. This encourages sales people to sell with discretion.

"That means according to a client's needs," says Bernstein, "rather than selling him something he can't afford."

This kind of selectivity has already paid off for Legal & General Volkskas, according



Southern's Bernstein . . . looking for quality

to GM sales and marketing, Chris Cunningham-Moorat.

"We took strong corrective action a year ago, building negative elements into sales incentives. We're not happy with our position yet, but it has improved every month for the past 10 months."

What effects do discontinuances have on the assurer?

"If a policy lapses in the first few months, the company does not even cover its expenses," says Ned Equity MD Ian Solomon.

"If it continues for a period of between 18 months and 36 months, there is a short-term gain for the assurer but a long-term loss of future unpaid premiums. If it is surrendered it is neither a loss nor a gain because all we do is recover our expenses."

At the moment, it seems unlikely that companies will adjust premiums to compensate for losses. "Rates are set according to projections made some years ahead," says Solomon. "And the assumptions on which they are based only have to be borne out in the long run."

Last year's surrenders amounted to R214m. Though lapses are not recorded they also tend to follow the same pattern. Added to this year's discontinuances, however, they are not likely to have any immediate impact on premium rates.

Says Prudential MD Dorian Wharton-Hood: "Lapses would have to be very bad before we would revise our premiums. Generally speaking it would be bonuses and not premiums that would absorb the strain." ■

LIFE ASSURERS

Losing interest?

No one would dispute a life assurer the right to check all the relevant facts before paying a claim. After all, it is obviously in the interests of the remaining policyholders that their assets are not unduly depleted by fraudulent claims.

However, many brokers are beginning to question the readiness of life assurers to pay interest on monies due in respect of delayed claims. Largely such interest, known as "interest in mora," is not passed on to a beneficiary where there has been a delay in settling his claim. Under such circumstances, they say, this gives the assurers an incentive to delay claims, especially in the current environment of high interest rates.

Mora interest becomes payable when a debt is established, either where a date is fixed for performance of a contractual duty and the debtor defaults, or where damages are liquidated and a letter of demand is sent to the debtor.

Says Don Gallimore, executive director of Priceforbes Federale Volkskas: "In the case of a life policy, the amount of debt is known immediately so interest should be paid from the date of death.

"But life assurers do not seem to take this into account. This is especially the case where death is by natural causes. Here the procedures required by the assurer are fairly straightforward, so the claim should be paid out quickly."

Just such a case concerned a male who took out life cover in October 1983. But only 16 months later, the client was killed on his way to work when his motorcycle collided with a truck.

Within a couple of days, the wife reported the claim, handing the policy to the life company for settlement. She also produced

Cape Times 30/8/85

Talks in London on SA finance

(49) (48) (24)

LONDON. — The Governor of the South African Reserve Bank, Dr Gerhard de Kock, held key talks here yesterday on the first leg of an overseas mission aimed at easing the Republic's financial problems.

Banking sources said he met the Governor of the Bank of England, Mr Robin Leigh-Pemberton, and the head of Standard Chartered Bank, Lord Barber.

The sources said he was likely to have been assured that, in line with the British Government's opposition to sanctions against South Africa, UK banks would continue to conduct business as normal with the Republic.

'R14-billion'

It is estimated that British banks have lent 3,5 billion pounds (about R12½-billion) to South Africa in short-term credits (for a year or less).

The South African Embassy in London confirmed his visit but could not give any details about his programme.

Dr De Kock is expected to fly later to the US but will return to Britain on September 4.

His overseas trip follows the emergency closure of the Republic's stock and currency markets until Monday.

said he was expected to use the trip to discuss possible credit lines and other measures to help the ailing rand, which fell to a record low of 35,45 US cents on Tuesday before the markets were closed.

Ian Hobbs reports that the British Council of Churches yesterday appealed to the Bank of England to do nothing to help bail South Africa out of its economic crisis.

And the British Labour Party leader, Mr Neil Kinnock, yesterday urged Prime Minister Mrs Margaret Thatcher to ensure that Britain offered no financial assistance to the South African Government at present. — Sapa

Banks will decide on loans rescheduling

US sees growth in SA as key reform factor

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STAR 30/8/85

By Neil Lurssen
The Star Bureau

SHINGTON — As world fi- cial circles focused on South ica's economic crisis, a se- United States government cial said in Washington the believed economic growth an important element for rm in South Africa.

The US has said that for ıy years — and will continue ıy it," the official said.

ut he gave no hint or sugges- that the Reagan adminis- ion would do anything to South Africa reschedule the repayments that foreign ks are calling in.

he banks would make up r own minds on the basis of political and economic risks y faced, he said.

The Governor of South Afri- s Reserve Bank, Dr Gerhard Kock, is due to meet his nerican counterpart, Mr Paul lcker, chairman of the Federal Reserve, in Washington soon.

A senior United States official, who plays a key role in US relations with South Africa, spoke to reporters on condition that he was not named.

Asked whether the Reagan administration would try to influence American financial institutions in any way, he said the only "signal" that would be sent was the long-standing belief of the US that economic growth was an element of pressure for change.

Conclusions

The Reagan administration did not want disinvestment.

"But the decisions being made on the basis of political and economic risks by banks in the current situation are theirs to make," he said.

"The banks are reaching their own conclusions without reference to government — and that is the way free societies work.

"If we were to try to sell some line to the private banks, I am not sure they would listen."

As far as general American assistance to South Africa to ease the financial crisis was concerned, the official said he was not aware of any decisions by the US government.

Asked for the US view of the seriousness of South Africa's financial situation, the official said there had been flights of capital and the introduction of exchange control measures in the past, such as during the 1976 Soweto uprising, but the present "phenomenon" was too recent to make a judgment.

"We see large figures bandied about in terms of the need to roll over short-term credit, and these are large sums of money, but I don't think we know yet how it will come out."

Asked if the US could afford a "hands-off" attitude, standing by and watching with equanimity should South Africa's multi-billion dollar foreign debt situation have an adverse effect on world financial markets, the official said: "No we cannot.

"One of the grounds for whatever decisions may have to be made in coming weeks on this subject is clearly ... the effect of any such crisis, if it develops, on the international financial situation more broadly."

Correct judgments

The official refused to be drawn on whether he considered that private banks were at present making correct judgments about South African loans.

"They are looking at the realities as they see them," he said.

The realities included the shape of the South African economy, the possibility of getting others to participate in funding short-term loans, the international "salience" of the situation, the political heat faced by the banks in the United States — "all sorts of factors", he said.

Ultimatum for the rand

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STAR 31/8/85

Choice that faces De Kock: political reform or no credit

The Star Bureau

London

South African Reserve Bank Governor Dr Gerhard de Kock's hectic tour of leading central banks is heading towards a cliff-hanging finale this weekend against a background of subdued optimism in the international financial community.

Dr de Kock is now in the United States and has met representatives of Citicorp, the world's largest bank — but at least the parameters for a possible deal appeared to have been roughed out in his earlier meetings with the Bank of England.

Briefly, the choice is: the international commercial banks withdraw their lines of credit and South Africa defaults on its debts, OR South Africa agrees to a substantial programme of political reforms and the world's banks reschedule their short-term debt in an orderly way.

If the Bank of England's view prevails, the decision will be left very much with the commercial banks. Central bankers, it seems, will not be twisting anyone's arms.

The mere rumour that the matter will be left to hard bargaining between South Africa and its bankers has renewed the cautious optimism which has begun to creep into the financial community.

South Africa will once again pull back from the precipice, but at the price the world demands — political reform.

Stark realities

That, at least, is the theory. But there is nothing to celebrate yet. Much still hangs on this weekend's meetings, and then on whether President Botha appreciates the stark realities of the message Dr de Kock will send home.

Qualified optimism, though, was evident in London as Barclays Bank continued to deal in the rand.

Even if the 10 cent spread between its buying and selling prices was enormous, the actual level of 40 to 50 cents underpinned the fact that Barclays dealers expect the rand to start retrading next week comfortably above the all-time low of 35,40 cents at which it was suspended.

Future deals

That would presuppose a package of political and financial reforms sufficient to appease the Free World.

Barclays are not the only ones to believe that President Botha will retreat from the precipice and yield to this pressure.

South African share prices also crept up yesterday in the London market — though less on firm trading than prospective nibbles about future deals.

One broker said the only real business had come from Continental buyers. US and British investors were content to sit on the sidelines until the South African market reopened.

But they were not talking the market down, with the result that leading stocks showed a tendency to lift from their record lows.

ANC says talks are on with SA businessmen

LUSAKA — The African National Congress (ANC) said yesterday it was planning to hold talks soon with a group of South African businessmen on the prospects of dismantling apartheid.

ANC spokesman Mr Tom Sebina said the planned meeting reflected the group's policy of holding a dialogue with all sections of South African society that favoured the abolition of apartheid.

He declined to name companies or individuals who would be attending the meeting, or say when or where it would be held. But he said it would take place "in the very near future", and that some of the businessmen wanted it to be held in Lusaka, where the ANC has its headquarters.

Mr Sebina said many South African businessmen now regarded apartheid as an intolerable burden that could lead to economic disaster. The financial turmoil of the past few days, with the rand falling to new record lows, had strengthened that feeling. — Reuter.

SA faces disaster, EEC Ministers told

by Sue Leeman, Pretoria Bureau

The three visiting European Foreign Ministers heard yesterday that South Africa was on the brink of a catastrophe, which could only be averted if the state of emergency was lifted, apartheid was abolished and imprisoned black leaders were freed to take part in some form of national convention.

Mr Jacques Poos, of Luxembourg, Mr Hans van den Broek, of Holland, and Mr Giulio Andreotti, of Italy, also heard that disinvestment and sanctions were among the few remaining peaceful methods for bringing about meaningful change in South Africa.

The warnings came from Anglican Bishop of Johannesburg, the Right Rev Desmond Tutu, and general secretary of the South African Council of Churches, Dr Beyers Naude, who were among the first to speak to the ministerial delegation yesterday afternoon.

Dr Naude said he told the European Ministers that South Africa was in a state of civil war and "tragically on the way to revolution". Fundamental reforms could have prevented the present crisis, he said.

The Ministers, accompanied by the European Commissioner for External Affairs, Mr Willie de Clercq, had arrived in the country ealier in the day for a three day fact-finding mission. The party will make recommendations to a European Community summit on September 10, when the possibility of sanctions will be considered.

They threw themselves into a hectic first round of talks at the new Dutch embassy in Pretoria.

Among their other visitors were the Chief Minister of kwaZulu, Chief Gatsha Buthelezi, as well as representatives of the Congress of Unions of South Africa (Cusa) and the Federation of South African Trade Unions (Fosatu).

Sapa reports Chief Gatsha Buthelezi told the delegation that millions of black, white, coloured and Indian South Africans would stand behind the State President, Mr P W Botha, if he moved towards real reform.

He said Mr Botha would head a powerful government, quite capable of introducing reform and maintaining progress towards normalising society, if he were prepared to move away from seeking to retain only majority Afrikaner support.

AHI agrees with joint statement

31/8/85 Mercury (20) (49)

Mercury Reporters

THE Afrikaanse Handelsinstituut (AHI) broadly agrees with the call on the Government by other business organisations not to adopt a 'siege economy' and not to introduce artificial controls.

The Afrikaans business organisation intends to issue its own statement, probably next week.

'There's nothing sinister about our not joining the others in their statement,' said AHI president Mr Donald Masson yesterday.

'We intend coming out with a statement on the total issue, but the timing was not right for us right now.

'There's a lot (in the statement by Assocom, FCI, Nafcoc and the Urban Foundation) that we agree with. We disagree on a couple of small points, but it's more a matter of style than content.'

He declined to reveal more about his organisation's feelings.

In their statement, the other business organisations combined to express deep concern about the present state of affairs.

They offered to mediate between the Government and black leaders and urged the Government to commit itself to dealing even-handedly with accepted black leaders, even if some of them were in detention.

Black Sash

They urged that the state of emergency be partly lifted as soon as circumstances allowed.

Foreign exchange, imports, prices and wages should not be rationed or controlled in response to the currency and domestic crisis, they said.

Meanwhile, the national president of the Black Sash, Mrs Sheena Duncan, said in Durban last night that the statement by commerce and industry was a sign of hope.

Addressing a commitment supper organised by the Durban ecumenical agency, Diakonia, Mrs Duncan said this is an 'astonishing move'.

Another sign of hope was the call by Dr Frederik van Zyl Slabbert, leader of the Progressive Federal Party, for an alliance to establish a national convention.

Mrs Duncan praised the National Union of Mineworkers for its responsible negotiation procedures regarding the proposed nation wide strike and said the union had similarly adopted a responsible attitude when President Botha had threatened to repatriate all foreign workers now in employment in South Africa.

Another encouraging signal, she said, was that the consumer boycott in the Eastern Cape had led to real negotiations between black and white organisations.

Du Plessis holds key to mortgage rate cut

31/8/85

49

STAR

By Franbans

nid all the confon of currency arkets and the pging rand crisis e building societ will be sifting rough Barend duessis's imminent w financial pack for pointers to all-round easing he bond rate.

While the countr economic woes far beyond a nestic issue, the blems of the hoowner remain at front door as eagerly awaits a vnward adjustm in the mortgage e.

ffordability, tos still the question k facing the pntial buyer, even ough prices in market have sta-ed — and this underlined by the th of buildingciety funds on one and fewer tals on the other.

d nobody wa to see the bond come down re than the building ty man himse

he societies e waiting to see is going to pen to the paid-up e rate," sayMr John Bennett, aging directof the Natal Building Society.

Discussions a taking place and e we know tl outcome, we can n determine how much we can uce the bond ra."

A cut in the pd-up share rate has immediate vourable impact cross the barwhile fixed period hares remai loed in and fixed deposits affect onlmaturities and new money becaus ofhe guarantee rate.

"We are coscis of the need to reduce the bondra and there could be greater clarit I Monday, when we should have itter outlook on the general pattern of interest rates," says Mr Bennett.

The question however, remains. Is a fall in the mortgage rate alone the panacea for the home buyer?

Certainly, cheaper bond rates combined with some tax relief in repayments along with less pretentious living standards, would go a long way in bringing homeownership within reach again of the majority.

Direct subsidy

John Bennett, a keen golfer, has no "slices" off the tee when it comes to support for the concept of the De Kock Commission where it refers to lower income groups being assisted in homeownership through direct subsidy.

"Direct subsidy along with lower interest rates would be a big help in the matter of affordability," he says.

"Following recommendations on this issue by the Association of Building Societies, there is little doubt the Margo Commission on taxation will be focusing attention on the tax relief question."

Such a subsidy would be administered by the building societies and they, in turn, would claim from the authorities.

Less plush living styles are still possible, too — a fact underlined by the figures from the NBS Development Company which is obviously producing homes at comparatively reasonable prices.

In 1983, the company's average selling price of a three-bedroom home plus land was R47 000. The following year the figure rose to R55 000 and this year so far, that same home package is R62 000.

Looking at the controversial issue of the equity route, the NBS managing director says his society is "definitely considering" this move but he insists — "I want to give assurance that nobody will be prejudiced.

"The Draft Bill allows that paid-up shareholders who do not take up the option to convert a percentage of their holdings to equity shares will still have an investment known as a subordinate deposit which gives them all the rights and privileges (with the exception of voting rights) applicable to paid-up shares in a mutual society."

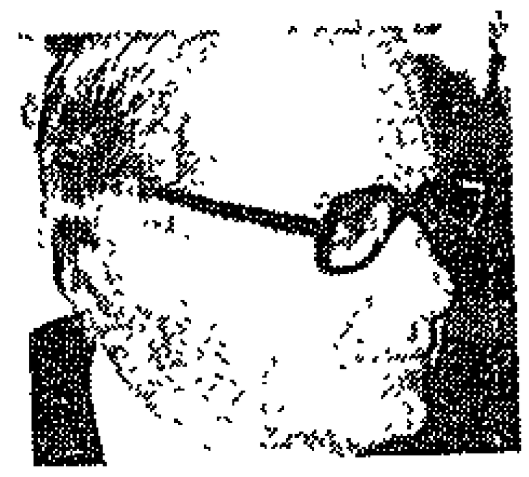
For the moment, though, the NBS, along with the rest of the movement, is paying greater attention to the well-being of its traditional source of support — the homeowner and depositor and in that connection it is to be hoped that Minister of Finance Du Plessis comes up with the right answers.

The NBS's John Bennett driving for a better deal for homeowners.

Foundations in place for economic recovery

(49) S. Times 1/9/85

All set for lift-off



Governor de Kock ... count-down to upswing after nasty medicine

By David Carte

THE economy is set for recovery after short-term foreign debt problems have been sorted out.

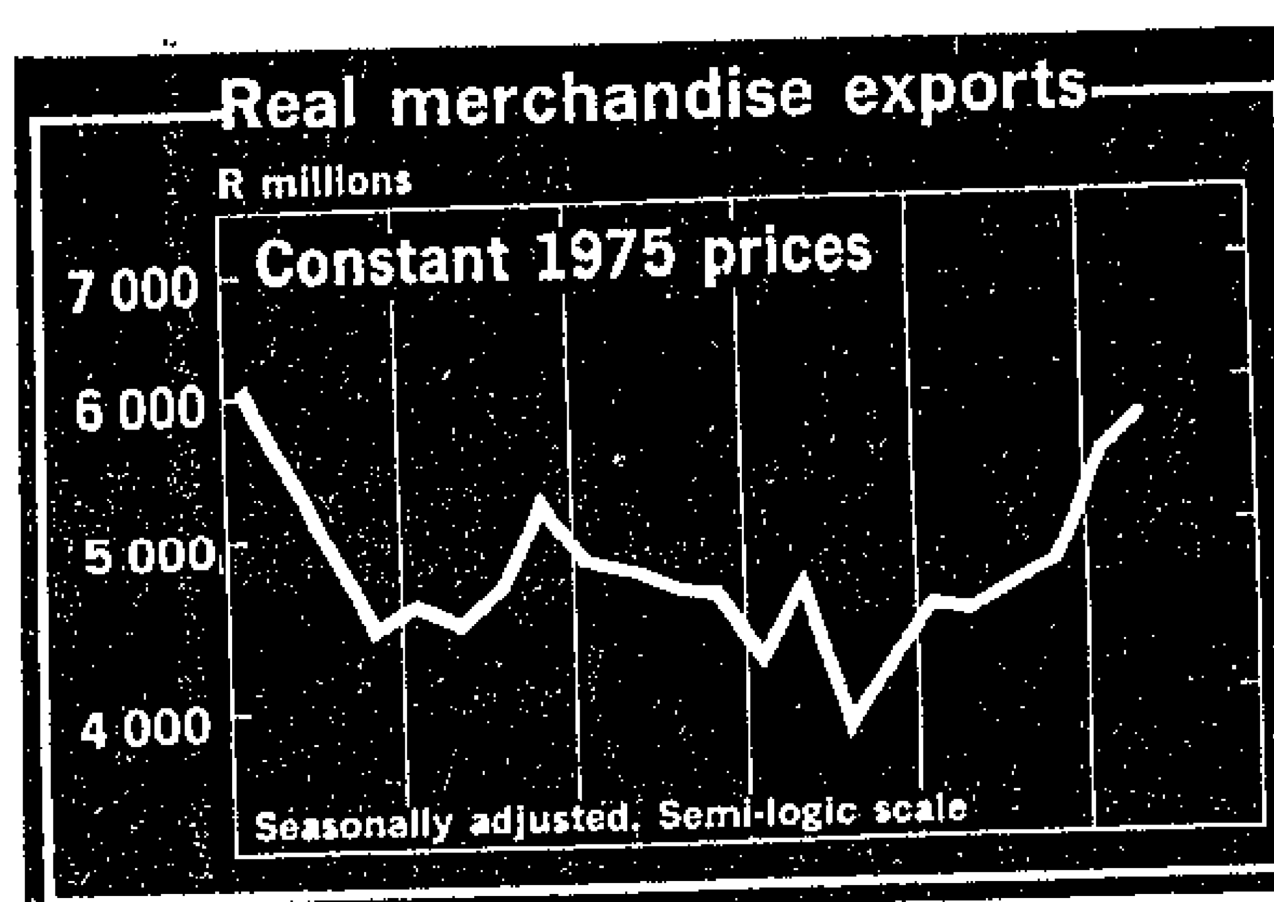
This emerges from the Reserve Bank's economic report and Governor Gerhard de Kock's speech to the bank's annual meeting this week.

"There is little to be gained by depressing domestic economic activity still further," said Dr de Kock, after highlighting several dramatic improvements in the economic fundamentals.

Globe trot

Before setting out on his fund-raising globe trot, Dr De Kock pointed out:

- A year ago there was a large deficit on the current account of the balance of payments. But now, thanks to austerity and soaring exports, there was a large and growing surplus.
- Public-sector and private-sector spending had been curbed and South Africa was no longer living beyond its means. Private savings had risen dramatically.
- The money supply was under better control
- Government finances were in much better shape.



HOW exports have risen to save the economy. This graph from the Reserve Bank Bulletin shows volumes. In rand terms the upward trend is twice as steep.

- The maize crop was better than expected and imports would not be necessary. (Indeed, there could be a small surplus for export.)

Dr de Kock said: "A foundation now exists on which a sound economic recovery can be built."

Signalling its less restrictive intentions in spite of the debt crisis, the Reserve Bank has allowed the prime overdraft rate to fall by 6,5 percentage points.

HP eased

In addition, hire-purchase curbs were slackened to give the hard-pressed furniture and consumer durables sectors relief.

Barclays Bank's chief economist, Johan Cloete, said yesterday: "I think we are in a position to stage a fairly robust recovery."

The psychologically traumatic closures of the foreign-exchange and stock markets were caused by a "run on the currency" that few nations in the world could have withstood.

Australia

Another economist said: "Australia is in good shape, but if it faced similar debt repayment demands it would also have been unable to comply."

A Johannesburg Stock Exchange analyst said: "It was not unlike all the customers of even the strongest bank in the world withdrawing their money at once. It would simply collapse."

Ironically, the troublesome capital account of the balance of payments showed a big improvement in the quarter to June. In the last quarter of 1984 and first quarter of 1985, there was a net outflow of R4,8-billion.

As the rand sagged, importers and exporters stopped betting against the currency, the leads and lags turned positive and the alarming net outflow was reduced to R9 000 in the second quarter. This, together with the current account surplus ensured an overall surplus on the balance of payments.

Exports

Economists said immediately foreign loan repayments tailed off in the wake of this weekend's package, the proceeds of the current account surplus would reach the domestic income stream, reduce interest rates and get a soundly based export-led recovery under way.

Standard Bank economist Nico Czypionka said technical factors, such as the current account surplus, would automatically result in a short-term lift-off.

But he called for quick implementation of a "confidence-inspiring economic blueprint" to look after long-term growth.

It would have to incorporate changed social policies, positive urbanisation, the scrapping of the decentralisation drive, influx control and laws hampering small business development.

15c a litre more for petrol if rand rescue bid fails

(49) S. Times 1/9/85.

By Don Robertson

AN increase of between 10c and 15c a litre in the price of petrol is certain unless the rescue package being negotiated by Dr de Kock guarantees a stable rand of more than 45 US cents.

Petrol sold inland would then cost more than R1 a litre.

Nearly dry

Petrol company executives are adamant that a rand-dollar exchange rate of above 45 US cents will be required to prevent an immediate price increase. South Africa's purchases of crude oil are negotiated in dollars.

Because of South Africa's continuing currency crisis, the Government-managed fuel equalisation fund, which is used to smooth out fluctuations in the rand-dollar exchange rate, is again almost dry.

When petrol was increased by 40% in January to 88,5c a litre, the price was based on an exchange rate of 46,5 US cents. The price has since risen to 90,1c a litre on the Reef because of the increase in GST to 12%.

The fund received a boost when the rand rallied to 50 US cents and more.

However, the decline in the rand to 35,65 US cents before exchange markets were closed on Wednesday and the need to subsidise the price of agricultural diesel have almost emptied the fund. No cash is available to support the present price.

Crisis to crisis

Bernard Lafitte, managing director of Total, says that if after the weekend announcement the rand opens at below 45 US, the price will have to be increased immediately, possibly by as much as 15c a litre.

A Caltex spokesman says that whatever happens the Government will have to take a longer-term view of the petrol price "instead of going from crisis to crisis".

Pipeline

The Automobile Association and the Motor Industries Federation have suggested a cut in the 6,5c a litre pipeline charge on the transport of petrol from Durban to the Reef as a means of avoiding the full impact of a price rise. They say that the pipeline charge is well above the actual cost.

However, this is unlikely as SA Transport Services, which benefits from the pipeline charge, is facing a R400-million loss in its financial year to March. It would be unable to sacrifice this income.

Rand comes back sharply

(49) E/Post 02/09/85

By LOUIS BECKERLING
Business Editor

THE rand recovered sharply on foreign exchange markets today, following the temporary freeze enforced by the Government on the repayment of all the country's overseas loans.

And as immediate pressure on financing requirements eased, interest rates tumbled on the domestic money market.

From a record low reached last week, just before the suspension of trading, of 34,80 US cents, the rand was quoted at an official buying rate by the SA Reserve Bank this morning of 41 US cents, then quickly rose to a mid-morning high of 46,50c. By noon the rate had fallen to a 1% spread between buying and selling rates, of 44,25 to 45,25 US cents.

The rand also appreciated strongly against sterling, quoted today at R3,03c to the pound, up from R3,60 on Tuesday last week.

On the Johannesburg Stock Exchange uncertainty over the rate likely to be struck by financial rands was reflected in subdued trading, with a widely speculative margin of 34 to 39 US cents quoted on financial rands. By noon the margin had narrowed between a buying and selling rate to between 35 and 37 US cents.

Brokers said gold counters had eased by up to 6% since the firmer rand had reduced their rand incomes from gold sales.

Kruggerands fell sharply in price from around R933 to R734.

The single largest reaction to the unilateral announcement at the weekend of a moratorium on the repayment of SA's short-term loans was on domestic money markets.

Port Eizabeth-based National Finance Brokers reported today that the considerably eased pressure on local financing sources had resulted in major declines in both short-term and capital markets.

From an afternoon fix on Friday of 16,25%, 90-day Bankers' Acceptances were fixed this morning at 15,75% and shortly before lunch had fallen further to trade at 15,45%.

Longer dated capital stock such as the RSA 13% 2005, one of the most heavily traded stocks in the options market, fell from a Friday trade of 16,25% to 15,92%.

The explanation for the declines in interest rates, said an NFB spokesman, Mr Mike Estment, was that the temporary reprieve granted South African borrowers had taken pressure off the money market.

● In London, the Evening Post's correspondent reported that a sharp rally was expected in the international markets for South African shares. The rally had begun in London on Friday, where South African mining shares and the Financial Times gold share index rose from 280 to 291 points.

However, the likelihood of a depressing short-term "bear market" also existed.

The Reserve Bank governor, Dr Gerhard de Kock, and New York bankers remained tightlipped as to the details of a rescheduling arrangement for loans. But it is believed that South Africa is trying to buy time for the proportion of South Africa's $12 000 (R26 400 million) short-term debts now due for repayment.

● Editorial opinion — Page 10
● See Page 17

U S bankers fear S A faces crippling liquidity crunch

2/9/85

Mercury

(49)

NEW YORK— U S bankers fear that South Africa faces a crippling liquidity crunch in the weeks ahead because international banks will cut lines of credit if economic and political conditions worsen.

The bankers said curtailment of loans to South Africa was likely to accelerate if the country's racial crisis was not stabilised.

Bankers and monetary officials in Washington estimate South Africa's short-term debt due within a year is about $12 billion (about R30 billion) — a figure far higher than the country's cash reserves and its projected current account surplus this year.

If the shortfall cannot be met by extending maturing loans or arranging new credits, South Africa will have no choice but to follow the example set by Mexico and other Latin American nations that suspended foreign debt repayments in 1982, some bankers said.

Strike

South Africa's black mineworkers' union said on Wednesday it would strike from Sunday at five gold mines and two collieries, adding to grave economic difficulties which have forced the Government to halt currency and stock dealing.

'The numbers indicate that if a substantial number of existing short-term credit facilities are withdrawn or suspended, South Africa faces significant problems in servicing its short-term debt in the next three or four months,' said one New York bank economist who follows the situation in South Africa closely.

He estimated South Africa's reserves at $2,6 billion (about R6,5 billion) and its 1985 current account surplus at $2,5 billion (about R6,25 billion).

'Willy nilly, they would have to declare a moratorium or request a rescheduling,' he said, adding that the next few weeks would be crucial to banks' decision-making.

At the moment, U S banks are proceeding cautiously, cutting back some credit lines, extending others and generally keeping a very close watch on the racial unrest in South Africa, bankers said.

Credits

So far, they have apparently not followed last month's lead by Chase Manhattan. According to banking sources Chase decided not to renew maturing private-sector credits to South Africa. Chase declined to comment on the reports.

But signs are emerging that other major banks, sensitive to the public outcry over South Africa, are changing their position.

Mr Wilfred Koplowitz, a spokesman for Citibank, said: 'We are monitoring the situation and adjusting our private-sector portfolio in a way consistent with sound banking practice and basic country-risk procedures.'

He declined to elaborate but said this should not be taken as a sign that Citibank is withdrawing from the South African private sector.

'There's lots of pressure on South Africa to prepay present credit obligations,' said another New York bank officer.

Because of the capital outflows from South Africa and growing speculation, the South African rand plunged to a record low on Tuesday of just above 35 U S cents, prompting the Minister of Finance, Mr Barend du Plessis, to suspend foreign exchange and stock trading until Monday.

Analysts in New York said they expect the South African Government to make use of the breathing space to introduce a batch of measures aimed at restoring confidence in the rand, which had averaged about 81 cents as recently as the first quarter of 1984.

Mr Steve Cerier, a currency analyst at Manufacturers Hanover Trust Co, said he expected South Africa to reintroduce a dual exchange rate for the rand.

This would give investors an incentive to put money into South Africa and make it more expensive for them to withdraw.

Controls

'If they don't impose exchange controls, the rand's going to melt away,' Mr Cerier said.

If the measures are severe, the rand could rebound for a while when trading resumes, analysts said. But South Africa's economic and political uncertainties of the country make the longer-term outlook for the rand poor.

'These reforms will stabilise things in the short-term but in the longer-term it depends on confidence and the political risks outweigh the return on investments,' one analyst said. — (Sapa-Reuter)

World bankers unconvinced about reforms, but . . .

Rand up sharply in hectic trading

2/9/85 STAR

49

By Trevor Walker, Financial Editor

The rand rose 25 percent this morning but South Africa has failed in its bid to persuade overseas bankers that the country is moving quickly or far enough toward reform.

And its decision to stop repayment of its foreign debt for four months is regarded by the international financial community as a "huge international loss of face" that will make it far more difficult to arrange credit in the future.

The new financial rand was trading at around 36 to 38 US cents, a discount of around 20 percent below the commercial rand. The financial rand is the price foreigners must pay to move money out of the country, and is not supported by the Reserve Bank as the commercial rand is.

The commercial rand was at the outset quoted by the Reserve Bank, at 45,50 US cents. Trading was erratic and hectic during the morning and the rand held in a narrow range around 45 cents.

Foreigners and would-be emigrants now have to use the far more expensive financial rand to move their monies out of the country.

South Africa has a proud record of profitability and debt repayment, but last night's debt moratorium has ended this.

Even more embarrassing is the move to employ an as yet unknown international financier to hawk our debt in the world's money markets.

Reserve Bank governor Dr Gerhard de Kock is to stay abroad longer than originally scheduled to find this person.

The Conservative Party's economic spokesman, Mr S P Barnard, says the Government left it far too late before attempting to extend repayments of its short-term financial commitments — and that such lack of foresight was directly responsible for the current economic situation.

Tragic event

Mr Barnard said attempts by the Government to bluff the world that all well in South Africa was a contributing factor.

"You cannot bluff in economics," he said.

Mr Barnard, who has recently returned from a trip to the United States, said bankers there believed it was dangerous to lend money to South Africa.

Mr Harry Schwarz, PFP spokesman on finance, described the freeze as "a tragic event for the South African economy that has wrecked the country's unblemished credit record".

"This statutory moratorium on repayment will never be forgotten in world financial circles. To establish confidence and get new loans to help economic growth and fight unemployment will be extremely difficult."

He said the Government had failed to grasp the relationship between politics and economics — for which all South Africans would now have to pay a heavy price.

In Washington and London, the Star Bureaus report that financial experts believe the debt moratorium is a "huge

● To Page 3, Col 8

P.T.O.

Govt buys time for PW's reform plan

By David Braun, Political Correspondent

The Government plans to use the economic breathing space it has given itself to make substantial progress on its reform commitments before the end of the year.

Government sources said today that the reaffirmation of President Botha's reform programme at the weekend should be seen in context with the economic announcement of the Minister of Finance, Mr Barend du Plessis.

The Government would be seeking not so much to get the economy in order by the end of the year, because the underlying economic fundamentals were already sound, but to implement certain substantial reforms.

If substantial progress had been made by the end of the year, the Government hoped international confidence would be restored in the country and it would therefore be somewhat easier to reschedule its loan repayments.

Two reforms which could gel before December 31 are a satisfactory revision of the system of influx control and an announcement about which black leaders the Government was negotiating with.

The Leader of the Opposition in the House of Assembly, Dr Frederik van Zyl Slabbert, today welcomed Mr Botha's weekend statement as it more clearly spelt out the Government's intentions than the President's recent "rand-busting" speech.

If this amounted to the Government's rejection of apartheid and of political domination, it also had to state clearly that it accepted the principle of voluntary association, he said.

This would mean scrapping the Group Areas Act, influx control and all other measures which were part and parcel of the Government's policy for the past 37 years.

● See Page 3.

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Let us Build a New Future

(49) STAR 3/9/85

Dr. Anton Rupert

Extract from the chairman's address delivered at the Annual General Meeting of Rembrandt Group Limited – 29 August 1985.

So much to do ...

The weakening of the Rand is closely connected with the current international uproar over South Africa. Seldom if ever has the attention been focused so sharply on our country.

This hardly comes as a surprise to me. At present South Africa finds itself in the van of a crisis which Europe will eventually also have to face. I am referring to unemployment which is the main cause of South Africa's ailments.

Our situation does not differ much from that of Europe. The countries of the European Economic Community are at their wits' end. Only fifteen years ago Western Europe had 20 million more job opportunities than the USA; now it has 10 million fewer. Whereas Western Europe lost three to four million jobs during that period, America gained some 40 million new jobs in the small and medium sector.

In Europe it is feared that a whole generation of unemployed is growing up. Time magazine reports that unemployment among people younger than 25 has in the past five years risen from 2,9 million to 4,4 million.

In the Western world it does not matter which government is in power. Unemployment occurs in countries with conservative governments such as the United Kingdom and West Germany and in countries ruled by labour governments such as France and Spain.

Irrespective of which government is in power in South Africa, the problem of unemployment will prevail. Stability is only possible when once this problem has been solved.

The world should have more sympathy with South Africa because we are in the forefront of the unemployment problem.

Unemployment and regulation go hand in hand - a concept which is now being realised. Percentage wise we have a bigger population growth than Europe and millions of foreign workers and fugitive job seekers are thronging to South Africa. Yet we are suffering from the same extent of over-regulation as in Europe. We have learned too well from our teachers overseas!

Deregulation

In this regard it is interesting to refer to a white paper titled "Lifting the Burden" which was tabled last month in British Parliament. The white paper sets out the British government's overall approach to reducing controls and regulation in the interest of promoting enterprise.

The white paper says inter alia that it is the growth of enterprise, the efforts of millions of people engaged in the creation and development of businesses large and small that is the driving force of the economy.

The paper makes a plea for more freedom in the business sector and for the need to deregulate. Evidence has shown that, although regulations may themselves be minor, the cumulative effect is time-consuming and costly. The impact of regulation takes its toll in diverting precious time and energy that could have been used far better in generating products, services, sales - and, in the end, jobs.

The burden is that much greater on the small business where the owner/manager is wholly responsible for all aspects of the business and his employees. Every hour spent on filling in forms is one hour spent less on running the business.

Moreover, this can put off the potential entrepreneur or drive him unwillingly into the "informal sector".

It is the small and new businesses which we need to encourage - to set up, to expand and to take on employees and become part of the mainstream of the economy.

The paper mentions that the British government, in its drive to speed up the process of reviewing existing regulations, is carefully considering the work done in this regard in other countries, in particular in the United States.

In the first two years of President Reagan's administration, the concerted strategy which he introduced has reduced the pages of regulation in the Federal Register by one third as compared with the final two years of the previous administration.

The US government estimate that this has produced once-off savings of 9 to 11 billion US dollars and annual savings of $6 billion in costs to government and business.

They also report that the number of new businesses in deregulated industries increased faster than in the overall economy in 1982 and 1983. There is a clear indication that deregulation stimulates economic activity.

We should not forget that the economic miracle of post-war West Germany was accomplished only after Professor Ludwig Erhard had freed his people from the stranglehold of controls.

USA model

It is not strange that Europe, in its efforts to find solutions to the problems of unemployment and regulation, is now turning to the United States where job creation has shown a dramatic increase since the sixties.

In his latest book, Innovation and Entrepreneurship, Peter Drucker writes that the traditional job creators in the USA have shown a nett job loss in the past 20 years. During that period job opportunities in Fortune's 500 top companies showed a gradual decline, and by 1984 the Fortune 500 had lost from four to six million permanent posts.

According to Drucker, 40 million new jobs have been created in the USA over the past two decades. The large companies did not provide these jobs, while employment in the government sector decreased mainly in the field of education as a result of the "baby bust".

The bulk of the new jobs were created by a task force of small businesses, which absorbed all the post-war additions as well as the millions of women entering the labour market.

Opportunity or disaster?

Unemployment is an accurate barometer of economic deterioration. Statistics put out by the Department of Manpower show a 100 percent increase in unemployment in South Africa within one year.

In the first seven months of this year South Africa lost job opportunities at a rate of 8 000 per month. According to official estimates, about three-quarters of a million of the economically active population is now unemployed. Unofficial estimates put this figure much higher.

What is especially disturbing is that there has been no nett rise in Black employment over the past nine years; yet about a quarter of a million Blacks are entering the labour market annually - without hope of finding jobs.

Breaking South Africa free from the cycle of chronic unemployment will take a special effort - a unique challenge which now demands our urgent attention. Creating employment should be a primary objective, not merely a by-product of economic growth.

Earlier this year, the State put up R100 million in emergency aid to help combat unemployment. This should be welcomed as a positive step, but at the same time the more deep-seated causes of unemployment demand attention.

South Africa forms a microcosm of a worldwide problem. In the Third World sector of our economy, underdevelopment lives side by side with the negative aspects of overdevelopment in the First World sector of the economy.

Excessively high building standards and health regulations, restrictive trading hours, cumbersome licensing procedures, elaborate transport regulations, inflexible industrial control and unrealistic minimum wage determination are a few of the features of an overdeveloped White economy.

The economy is stifled when such measures are applied to the underdeveloped sector of the economy - to people with limited access to entrepreneurship and the free-market economy, and without the freedom of movement that would enable them to sell their labour to their best advantage.

Development cannot always follow neat and orderly patterns. Like Latin American authorities, we shall sometimes have to turn a blind eye. Newsweek magazine recently reported that many of Latin America's urban shanty towns have become centres of hope for thousands. They have a vitality in sharp contrast to their apparently parlous living conditions. This, Newsweek reports, can be ascribed to their will to survive.

Small business

The founding of the Small Business Development Corporation in 1981 was a major development in job creation and the promotion of entrepreneurship in South Africa.

International experience has shown that the entrepreneur is the missing link in the battle against unemployment. He has to be sought out and assisted, and this the SBDC has been doing successfully.

In just over four years since its founding, the SBDC has made some R80 million available to more than 3 500 small businesses. Although its means are limited, the SBDC has already created some 36 000 jobs.

The State President's announcement that active steps were to be taken to remove unnecessary restrictions on formal and informal business activities, as well as his promise of increased financial aid to the SBDC, is a gratifying acknowledgement of the Corporation's contribution.

Through endeavours such as the Small Business Development Corporation the potential "disaster" posed by our unemployment crisis can be converted into a major opportunity. To achieve this we urgently need more capital and cordial co-operation between the public and private sectors.

Housing

Next to employment, the shortage of housing, mainly as a result of the rapid growth of the country's population, now presents South Africa with a unique opportunity for economic development.

We differ in this regard from Europe where there is no serious housing problem. In fact, we are almost fortunate to have a housing backlog because it gives us an exceptional opportunity to create jobs, to harness sweat equity and to stimulate economic activity.

West Germany rose from the ruins of the Second World War by rebuilding and thus stimulating job creation and economic activity on a scale unparalleled in the country's history.

Unemployment and the housing shortage are elements of the poverty culture that presently has a large part of Africa's population caught in its grip. It is indeed within our ability to transform this poverty culture into a culture of prosperity.

Through under-supply the demand for accommodation and services has grown to the point where meeting it by conventional means lies beyond the country's financial capability.

The shortage of dwelling units is now estimated at 500 000 for Blacks, 76 000 for Coloured people, 44 000 for Asians and 16 000 for Whites. To wipe out the backlog, it would cost, at 1985 prices, nearly R16 billion.

The private sector, through the Urban Foundation, has in the past eight years made a significant contribution in the field of self-supported housing and gradual expansion. This momentum should now be further strengthened.

Despite a more realistic approach, however, the provision of housing for Blacks, in particular, is still hampered by the following aspects :

- lack of a sound property market (Until recently not a single property agent could be found in Soweto – a city of 1,5 million people)
- restrictions on freehold
- complicated registration procedures
- excessive subsidies which favour renting rather than buying
- a shortage of serviced plots for residential development

In the field of housing too a disadvantage can be transformed into a major opportunity once excessive regulation has made room for freer participation and self-development.

The State President has demonstrated his willingness to help financially by pledging R1 000 million over the next five years for underdeveloped cities and towns.

The private sector and its financial institutions will have to muster support on a massive scale, but ultimately the individual will have to fall back on his and his family's sweat-capital in the process of upgrading and ownerbuilding.

South Africa does not possess the capital resources to build luxuriously for everyone. In the past we have had a big enough dose of paternalism. We must rather help people to help themselves.

The Urban Foundation

As in the case of job creation, in which the private sector took the lead by founding the Small Business Development Corporation, South African businessmen have committed themselves actively to improving the quality of life for city dwellers by establishing the Urban Foundation.

Since its founding in March, 1977, the Foundation has received contributions totalling R59 million from the private sector. During the past year loans to the value of R51 million were raised locally and abroad, bringing to R227 million the total value of development funds mobilised by the Foundation.

In the process of negotiation now engaging leaders in virtually every field in South Africa, practices of the past may readily be weighed and found wanting.

Mistakes there certainly were. We have to learn from those mistakes and join forces to build a new South Africa.

In Southern Africa we are, economically speaking, interdependent; together, we form a delicately balanced economic unit.

In the long run no one can prosper unless his neighbour does so too.

Because our economy cannot be divided, the answer to the problems of Southern Africa, in my opinion, still lies in "industrial partnership" – or prosperity shared between the developed and the developing – between the white and other population groups in Southern Africa.

Our group has put partnership to the test throughout the world and is practising it daily with great success. Our policy of partnership is not a policy of domination. It is a policy that puts a high premium on co-operation, regardless of race or colour, and on autonomous development.

Future prosperity cannot be created by separateness but indeed by sensible togetherness.

Miracle or realism?

If we see South Africa as the "Land of Good Hope" it could be for all of us. I trust the opinion-formers in our society, whether White or Coloured, will sense the importance of a common patriotism and what that implies and may mean, and that they will strive to stress the points of common interest rather than the differences.

In conclusion my message is simply this: a crisis, according to the Chinese alphabet, consists of two symbols: the one denotes disaster, the other opportunity.

With goodwill the greatest opportunity for Southern Africa can emerge from the present crisis.

From the Cape to the Copper Belt we are all interdependent. Historic events and infrastructures have bound us irrevocably together. If one of the neighbours does not eat, the other cannot sleep peacefully.

Personally I am acquainted with most of the elected leaders in Southern Africa: from State President Botha and Presidents Sebe, Mangope, Matanzima and Mphephu to Chief Ministers Buthelezi, Mabuza, Phatudi, Ntsanwisi and Mopedi and neighbouring Presidents Jonathan, Masire, Kaunda and Banda. I believe that all of them have a deep understanding of this interdependence.

Our task is not to shy away from our responsibility as catalysts. With goodwill and God's help the prospects for the future are infinite and we have the means to fulfil the task. Then the faint-hearted will take courage, exiles will return and our youth will find fulfilment in their call.

We are sometimes cursed but we are always respected. Southern Africa is waiting on us. If we succeed in our task we shall command respect from the world and, like a magnet, attract much-needed capital.

Does this appear to be a flight of fancy? May I then remind you that "he who does not believe in miracles is not a realist".

Progress through Partnership

Cold shoulder for SA banks seeking loans

3/9/85 ~~24~~ 49 STAR

Reserve Bank Governor Dr Gerhard de Kock . . . the ostensible purpose of his trip was merely to tell overseas bankers what South Africa was doing about its financial crisis.

By Trevor Walker, Finance Editor

Some South African banks are finding it almost impossible to do business abroad. Their inability to raise money could seriously delay major projects, including the development of the Mossel Bay gas field.

The clamp by Pretoria on repayment of the country's debt has led to a situation where unless a local bank has exceptional overseas connections, it experiences difficulty in raising foreign loans.

The Star Bureau in Washington reports that the Governor of the South African Reserve Bank, Dr Gerhard de Kock, has left the country after a flying visit during which he discussed the freeze with senior monetary officials.

Although Dr de Kock flew out of Washington sooner than had been expected — cancelling a Press conference that was scheduled at the South African Embassy for today — it is understood he held talks with all the officials he had travelled to see here, including Mr Paul Volcker, chairman of the Federal Reserve.

The Star's Foreign News Service in Zurich reports that he will attend next week's monthly meeting of the Bank for International Settlements (BIS) in Basle.

Dr de Kock is also expected to meet representatives of the major Swiss commercial banks in Zurich, but so far has not made any appointments, according to a spokesman for the Swiss National Bank.

Top officials of the Union Bank of Switzerland, the Swiss Bank Corporation and Credit Suisse — the "Big Three" of Swiss banking — have publicly declared that they have no intention of modifying policy towards South Africa, adding it is "business as usual". But officials of the Swiss banks also said they would not take over any lines of credit, roll-overs or similar transactions between other banks and South Africa.

The BIS is known as the "central bankers' central bank". It co-ordinates transactions between the national banks of its 29 member countries and often organises lines of credit for various countries.

But Swiss bankers say privately they doubt that any line of credit could be organised for South Africa in the present circumstances of unrest.

Clear political message

Local bankers and analysts say the refusal by Western bankers to offer a lifeline carries "a clear and unmistakable political message" to Pretoria.

They said the country's failure to win any breathing space from foreign creditors with an extension of loans to repay its debts, was a signal that Western banks were unwilling to be seen to have bailed white South Africa out of its crisis.

According to banking sources a direct consequence of this is that the exploitation of the massive offshore gas field near Mossel Bay has been threatened.

South Africa has always needed the inflow of foreign funds to finance its major capital projects. Richards Bay, Sishen Saldhana, Sasol, Iscor, Sappi, Mondi, Atlantis diesel and Koeberg were financed by foreign credit lines.

The Mossel Bay gas field was to be the newest addition to the country's expanding local energy industry, and difficulties in raising finance for the project have placed a question mark over the private sector's moves to start synthetic fuel projects.

If the overseas capital boycott continues, South Africa is going to be forced to finance many more of its major capital projects internally.

Emigrant allowances

People emigrating from South Africa are still entitled to the usual travel allowances at the commercial rand rate, a Reserve Bank spokesman has confirmed.

The travel allowance of R6 000 per adult and R3 000 for each child under 13 is over and above the maximum R100 000 emigration allowance which is calculated according to the new financial rand rate. Household goods shipped out in containers would be paid for in rands at the commercial rate.

● The rand was trading at around 45 US cents today after heavy Reserve Bank support at this level yesterday. The financial rand was trading some 20 percent lower around 37 cents.

● See Page 16.

sparks metals rise

ZURICH—The start of a gold miners' strike in South Africa and the South African debt moratorium drove gold and platinum higher here in nervous and thin trading.

Dealers said the rises had been expected in light of Sunday's developments. Mercury

But turnover was modest, and to the surprise of some dealers, most investors remained on the sidelines, especially in gold, leaving trading dominanted by professional operators.

Gains 3/9/85

Gold opened at \$335,25/75 an ounce, up \$1,45 from Friday's close despite the dollar's strong gains. Platinum was \$4 higher at \$337/339 an ounce.

A dealer for one of Switzerland's largest banks said: 'The strong rise in platinum shows what the market is really concerned about – South Africa.'

More than 70 percent of the western world's platinum supply comes from South Africa, and the metal, with its wider industrial uses than gold, is even more sensitive to any threats of disruption.

While the gold and coal strike, which began on Sunday, was only modest in scope, dealers said the market feared the social unrest in the country could make it potentially more damaging than the numbers off the job would suggest.

Expected

The debt moratorium had been widely expected against the backdrop of last week's suspension of trading in South African financial markets and the sudden trip of the Reserve Bank governor Gerhard de Kock to Europe and the United States.

But it reinforced sentiment that a solution to the immediate financial difficulties of the country may prove difficult to achieve, giving further support to precious metal prices, dealers said.

Palladium was barely changed at \$106/107 an ounce, 25 cents under Friday's close. The Soviet Union is the biggest supplier of palladium, with South Africa a distant second —(Reuter)

(49) Mercury 3/9/85

What the financial rand means

Your Money

Finance Editor

TODAY the financial rand makes its return to the money markets, but for most people whose economic activities do not extend beyond keeping cheque and savings accounts, paying a bond, and keeping the Receiver of Revenue happy, it will be very much 'life as usual'

But not quite.

The interest rates, which peaked in January with the benchmark rate of the commercial banks' prime overdraft rate at 25 percent, are likely to fall a bit faster now

Yesterday the pattern of rates moved down to the 19,5 percent prime level following on last month's reduction in certain Reserve Bank interest rates.

Other interest rates are moving slowly down as well.

Building societies have indicated that the mortgage rate will not fall soon (perhaps by two percent by the year end) but we can expect that their savings rates, and those of the banks, for fixed deposits and subscription shares, will start falling soon.

Hire purchase rates are likely to fall 'later' for the man in the street, various hire purchase banks said last week. They fell this week for company borrowers.

But last week's easing of various hire purchase repayment periods and the minimum deposit required, while not a cut of the interest rate, will get these sectors of business going again.

And this is what it is all about.

Curbs

For a year the tight credit curbs brought about by letting the pattern of interest rates ride as high as possible have devastated those businesses which rely on credit, whether it is the size of the bank overdraft or selling goods through hire purchase deals.

The stock exchange company list of furniture, jewellery, consumer electrical goods (televisions, radios and video cassete recorders) and motor companies which have seen profits dive, and even made a loss, is mount

As profits [illegible], companies close, [illegible] back on staff, cut salaries, overtime and bonuses.

The economy becomes a snake which feeds on its own tail.

So long as the treatment is aimed at curing inflation, the patient can take it in the hopes that things will be 'better on the other side'.

While the private economy has been cutting back, government spending is simply on 'hold' and there is little indication that this sector, which spends a lot of money, is going to take the awful-tasting inflation medicine.

So while the economy is under siege — as far as our relationship with foreign countries and their banks are concerned — it will be possible to ease the domestic economy, letting, and probably encouraging, interest rates to fall further.

But there will have to be a renewed effort to sell our goods abroad to get the cash to pay off the bank loans which have now been postponed.

It will be best to keep a weather-eye on overseas developments, because this will eventually have an effect domestically.

Surviving in hard times

How to manage to your cash and still survive in business, by R I Katz.

THE number of business failures and company liquidations is at an unprecedented high level.

The proportion of illiquid insolvencies — where companies cannot meet their cash commitments — rather than insolvencies because of technical insolvency, where liabilities exceed assets, is high and illustrates the importance of cash-flow planning and management.

It has virtually become as important to have, or provide for, the cash needed to meet commitments, as it is to trade at a profit.

It is therefore a necessity to prepare and constantly monitor cash-flow forecasts in today's business environment.

Forecasts

Once the budgets have been finalised, cash-flow forecasts must be prepared from the budget information.

It is one matter to project the amount of sales that can be generated in the market place, but an entirely different matter to be able to provide the amount of cash needed to support the sales aspirations.

Parameters such as sales levels and expense allowances, together with the price of goods to be bought, determine the cash requirements and dictate the working capital levels to be financed.

If these considerations are ignored, businessmen are likely to suddenly find themselves short of cash and unable to pay their creditors timeously, although they are making a profit.

Often it is not appreciated that every additional rand of sales budgeted required additional working capital in the form of debtors and stocks.

Therefore, as an additional project to the cash flow forecasts, is the preparation of monthly debtors and stocks movement schedules and balances.

When these debtors and stocks balances are inserted into monthly balance sheets, they prove the accuracy of the cash flows and substantiate the reasonability of the cash-flow assumptions contained in the forecasts.

The actual preparation of the cash-flow forecast is not difficult and involves the listing of all sources of cash inflow during a specified period. This is usually a month, but in the case of the clothing industry especially, as well as other labour-intensive industries, a week is preferred because of the payment of wages each week. Then comes the scheduling of all items requiring payment during the same period.

Deficit

This results in a monthly or weekly cash surplus or deficit, which is also accumulated over the whole forecast period of anything from three to 12 months.

Certain assumptions have to be made to be able to prepare the forecast and include:

- The time taken to collect amounts owing by debtors;
- The amount of stocks to be held in store at any one time;
- The terms taken before payment is effected to suppliers and other creditors.

These will establish the important cash-flow pattern of the business.

Of course, only expenses of a cash nature should be included, thus excluding depreciation, and only included in the period that payment is actually anticipated.

Annual expenses such as audit fees and insurance premiums may fall into this category.

Furthermore, the cash-flow forecast differs from the profit and loss budget in that capital expenditure, instalments, provisional tax payments and any loan repayments must be included as cash outflows, although they are not expenses, in the profit and loss calculation.

The monitoring and updating of the forecasts, taking into account actual figures which differ materially from original projections, is vital to keep the forecasts relevant and useful to management.

Once management has this tool properly developed and running, the main benefits derived include:

- Knowing in advance when the business requires increased finance, or has surplus cash;
- Being able to arrange any necessary borrowing well in advance to meet the peaks in cash deficits. Bankers consider this aspect most important in assessing management;
- Establishing the level of sales the business can afford to process in terms of cash resources; and,
- Management is encouraged to give consideration to debt-collection performance and stock-control procedures, which are the two main areas in the business which absorb cash flow.

It is actually quite a revelation to the uninformed businessman or one who has never relied on cash-flow forecasts, exactly how much easier the day-to-day running of the business becomes and how few cash c[illegible]

An income from art

London Bureau

ART collectors will, in future, be able to use their works as part of the capital necessary to become members of Lloyd's of London.

This means wealthy connoisseurs will now be able to earn income on assets such as sculptures, paintings or antique silver, which otherwise produce no revenue.

Members of Lloyd's have to be able to demonstrate that they are worth at least £100 000, excluding their main home.

Members or 'names' can underwrite premiums of twice that wealth, but must provide a deposit of at least a quarter of the premium limit.

This deposit usually comprises easily-realised investments such as government gilt-edged stock, or maybe a bank or insurance guarantee.

However, a new plan devised by Sotheby's with one of the leading Lloyd's brokers, Hogg Robinson, will allow collectors to use their works of art for this.

Sotheby's is guaranteeing that the works will sell at certain minimum prices, even if the market turns down.

The scheme will allow investors to benefit financially from their works, but still allow the pieces to be kept in their own homes.

Sotheby's will value works of art as diverse as clocks, carpets or armour, and will guarantee that at least 35 percent of that sum can be realised.

Barclays Bank will actually give that guarantee to Lloyd's of London and the insurance company, Sun Alliance, will provide an indemnity.

Lloyd's 'names' have an unlimited liability to meet demands from the insurance market if their money is used to back bad risks.

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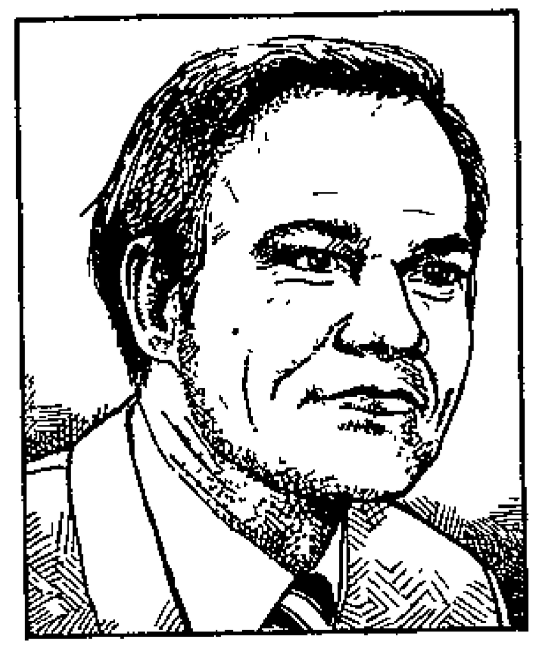
1985

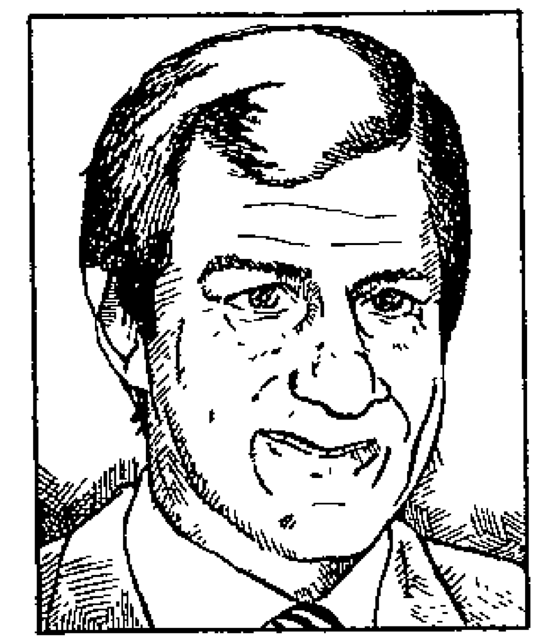
Recovery remains hostage to political misfortune . . .

3/9/85



● VAN DER MERWE

● MOTLANA



● SLABBERT

Concluding PAUL BELL's series on the economy in '86

A SERIES of high-voltage political shocks in the past six weeks has threatened to neutralise the fundamentals which were laying the base for a sound economic recovery in 1986. It has also radically undermined business confidence.

That, say PFP leader Dr Frederik van Zyl Slabbert and Soweto civic leader Dr Nthatho Motlana, is the key economic issue that government will have to address in the coming months. Its solution, they believe, lies squarely in the arena of political reform.

Helderkruin's Nationalist MP Dr Stoffel van der Merwe agrees that confidence is a major problem, but he views a degree of politico-economic instability as the price of reform, and is convinced that — of all the options for reform — the government's programme has the best chance of success.

This Wednesday, 12 hours after the Minister of Finance closed the JSE in the wake of the rand disaster, a political observer remarked that SA had descended into probably its worst politico-economic crisis since the Anglo-Boer War.

Hyperbole or not, political volatility and its concomitant impact on financial markets make it difficult to say with any accuracy how deep a shadow this kind of perception casts on the prospects for recovery.

Another observer, whose views on the economy are highly respected by all shades of business and political opinion, said in no uncertain terms that commerce and industry were now so gripped by uncertainty that a "crisis of confidence" had emerged.

Not only had government failed — until now, perhaps — to understand this, but the crisis had also permeated all levels of business.

Nor could there be any doubt, this observer said, that any signs of confidence that had been evident a month ago were simply not there today.

Six weeks ago economists felt able to predict with safety to *Business Day* that the recession was about to bottom out and that recovery was in sight.

While continued monetary and fiscal restraint was necessary, market forces — as well as certain political adjustments — would see the economy restored to health. Fundamentals like the terms of trade and the relative stability of the rand were already paving the way for a solidly-based upturn.

Three weeks ago — and two weeks into the emergency — a majority of business leaders interviewed on the same subject accepted that prospects for a sound recovery was based equally on political reform, and that the recovery was already set for a delay of about a quarter as a result of the emergency.

A week later, in the build-up to President P W Botha's Durban speech, the rand began to decline as government leaks squashed hopes that he would announce a new and bolder reformist initiative. The rand was right.

Last Friday, *Business Day* began a series of interviews with Slabbert, Van der Merwe and Motlana on the subject of economic recovery. It was already clear that the political crisis was deepening and dragging prospects for recovery — sound fundamentals or not — down with it.

Now, the raging issue was sagging business confidence.

Slabbert said: "I have distinguished sharply between a disinvestment campaign by special interest lobbies and actual disinvestment itself.

"But a campaign itself cannot invest or disinvest, because its proponents do not control corporate finance. Investment and disinvestment take place through people who have the money, and they do so either because they have confidence in the economy or they don't.

"We have reached the stage where the people with the money are saying we have no confidence in this country or its economy. It has less and less to do with moral considerations. Capital follows profit. If there's no profit to be made, the capital will go.

"And the number one reason for that is confidence in political stability and confidence in the SA economy. And when I say confidence in the economy, I'm also talking about the manner in which the economy is managed — or mismanaged — by government.

'Government will first have to show that its reform programme can restore confidence in political stability. This means it must demonstrate that whatever reform it has in mind gets the voluntary co-operation of significant sectors of the black population.

"If government can't do that, we will continue with unrest and instability, which will further impact on confidence itself."

Motlana put it similarly. He, too, called the government to task for economic mismanagement, saying the recession had been experienced by blacks as a severe depression.

Disinvestment was no longer merely a threat, he said, it was happening already.

"Government needs to take the economy by the scruff of its neck. That means making painful political decisions, regardless of those whites who believe their safety, their security and their prosperity are dependent on black oppression.

"The State President's speech was a real disappointment. He did not permit a defusion of the present explosive situation. In fact, it has retarded what prospects we have for economic recovery."

Stoffel van der Merwe acknowledged this. "The happenings around the Durban speech — expectations and the speech itself — undoubtedly had a depressing short-term effect," he said. But this would be filtered out in the medium-term as the speech's "positive aspects" became plainer.

Instability, he said, was an unfortunate by-product of the process of reform, because society could not be sure the process would work or where it would ultimately lead.

Asked how government could restore confidence in the face of a strengthening perception that reform was not being tackled the right way, Van der Merwe said this would be a difficult task because the "misperception of what government is doing is so widespread".

There were, he said, two other alternatives to the Nationalist reform strategy: the Conservative Party's fervent desire to put the brakes on — and even reverse — the process, and the national convention option, which would be only somewhat less disastrous. He believed both would cause an even greater decline in business confidence.

While Nationalists might not be completely happy about their own approach, because it was creating uncertainty among party supporters, it was the only one the party believed could work.

Slabbert and Motlana called on government to unshackle the economy from regulation. Slabbert said: "Get rid of laws that inhibit individual economic mobility and get out of those sectors of the economy which can best be run by the private sector."

Motlana said: "If you release the efforts of all South Africans, the cake will be so much bigger." He was emphatic about the need to develop small black business.

Van der Merwe said government was already proceeding along these lines.

Slabbert and Motlana were severely critical of economic policies based on Nationalist ideological goals which, they said, were costing the country millions unproductive projects.

Slabbert attacked government spending on the multiplication of bureaucracies required by apartheid: e.g., the homelands and the tricameral parliament.

Motlana expressed the same view, in tougher terms: "We are spending millions on non-productive projects, on propping up the Sebes, the Matanzimas and Mangopes of this world. These things don't earn us foreign exchange. We don't export Sebe and his armies."

On defence spending, Slabbert questioned why SA troops were still in Namibia when it cost SA R1m a day.

Motlana suggested national service be cut from two years to six months. "The Russians," he said, "are not about to attack us. At present it's all for Namibia — and they don't even want it."

But Van der Merwe did not believe that "at this point in our history" the country could afford to reduce security spending.

If there was to be a trade-off in government expenditure, it would more likely be through cutting the cost of regulating economy processes and channeling freed funds into education, housing and job creation for blacks.

Van der Merwe believed these latter areas would be the main thrust of government spending next year.

Education was a priority for Slabbert and Motlana. They also broadly agreed — although there are degrees of difference — that greater security should be extended to the victims of recession.

Slabbert referred to simple State-funded job creation through housing and basic infrastructure-building programmes. Van der Merwe did not support Motlana's view that SA could afford a major extension of social security benefits: he would rather see that money go towards job creation.

Slabbert and Van der Merwe agreed that government would have to continue to exercise financial discipline next year.

In the end, sharply different political objectives limit the scope for agreement between Slabbert and Motlana on one side, and Van der Merwe on the other. Evaluating similarities is complicated when both sides use the same words but mean different things.

Blacks, business and opposition politicians will get what they want from government only when the language of change develops a common meaning for all. In the meantime, recovery in 1986 remains a hostage to political misfortune.

'Privatisation will help solve SA's p...

49 STAR 4/9/85

By Michael Chester

The head of a United States think-tank today said the State President, Mr P W Botha, should follow Mrs Margaret Thatcher of Britain in a programme of handing over more State corporations and services to the private sector.

Dr Stuart Butler, director of the influential Heritage Foundation in Washington, argued that fewer Government controls were crucial in resolving South Africa's economic and political problems.

He was addressing a national conference called by the South African think-tank Syncom and sponsored by the Federated Chamber of Industries in Johannesburg to discuss the merits of privatisation and the stripping away of red-tape hindering entrepreneurs.

Dr Butler asked:

- "How can Government cater for the growing need for basic human services and increasing demands on Government corporations without straining State finances?
- "How can Government help provide essential business infrastructure — such as transportation and telecommunications — without also provoking serious budget difficulties?
- "Is there some way to reduce the political tensions and disputes that arise inevitably when publicly provided goods and services are allocated in South Africa's charged political environment?"

While no simple answers existed, he said, international experience suggested that problems could be eased considerably by a strategy of moving certain functions of Government into the private sector — especially important in the South African context.

Privatisation did not mean that Government gave up its responsibilities to the nation. What it entailed was clearing the path for the powerful incentives within a competitive market economy and giving a green light to innovation, reducing the financial demands on the Government and often bringing a stronger inflow of funds to the Treasury.

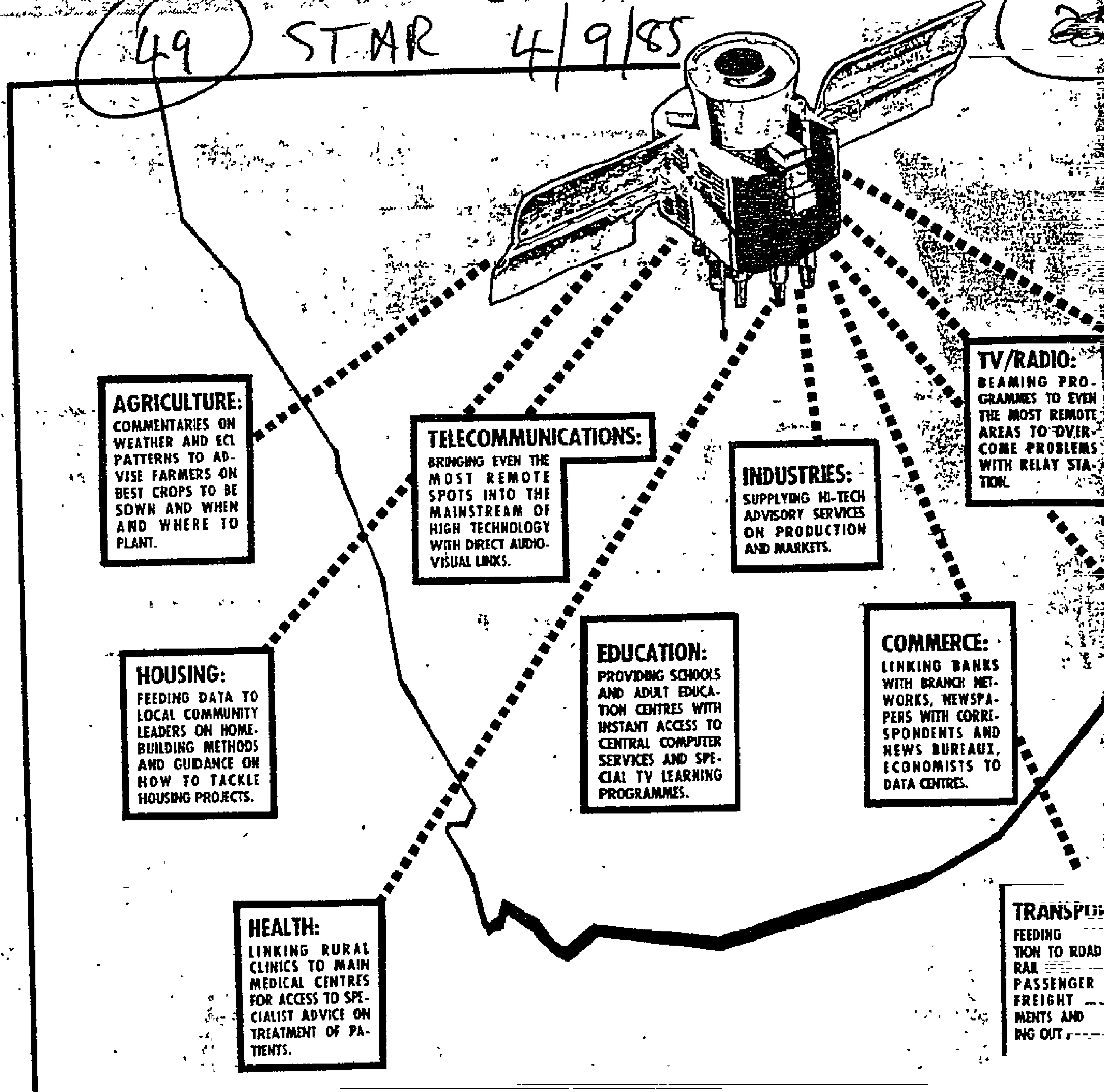
Politically, privatisation could also have a critical effect by replacing political or bureaucratic decisions with routine commercial decisions and so helping to depoliticise important segments of everyday life — "and thus help to defuse the current crisis".

Many countries had explored the privatisation approach. Dozens of American cities now had municipal services — even fire-brigades — run by private firms. Many cities in the Third World, such as Calcutta, had remarkably efficient mass transit systems run by the private sector.

But the lead had been taken by Britain — where South Africa could find most relevance.

In the last six years, under Mrs Margaret Thatcher, the public sector had been transformed. The equivalent of about R60 000 million in Government assets had been sold to the private sector — including major stakes in North Sea oil, road haulage, motor production, public housing and the entire telephone system.

Still to come on the privati-



Syncom unveiled proposals today for the 1987 launching into orbit above Southern Africa of a privately ... graphic shows a few of the countless new services it promises to provide. The satellite is envisaged as a ... the Government to enable the private sector to take over more and more functions at the ...

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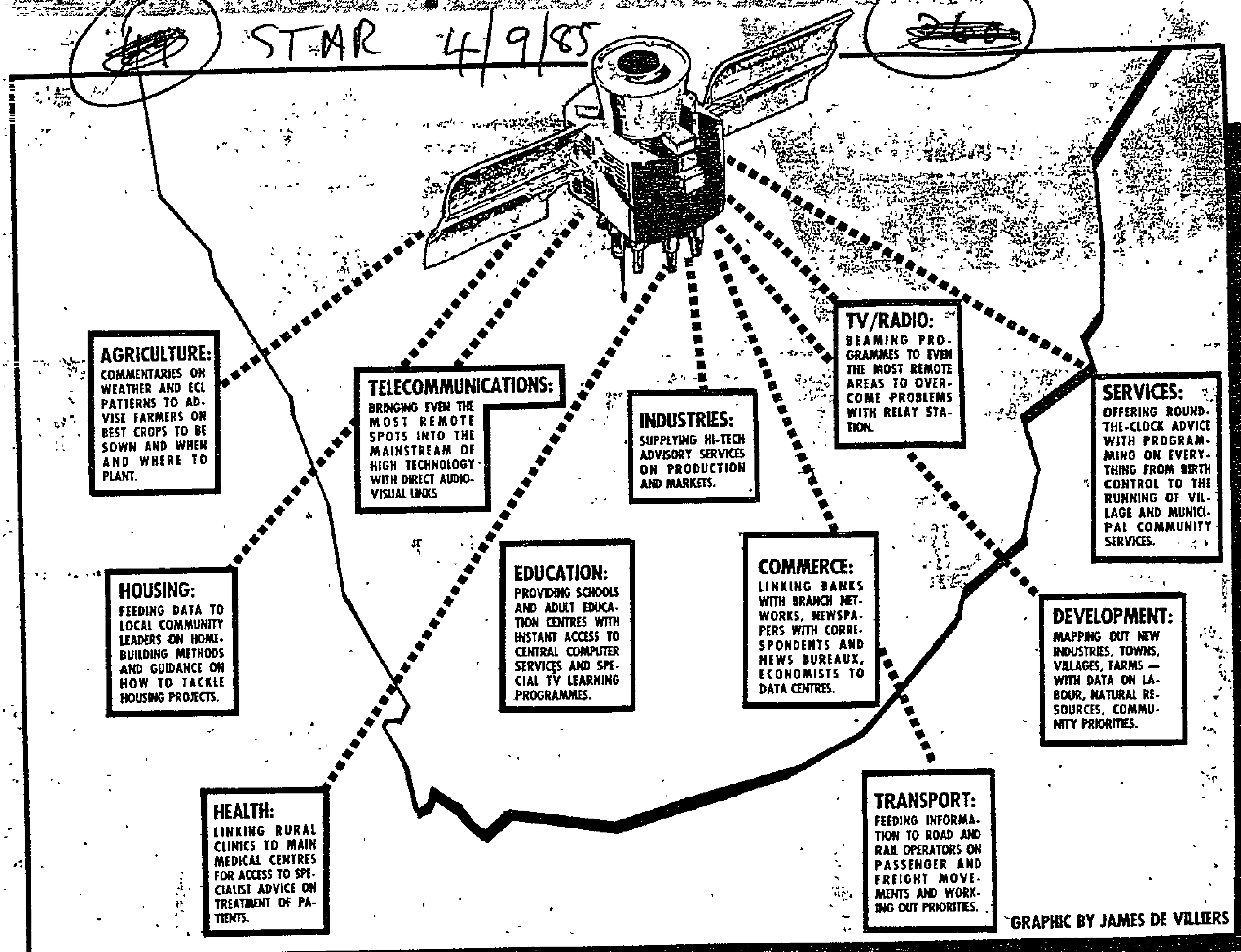
STAR 4/9/85



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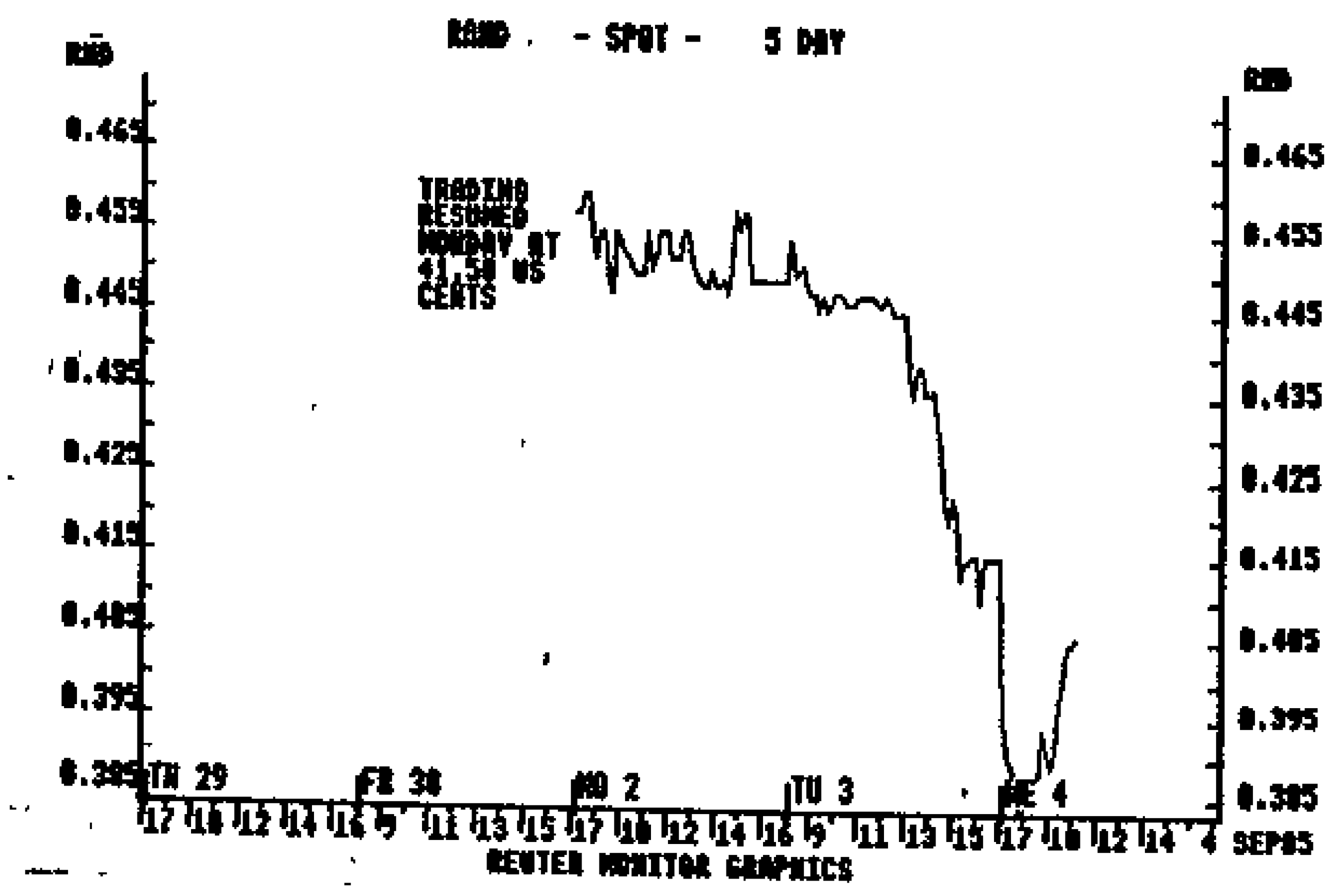
Still to come on the privatisation list were British Airways, the gas distribution network — even the post office.

"Privatisation means depoliticalisation. Competition and the need to satisfy the customer motivates the private supplier to accommodate consumer demands, to act dispassionately and to use resources most efficiently. If he does not do so, his competitors will," Dr Butler said.

De Kock gives 'upbeat' review of his talks

Bankers satisfied with handling of 'standstill'

49 STAR 4/9/85



Sorry plight of rand

Financial Staff

The sorry plight of South Africa's rand is highlighted in the graph which shows how the new controls have failed to solve the immediate pressures.

The new financial rand has moved down to around 35 to 36 cents, but turnover is small.

The commercial or Reserve Bank managed rand, after trading at 45 US cents on Monday slumped to below 40 cents at one stage to be quoted at 37,50 cents.

Senior commercial bank foreign exchange dealers travelled to Pretoria from Johannesburg today to discuss the weak state of the market and try to resolve some of the trading difficulties that have been occurring.

By Neil Lurssen,
The Star Bureau

WASHINGTON — Foreign bankers are satisfied that South Africa is handling its international financial situation in a way that will cause minimum disruption to the world banking system, Dr Gerhard de Kock, Governor of the SA Reserve Bank, said here in an interview.

Dr de Kock said he was heartened by the understanding response he had got from the experts he had seen — that South Africa was not welching on its debts.

Speaking a day after he held talks here with Mr Paul Volcker, chairman of the US Federal Reserve, and other top government and monetary officials, a relaxed-looking Dr de Kock emphasised that he had not travelled to the US and Europe in the hope of borrowing money.

"Where that story came from I have no idea," he said.

Rather, his mission was to explain to the international banking community why the SA authorities had decided to freeze repayments of loan capital in the face of "bunching" calls for repayment — a move that Dr de Kock referred to as a "standstill."

Problem

"From my conversations with leaders of the banking world, they have an excellent understanding of the situation — that this is not a financial or economic problem. It is a problem resulting from political perceptions.

"But it is a problem all the same — whatever the cause," Dr de Kock said.

"Given our strong financial position, the experts immediately recognised that this is an easier one to deal with than the problems in other countries.

"In the last few days I have learned a lot about what happened to some other countries and how their positions were handled. They were running current account deficits and could not even pay the interest on old loans.

"We will pay our interest — and that has set the market at ease," Dr de Kock said.

His upbeat view came amid authoritative speculation here that the SA government's stopgap measures would succeed in the near-term.

The Wall Street Journal said that most American business leaders thought they would work in the near-term and the newspaper quoted US bankers as saying that the SA moratorium was not likely to have any impact on American bank earnings because interest payments would continue and the loans would not be classified as "non-accruing."

But the *Wall Street Journal* also quoted US bankers as saying that the moratorium would make it unlikely that US banks would be willing to lend in South Africa in future.

"It does not instill confidence in (the minds of) private lenders," the newspaper quoted an unidentified US banker as saying.

Dr de Kock said that the bankers he had spoken to, being experts, had understood "perfectly well" that the action taken by the SA financial authorities was not done because of any weakness in the SA economy.

"We are dealing with a country which has a current account surplus with exports exceeding imports by an enormous sum — R5 billion at the moment," he said.

"And it is a country which has been repaying foreign debt for the past 12 months.

"I was talking about ways and means of repaying money, discussing the details of the standstill — and not attempting to borrow more money, because we don't need money," Dr de Kock said.

"There are political reasons why some banks were not prepared to roll-over credits to South Africa," he said.

In fact, he added, South Africa was taking precautions when it implemented the standstill.

"We might not have had to repay the maturing credits anyway," he said.

"They are all in the nature of credits that could have been rolled over. But we were just not taking any chances given the political perceptions at the moment. We needed this space to talk with the people involved."

Unusual

Dr de Kock was reluctant to discuss the political situation that had led to South Africa's credit problem, saying that this was outside his jurisdiction.

But he said that it was unusual for a country with South Africa's excellent international financial reputation and strong economic performance to declare a standstill. The only reason was political pressure.

Asked whether he had, in his weekend meeting here with a top official of the International Monetary Fund (IMF), applied for IMF assistance, he said: "Oh no. In fact, we will start to repay the IMF in January next year on old existing credit," he said.

Asked about South Africa's credit-worthiness now, he replied: "When you declare a standstill, you have a problem with credit-rating. What happens subsequently depends on how you handle the standstill.

"We don't want in any way to harm South Africa's position as an international trading nation," he said, "our trade is important to us — it is also important to other countries."

Rand fall brings new call to close exchange market

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Financial Staff STAR

The rand fell to below 38 US cents today and in a totally confused market some dealers called for the authorities to close the market again.

At the same time, certain foreign banks that have lent money to South Africa and have been denied repayment are considering legal action against the country.

4/9/85

After last week's three-day closure the rand has slipped in the past three days from over 45 cents to 38 cents.

Dealers said there was a huge demand for dollars from [illegible] and just not enough available in the market to meet this demand.

The new financial rand was quoted at 35 to 36 cents, but as there has been virtually no foreign buying on the stock market, the pool of financial rands is tiny and so the rate being quoted is largely academic.

IMAGE NOSEDIVE

The threat of foreign legal action is just one of many negative aspects of the decision to close the foreign exchange market and delay debt repayments.

The country's investment image has nosedived sharply and publicity stemming from any legal developments will only aggravate this.

The Reserve Bank Governor, Dr Gerhard de Kock, said in Washington yesterday that foreign bankers were satisfied South Africa was handling its international financial situation in a way that would cause minimum disruption to the world banking system.

Experts he had seen accepted South Africa was not welshing on its debts.

However, US bankers quoted in the *Wall Street Journal* said the moratorium made it unlikely US banks would be willing to lend again in South Africa.

● See Page 19.

Rand's value see-saws as dollar rises

(49)

04/09/85 E Post

By LOUIS BECKERLING
Business Editor

THE rand see-sawed wildly today, falling in 15 minutes from an opening level of 40 US cents to 37 US cents, before recovering to 41,20 US cents at lunch time.

Dealers said the Reserve Bank did not intervene in support of the currency and appeared to lack the necessary volume of funds.

Early pressure on the rand came against a background of:

- A revival by the US dollar against most major currencies.
- A consequently weaker gold price, traded down to $324 in London this morning, which is some $17 off its peak of $341 achieved last week.
- Continuing concern over inadequate supplies of dollars in the SA foreign exchange markets — underscored by the apparent inability of the SA Reserve Bank to support the rand at economically justified levels, despite its apparent desire to do so.
- A strong speculative element which continues to operate in the market.

Dealers were at a loss to explain the extreme volatility in the market, but said dollar export proceeds exchanged on the market at the favourable rate of $1,00 equals R2,70 (or R1=$0,37), helped to turn the tide against the rand.

Nedbank appeared to be recovering from a hammering taken on its share price on the Johannesburg Stock Exchange yesterday, as a response to its foreign branches — notably in New York — turning away lenders calling up their loans.

Rumours that Nedbank was not meeting loan obligations because it had insufficient funds and not because it was statutorily bound by the SA freeze on debt repayments sent the share price tumbling from 1 275c to 1 100c, with some 34 000 shares changing hands.

But these suggestions were denied by deputy managing director, Mr Anton van der Merwe Vance, who said the SA Government's proclamation prohibited Nedbank's foreign branches from repaying foreign loans.

Mr Rob Abrahamse, managing director of Nedbank, told the Evening Post today that the conflict in which Nedbank found itself in New York was currently the subject of negotiations between the US central bank (the Federal Reserve), and the SA Reserve Bank.

A stockbroker said from the dealing floor that a buyer sought 15 000 Nedbank shares at 1 100c when the market opened today, indicating that the shares' fortunes were turning.

See Page 18

Privatisation answer to SA's problems — think-tank head

(49) 5/9/85 STAR

Andre Spier, head of the Syncom think-tank, yesterday addressed a national conference in Johannesburg sponsored by the Federated Chamber of Industries to discuss how to persuade the Government to hand over more State-controlled corporations and services to the private sector and press ahead with the scrapping of regulations that hold entrepeneurs in check. He insisted that only privatisation and deregulation could provide South Africa with answers on how to cross the "Economic Rubicon" it faces and send out clear signals that South Africa means business with reform. Here is an abridged version of the address.

The indispensable foundation on which political reform must build is economic reform — and the constitutional process must be compatible with both criteria.

Part of the present confusion, frustration, even anger, stems from the fact that we are flooded with demands for reform without considering the priorities.

Even if we managed the wild waters of our Political Rubicon, we would still face the torrents of our Economic Rubicon — the demands for employing, housing, educating and servicing an urbanising population growing relentlessly towards at least 80 million people.

The worst error we can make today is to think once a just political dispensation is in place, all our problems will be taken care of.

Every attempt to solve the basic challenges by politics alone will founder on the rocks of unemployment, hunger and endemic poverty.

Privatisation and deregulation — the removal of the myriads of totally superfluous restrictions, laws and regulations which feed a bureaucracy and no one else — are the vehicles to carry us across the Economic Rubicon.

UNEMPLOYMENT

JOBS: The Human Sciences Research Council estimates if today's trends go on, unemployment will reach between three and eight million in the next 15 years.

The Institute for Futures Research at Stellenbosch University estimates one in three in the population ekes out a marginal existence outside the formal sector.

The role of privatisation and deregulation is to turn tax consumers into tax producers.

EDUCATION: The President's Council estimates 450 000 black teachers need to be trained to meet the population explosion in black children of school age between now and the year 2020 — a sure way to financial ruin.

We need to turn the present outdated system into a "learning industry" in which the terms "school, teacher and classroom" are replaced by "learning centre, educator and learning environment".

Funds should go into basic functions of learning instead of structures.

HOUSING: The backlog in housing is about 500 000 dwellings with annual needs standing about 100 000. That means two million homes must be built over the next 15 years.

Removal of influx control must be counter-balanced with a positive urbanisation strategy — in part meaning the acceptance of the slum as an essential transit station towards more formal structures.

Privatisation and deregulation would simplify building regulations and streamline procedures in township development.

We have the capability to build seven new Sowetos — but blacks themselves may not want seven more Sowetos, and could not afford them anyway if they do not become beneficiaries in a new programme.

Housing is by far the single largest job and wealth creating mechanism for our black population, provided we enable them to get on with the job.

HEALTH: Demand for health care will sky-rocket at least seven-fold over the next 35 years. State expenditure will be unable to cope with such a demand.

PENSIONS

Our predominantly Third World situation demands a shift towards the health team approach — in which the combination of nurse and pharmicist will form the cornerstone.

SOCIAL: State obligations for social pensions may reach R10 billion before the turn of the century — obligations that cannot be met in view of competing priorities in State spending.

Privatisation would act to make pensions portable and more individualised.

The 30 million people of South Africa are governed by five presidents, 140 Ministers and Deputy Ministers, each with their attendant civil services, and more than 1 000 Members of Parliament. We seem to have a case of crass over-government.

The role of privatisation and deregulation is direct and clear: by placing large sections of Government obligations in the private sector, the need for such a massive public apparatus is considerably reduced.

Privatisation not only depoliticises these issues but enables the State to rationalise the management of these functions under one department. This call for unification is particularly strong in the most sensitive of all issues — education.

There is clear evidence the white referendum on the constitution provided a platform for reform.

It seems to me the time is now to establish once and for all who in South Africa wants to get on with the job of fundamental reform and who wants to maintain the status quo — and to give the two camps clear political structures.

If reform rules and reaction opposes, the government of that day knows where it stands and may cease to be paralysed by looking over the left and right shoulders.

Such a realignment of our political forces has three distinct advantages:

- It provides a secure platform for meaningful and purposeful dialogue with all other population groups to hammer out a joint strategy for a prosperous future.
- It would give birth to a true South-Africanism and heal unhealthy divisions between people who in the final analysis have the same basic needs in life.
- It would send a clear signal to the world we mean business with reform.

Debt moratorium and two-tier rand fail to help

Trading position for SA far worse

49 STAR 5/9/85

By Trevor Walker, Finance Editor

South Africa's trading position has worsened dramatically since the debt moratorium — and several big importers are now having to pay cash on the nail for all purchases abroad.

This is going to maintain the pressure on the rand and the currency is unlikely to show any marked recovery while this persists.

The Reuter news agency, reporting from Washington, said bankers who attended Reserve Bank Governor Dr de Kock's meetings said he had been clearly informed that new credits would be forthcoming only if Pretoria began genuine political reforms.

"I would hope that De Kock left here understanding the gravity of the situation," one bank officer said. "He got very little assurance of anything in the future. There was no change in the unwillingness of American banks to roll-over short term credits."

'Disturbingly powerful'

The London *Times* said in its main editorial today the sudden onset of dramatic financial difficulties in South Africa shows how private financial sanctions can be swift, simple and "disturbingly powerful".

The commercial rand has weakened sharply in the last two days and its premium above the financial rand has all but been eliminated.

The economic panic at the time of Sharpeville led to a huge sell-off of South African shares on the Johannesburg stock market and the Government was forced to introduce foreign exchange controls.

But now the outflow via the JSE has not been excessive. It is the clamp on capital from abroad that has hit the economy, and the debt moratorium and two-tier rand have failed to resolve the situation.

● See pages 4 and 20

UK talks to concentrate on long-term solution

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The Star Bureau

LONDON — South African finances preoccupied London yesterday as Reserve Bank governor Dr Gerhard de Kock arrived from New York for talks with commercial bankers and the Bank of England.

Senior bankers said that South Africa had so far failed to appoint an individual banker to act as go-between with banks in rescheduling its loans.

Talks are concentrating on a long-term solution to South Africa's foreign debt problem.

It is clear that Dr de Kock's idea of appointing a mediator to handle the rescheduling of $12 billion in short-term debt met with resistance from some US banks.

STAR 6/9/85

Many US banks are anxious to take part in South Africa's rescheduling talks but are concerned about the reaction of their shareholders and customers to such participation.

In yesterday's talks Dr de Kock sought to reassure British bankers that they would be treated as equals with other creditors.

He said he had erroneously given the impression at a Press conference in New York on Wednesday that deposits by US banks with South African institutions were exempt from the payments freeze.

This applied to only rand working balances with the Reserve bank, he said.

Dr de Kock has so far given little indication of the nature of the rescheduling he expects to negotiate. Commercial bankers expect, however, that it would involve a maturity not longer than five years.

SA Government pledge to stand by Nedbank

De Kock assurance on debt takes steam out of crisis

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6/9/85 STAR

By Ramsay Milne
The Star Bureau

NEW YORK — The assurance given by Dr Gerhard de Kock, Governor of the Reserve Bank, in London yesterday that the SA Government would stand by the debts of its banks, including Nedbank, has "taken the steam out of the crisis" so far as most American bankers are concerned, according to New York bankers.

The pressures imposed on Nedbank came when a number of banks round the world seized funds being channeled to it.

These banks were worried that Nedbank would be unable to repay its borrowings after the South African Government said SA would stop repaying principal on much of its foreign debt for the rest of the year.

But the problem, which reached a crisis on Wednesday abated considerably yesterday when Dr de kock pledged that the SA Government "will assist Nedbank in bringing about the orderly disposition of its foreign exchange obligations and meeting liquidity needs of its overseas operations.

Smooth flow

New York bankers said today that a further and potentially more serious disruption to the interbank payments system was also alleviated by Dr de Kock's statement concerning Nedbank.

The statement prompted the major New York banks to resume the smooth flow of funds among international banks that had been interrupted by the uncertainties over whether South African banks would be able to repay their debts.

Economists said the disruptions were an ominous reminder of the dangers faced by New York banks in their job of clearing hundreds of billions of dollars each day for banks around the world, a task that makes possible the flow of goods and services from one nation to another.

Further, the disruptions highlighted the main economic threat to South Africa: being locked out of the world economic system.

The problem became acute late on Wednesday, according to a banker in New York, when a leading New York bank refused to release between $50 million and $100 million that was to be channeled to Nedbank.

The source declined to identify the bank.

After Dr de Kock's statement in London, the bank released most of the money it had been holding, and the crisis subsided, said the source.

Reflecting the improved conditions, federal authorities in Washington yesterday lifted a cease-and-desist order issued late last week against Nedbank's New York branch that effectively closed it.

The order, which was at no stage announced, was issued before the repayment moratorium was declared, but after South Africa suspended foreign exchange trading.

The order was kept in effect until American authorities were confident that Nedbank's Madison Avenue in New York branch could obtain from other banks the funds it needed to meet its obligations. The branch deals only with companies, and does not accept deposits from consumers.

Referring to Dr de Kock's statement, a leading New York banker said yester : "It's the statement we've all been waiting for."

Bankers quoted in the *New York Times* yesterday said they believed the pledge should resolve the problem, but the newspaper added that they were not certain it would stop all banks from seizing funds headed for Nedbank.

Payment delays

It is not known how many banks did seize funds. Those funds were taken to offset loans that have been made to Nedbank and appear to be subject to the repayment moratorium declared last Sunday.

The uncertainty about Nedbank's outlook which has worried the world's financial markets for days caused serious delays in the processing of South Africa's international payments.

The seizures not only threatened the stability of Nedbank, but made it difficult for South Africa to participate in world trade.

Bankers in New York, none of whom was willing to be quoted by name, cited several reasons for the harsh reaction to nedbank.

First, they said, South Africa did not consult with the banks before declaring the moratorium. As a result, many critical details were left unanswered. With South Africa's vagueness about whether it would stand behind its banks — until Dr de Kock's statement today — Nedbank was especially vulnerable, bankers said.

Unlike most South African banks. Nedbank was not exempted from the moratorium.

That puzzled bankers in New York. The explanation given by South African officials was that Nedbank's international activities were so big that exempting it could have undermined the moratorium. Nedbank, with assets of $8,1 billion at the end of 1984, is ranked as the world's 245th-largest bank by *The American Banker*, a trade newspaper.

Nedbank's problems were compounded by its reputation for having heavily borrowed short-term money in the international markets and having reloaned these funds on a long-term basis in South Africa.

Such a mismatch could be dangerous because, if Nedbank's short-term creditors declined to renew their loans, Nedbank could not quickly liquidate its own loan portfolio to get the funds needed to repay its creditors.

Apart from the seizures, the uncertainty led the large New York banks, through which the majority of international payments throughout the world are cleared, to refrain from granting any credit to Nedbank, which led to delays in channeling funds from one bank to another.

Government must put more emphasis on privatisation

STAR 6/9/85

By Stan Kennedy

While people talk scathingly about socialism and the debilitating influence it has on efficiency, the government has not followed through with the principle of privatisation.

Instead, it has created a socialistally orientated state which employs at least one in every three members of the active working population in the public service.

Mr Con Roux, president of the SA Federation of Civil Engineering Contractors, told the Private Option Conference, arranged by Syncom, in Johannesburg Wednesday night that there was a "very good case" for deregulation of a great number of aspects of the country's affairs, particularly relating to non-white affairs.

This would make it possible to reduce the number of public sector employees and release a lot of able-bodied people for private sector work.

He said shrinking budgets and real expenditure on civil engineering construction had resulted in a drastic reduction of construction work by the private sector. Because of this, the workforce had been reduced from 130 000 in 1982 to 90 000 this year.

"Employees lost to the industry are unlikely to return with the result that, in the next upturn, some 40 000 people will have to trained or re-trained in all categories ranging from labour to top management."

Because of the shortage of work, second-hand plant worth R130 million had been exported in the past. When the next upturn took place, replacement would cost up to R500 million.

"This ridiculous state of affairs has happened while the public sector construction authorities have been importing plant to ensure the continued operation of their own units."

Mr Roux said it would be relatively easy to phase out government and quasi-government construction units.

The first action would be to freeze new plant purchases and hire where necessary. After that, there would be no problem in selling off the remaining plant and incorporating those personnel into the private sector.

SA can pay all its debts — De Kock

6/9/85

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STAR

The Star Bureau

London

The present rand crisis was caused by "ridiculously wrong perceptions" that the South African economy was in a pre-revolutionary stage, Reserve Bank Governor Dr Gerhard de Kock said in London today.

If forced to, South Africa could repay all its short, medium and long-term debts, he said, but that would turn it into a capital-exporting country.

And such a move would force up interest rates, create a weak exchange rate and higher inflation, and cause lower economic growth.

It would also severely damage development throughout the region — something, he was sure, "well-meaning" people in the West would not want.

He refused to be drawn on "political" questions, but said reports of a meeting between South African businessmen and the African National Congress did not make his task any more difficult.

Ominously, Dr de Kock admitted that bankers who had called in short-term loans had not set any conditions to extend them. From what he said, it is obvious they simply want the money returned.

'Loans not overextended'

The spark for the present crisis came when some US banks called in their loans. South Africa has $6 000 million (R15 000 million) in inter-bank debts — $2 000 million of which is in the US and the rest evenly spread through London, Europe and Japan.

Dr de Kock repeated that the Reserve Bank would back Nedbank, a victim of the moratorium. He said a US "cease and desist" order against the bank had been withdrawn yesterday and US money was once again flowing into Nedbank.

South Africa had not overextended itself with foreign loans, he said. Its $2 000 million current account surplus represented more than 4 percent of GNP.

He expected the rand to rally in the long term. "The moratorium is only four days old. We expected that it would take some time for the rand to rally."

He hinted that South Africa, if forced to, would swop gold for dollars.

● See Pages 5 and 15.

S A not seeking loans now, says De Kock

7/8/85 Mercury

FRANKFURT— Dr Gerhard de Kock, governor of the Reserve Bank, arrived here yesterday from London for discussions with West Germany's major banks, banking sources said.

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He is expected to meet officials of the three large commercial banks, Deutsche Bank, Dresdner Bank and Commerzbank, to explain South Africa's decision to halt some foreign capital payments.

He is not scheduled to visit the Bundesbank, a central bank spokesman said.

Banking sources expect Dr de Kock will fly to Zurich over the weekend for talks with Swiss banks before returning to South Africa.

He was expected to hold separate talks yesterday with the three main German banks and may visit some of the smaller banks with close connections with South Africa, one source said.

Key rôle

West German banks play a key role in South African financing. Estimates put their total exposure at about $1 900m, of which $850m is short-term.

West German bankers have expressed serious concern over South Africa's treatment of its foreign debt, particularly the move to freeze interbank lines.

But the Eurobond market, which has been a major vehicle for financing operations for South Africna borrowers, has taken a relaxed view since bonds are excluded from the payments stop.

Earlier this week — after the emergency package of measures had come into force — repayment instalments and interest totalling about 20m marks on the two city of Johannesburg Eurobonds were received promptly.

Bankers said this shows South Africa is honouring commitments to bond investors.

Earlier in the day in London, Dr de Kock said the rand's recent weakness was not unexpected and the currency should appreciate once South Africa has clarified the workings of its recent financial package.

Gold swops

At a Press conference he said the country was not seeking any new foreign loans at this time, but said it was possible that South Africa would enter into additional gold swops, if they proved necessary.

The rand weakened further in London yesterday morning, falling to an opening 37,90/38,40 U S cents, from Thursday's close of 39,70/40,20.

Dr de Kock said once South Africa has clarified the details of its suspension of capital debt payments and foreign exchange controls, he sees the possibility of a substantial rise in the country's currency reserves and/or the rand.

The moves, coupled with South Africa's current account surplus of more than $2 000m annually, should create a surplus of dollars in the Johannesburg foreign exchange market, part of which will be used to build up reserves, he said.

As a result, the country did not need any new loans at this stage. 'We are not seeking financial assistance from the Bank of England, the IMF or anybody else at the moment.'

Dr de Kock said he has been well received by bankers during what he called his recent 'shuttle diplomacy.'

'We have made progress in laying the groundwork for a (debt) rescheduling operation,' he said.

He expressed hopes that the rescheduling will cover a period much shorter than five years, but said he could not rule out entirely that such a time frame might prove necessary.

BIS talks

Dr de Kock added that he he does not plan to attend next week's routine meeting of the Bank for International Settlements, though he might stop in continental Europe for talks before returning to South Africa.

He said that in principle all interbank credits are included in the debt stand still until the end of the year.

Where bankers' acceptances mature during that period, the country will try to make special arrangements to have them renewed or replaced, but it is not intended that they be excluded from the standstill.

He said although South Africa would like to lift its new foreign exchange controls, he had no idea when it would do so and doubted they would removed by the end of the year.

He also reiterated the Reserve Bank's support for Nedbank and its overseas branches.

Dr de Kock declined to answer strictly political questions, but said his task would be made easier by political reforms within South Africa. Some people'e perceptions of the country's political situation might be wrong, but they were affecting the economic situation.

Capital

He was hopeful that the country will be able to attract further capital in the future and said it was seeking to implement the debt standstill in such a way so as to facilitate a return to a more normal situation.

'In the very recent past we have entered into new (gold) swop transactions and further swap transactions are possible. On this particular tour I have not discussed raising money in any form from anybody.'

Although this implied that South Africa may have entered into new swop transactions as recent as the past few months, a S A Embassy spokesman here said he believed that the last transaction was some years ago.— (Reuter)

Germany joins rand crisis

Frankfurt—German banks are so exposed to South African debt that they have little option but to co-operate in a rescheduling despite mounting shareholder opposition to doing business with the country, commercial bankers said.

While some major US banks had cut back interbank lines to South Africa, the West German banking sector had shown little sign of adopting a more cautious approach as unrest grew there.

They said commercial bankers believed South Africa's four month freeze on foreign capital repayments could hit West German banks hard, leaving them little choice but to cooperate.

The dilemma for German banks lies not only in their high exposure to South Africa, which bankers says virtually locks them into a re-scheduling, but the banking system has traditionally been a pillar of finance for exports by more than 300 German firms with strong business links to the country.

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Rapid

Since the rapid growth of the Euromarkets, German banks have been prominent in assembling syndicates for international bond issues, a market that bankers now consider closed for new offerings indefinitely.

Shareholder opposition has grown, particularly with the rise in importance of West Germany's Greens Party.

7/9/85

An anti-apartheid demonstration in Frankfurt three weeks ago ended in violence with masked protestors smashing the windows of several major commercial banks, and shareholders' meetings have been characterised by vociferous protests by shareholders.

'South Africa will apply strong pressure on German banks to go along with the freeze and then reschedule... but shareholders are angry and this could be another Poland for German banks,' one banker said.

West Germany's close ties with the Eastern bloc meant its banks had to bear the brunt of Poland's debt rescheduling in the early 1980s

As the Latin American debt crisis broke in mid-1982, German banks found themselves relatively little exposed ccompared with their US competitors and were praised for their prudence.

Mercury

But as the extent of their credits to South aFrica has become more apparent during the past weeks of violence in the Cape, their share prices have come under pressure.

Exposure

Bankers said it is hard to establish the exact exposure of German banks but several are thought to have extensive interbank lines to South Africa, in some cases of over one billion marks.

Estimates of total German claims generally centre on about $1,9 billion, of which about $850m is due within one year. —(Reuter)

SA, rand get a breathing space

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STAR 10/9/85

South Africa has won breathing space — and the rand is expected to firm after the mild form of sanctions announced by President Reagan yesterday.

Barclays Bank's chief foreign exchange dealer in Johannesburg, Mr Autrey Wilkie, said today: "Swiss Bank Corp has said that it will continue to lend money to South Africa, and this type of statement, coupled with any fall-off in imports as a result of sanctions, could only be good for the rand."

The rand opened higher today — reaching 40c at noon — after trading quietly around 38c for most of yesterday and closing at 38,80.

Business concern

However, businessmen were concerned today that Democrats, led by Senator Edward Kennedy, might yet succeed in forcing through harsher measures.

Barlow Rand director Mr John Hall, whose company Middelburg Steel has experienced a remarkable upsurge in exports, said sanctions had never worked, but the move, however mild, was of concern to business.

Mr Drew Gnodde, deputy chairman of Gold Fields, said the apparent mild sanctions would give the country the chance to reassess the situation and concentrate more on the sound fundamentals which have been ignored of late.

Mr Harry Schwarz, the Progressive Federal Party spokesman on finance, said today that President Reagan's reversal of his position indicated the shift in public opinion in the US.

Despite the sanctions, the position for South African companies trading with the US, and for most American businesses in South Africa, appears to be "business as usual".

A South African Foreign Trade Association (Safta) spokesman said most South African businesses exporting to the US would be unaffected.

An IBM spokesman said: "IBM does not market to South African Government's institutions."

Confidence

The company had stated regularly it would continue to do business in South Africa in an effort to promote peaceful and meaningful change, he said.

Mr Schwarz said: "In future, the debate in the US will not be whether there ought to be sanctions, but what form they will take.

"These measures will have a serious effect on growth, not because they are strong sanctions, but because of the psychological effect. The loss of confidence it will cause abroad is intangible," said Mr Schwarz.

This view was also expressed by Safta.

The United Democratic Front dismissed President Reagan's limited sanctions as another attempt to "rescue the sinking apartheid ship".

● See Page 17.

SAA rethinks on flights it cut

Cape Times 10/9/86

(49)

Chief Reporter

SA AIRWAYS, reacting to mounting complaints from businessmen, has decided to reintroduce, from Sunday, some of the 30 flights a week it cancelled recently on its Cape Town-Johannesburg service.

Cape Town Chamber of Commerce states that curtailment of SAA's services, because of a sharp decline in passenger traffic on domestic services, has been causing serious problems for businessmen who have been having difficulty getting bookings on the remaining flights

Cancellation of the daily southbound flight SA319 at 4pm is said to have caused particular problems for businessmen returning from Johannesburg, who have found the 6pm flight — and on Fridays also the earlier 2.30pm flight — to be fully booked.

The chamber says it has taken up the businessmen's complaints with SAA's regional manager, who has stated that SAA has taken cognisance of them and will introduce a new time schedule from September 15, in terms of which a number of flights will be reintroduced

These will include the daily 4pm flight from Johannesburg to Cape Town

'Urbanisation now key to economic growth'

49 STAR

By Michael Chester 11/9/85
[redacted]

The process of urbanisation would provide the main thrust to economic growth until the turn of the century, Dr Joop de Loor, former Director-General of Finance and now Auditor-General, said in Johannesburg yesterday.

The role of providing the main power behind the economy was poised to move from mineral exports and im-port substitution to urbanisation programmes, he said when he addressed a Unisa School of Business Leadership seminar to examine the implications of disinvestment threats.

Dr de Loor said the share of foreign cash in the total funds ploughed into new investments had shrunk gradually since the 1960s from about eight percent to three percent or less. But overseas investments accounted for a significant one percent to 1½ percent of the economic growth rate in real terms.

He said it was not only in finance that foreign co-operation was important: it was also vital to the flow of new technology and business know-how, and a basic psychological encouragement for economic growth.

Another aspect of overseas pressures to impose sanctions and try to force the withdrawal of companies, was that the loss of a single trained worker caused the loss of as many as six or even seven unskilled jobs.

In the next economic growth cycle, South Africa would have to depend less on overseas investments and much more on domestic savings.

Dr Bruce Rickerson, a Republican Party member of the Foreign Affairs Committee of the US House of Representativess, said sanctions announced by President Reagan should not be seen as the end of US pressures on South Africa. The sanctions lobby could be expected to continue to insert amendments to legislation. They would appear innocuous, but would be designed to increase pressures on apartheid.

Mr Brand Fourie, the new SABC chairman and former ambassador in Washington, said the possibility of Congress pushing ahead with sterner sanctions still left a sword of Damocles hanging over South Africa's head. It was crucial that South Africa dispelled suspicions that it was simply "playing for time".

Poor image will curb growth — De Kock

49 STAR 12/9/85

By Trevor Walker

Overseas perceptions of South Africa had worsened dramatically in recent months, and until these perceptions improved economic growth would be retarded, Reserve Bank Governor Dr Gerhard de Kock told a media conference yesterday.

It was equally possible, he said, that the country would continue to be a net exporter of capital while this situation continued.

De Kock said he had thought prior to his overseas trip that he was a fair judge of how foreigners saw this country, but he was wrong; these views were far worse than he had expected.

Dr de Kock refused to be drawn into commenting on political developments in South Africa.

But clearly on his overseas trip he had argued that the economic fundamentals had not changed, so the somersault in perceptions had to be largely due to worsened political perceptions.

South Africa has become a poor place to do business in because its future political development was in doubt.

Yet in Bloemfontein yesterday Finance Minister Mr Barend du Plessis according to Sapa said the exchange rate problem was not the fault of the state, which had properly scheduled its repayments.

The fault, said the Minister, lay mostly with the private sector, whose short-term loans had created the repayment problems and the abnormal demand for dollars.

Over-optimistic

Yet many businessmen would argue that poor political management and posturing must surely also figure somewhere in the equation.

Reviewing the economy, Mr du Plessis said circumstances had proved him to have been over-optimistic about the possible reduction of inflation, which had suffered as a result of the knocks the rand had taken.

The Government had been correct in its prediction that interest rates would come down, and there was no reason to believe they would not fall further. The tempo and level of reduction was, however, coupled to inflation.

The government had also been correct that the dollar price of gold would remain low, but had been completely off the mark about the exchange rate as there had been no possible means of expecting the setbacks the rand had suffered.

The Minister warned that the government was not prepared to give a day-by-day account of its repayment negotiations during the declared 120-day moratorium.

"We will deal with the matter responsibly and not give a cricket score account of whom and when we are going to repay next," said Mr du Plessis.

September 13 1985

Many welfare offices close in recession crisis

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STAR 13/9/85

By Susan Pleming

Welfare offices in several cities are being forced to close as the recession bites deeply into funds and chokes the flow of public donations.

In addition, Government subsidies are inadequate.

Some societies are digging deeper into their reserve funds to pay mounting debts, while others have resorted to taking large overdrafts to survive.

Company mergers and the inability of donors to increase their contributions to keep pace with the high inflation rate has worsened the situation.

SEVEN AGENCIES

The National Council for the Deaf is to retrench its entire social staff in December, leaving about 2 400 deaf people with no social work service.

Six of the council's seven agencies will be closed. Only the Johannesburg agency will stay open to co-ordinate organisations for the deaf countrywide.

The National Council for Child and Family Welfare has been hard hit by the recession. It has to find R800 000 to meet its budget this year.

One of the largest child welfare societies has also had to take out a massive overdraft to cover expenditure, while a smaller society in a rural area will have to close in March because of a lack of funds.

The manager for fund-raising and public relations at the Child Welfare Council, Mrs Joan Oberholzer, said it was ironic that welfare organisations were suffering from grave financial difficulties when these organisations were most needed.

Welfare agencies, most of which were understaffed, could not afford to employ more staff to deal with increasing caseloads. Since March, the Government had frozen posts in the welfare agencies, she said.

"We need more social workers desperately, but because of the recession and the Government's decision to freeze new posts, it is impossible for us to expand," she said.

The South African National Council for Mental Health has also suffered. The director of the council, Mr Lage Vitus, said the Witwatersrand branch had been forced to retrench social workers.

He said that if the Mental Health offices in Bloemfontein, Potchefstroom and Klerksdorp did not receive help within three months, they would have to close.

Mr Vitus said he had written to various Government Ministers asking them for financial help, but had received no response.

The number of bequests received by welfare organisations has also dropped. The acting director of the National Council for Care of the Cripples in South Africa, Mr Christopher Nunan, said bequests had accounted for a fairly large portion of donations.

"In the past year we have received none."

The director of the Johannesburg Association for the Aged, Mr Laurie Starfield, said as South Africa was not a welfare state, organistions had to be careful how they used their funds.

"We are just keeping our heads above water, but the next six months will be critical."

The national director of the Family and Marriage Society of South Africa, Mrs Annette van Rensburg, said three offices had been closed.

Recession puts brakes on car makers

49 STAR 13/9/85

By Andrew Beattie

The news that Alfa Romeo is to pull out of South Africa has highlighted the effect the recession is having on the car industry.

Manufacturers have all either had to cut production by shortening their working week or by closing down their plants for limited periods in an effort to combat declining sales.

Retrenchments have also become common.

Virtually all manufacturers have admitted they have been having difficulties with the recession, and there have been strong indications of price rises of as much as 30 percent later this year.

According to industry sources there were 268 751 new car sales last year. Projected sales for 1985 are 230 000.

Last year 117 271 light commercial vehicles were sold — this year manufacturers hope to sell 105 000. 19 784 trucks and buses were sold in 1984, compared with this year's estimated 17 000 sales.

Ford, now controlled by the South African Motor Corporation (Samcor) had to close its plant for three weeks over Easter but is still working a five-day week. At that stage no workers were laid off, although 350 were retrenched last year.

Alfa Romeo managing director Dr Gianni Marinelli said in a statement that his company's decision to withdraw from South Africa had been "wholly financial". Losses over the last three years ran to millions of rands, he said.

CUT PRICES

Winding-down operations would be undertaken over the next three months, although spare parts and back-up services for Alfa Romeo would be maintained for at least the next 10 years, according to dealers.

Alfa Romeo was working a four-day week at the time of the announcement to withdraw from South Africa and there had been temporary shutdowns during the year. According to spokesman Mr Eon de Vos, Alfa was working at one-third productive capacity.

However, the company had for the past three months been running an extensive anniversary campaign and had to keep up with demands from dealers and clear stocks at cut prices, said Mr de Vos.

About 500 workers will be affected by the closure. Efforts are being made to find them jobs.

BMW has been working a four-day week since September last year, although no workers have been retrenched this year.

It has been announced the company's Rosslyn plant in Pretoria will shortly be closed for five weeks because of a buildup of stocks. About 1 500 workers will be affected. The workers will be re-employed after the shutdown, but retrenchments have not been ruled out.

Nissan has also cut production to a four-day week and has closed for one week every month since February. 550 workers were retrenched in December.

Nissan's managing director, Mr J Newbury, said no further restrictions on production were considered necessary and no further retrenchments were envisaged.

Toyota has taken 10 days out of its pay bill so far this year and closed for two weeks in May.

RETRENCHMENTS

General Motors (GM) managing director Mr Bob White said recently: "None of us (the manufacturers) anticipated the depth of the drop off in sales, and as a consequence, we have a rather horrendous inventory situation, all the way from raw materials through finished products, that I don't see coming right for another six or eight months in the industry."

GM spokesman Mr Peter Sullivan said last week that 340 workers had been retrenched: 280 hourly-paid workers were released last week and 60 salaried workers would retire early at the year-end.

The National Automobile and Allied Workers' Union (Naawu) has tabled four basic demands throughout various negotiations with manufacturers during the year: a minumum hourly wage of R3,50; a 40-hour week; a retrenchment procedure which provides a month's pay for each year of service; paid maternity leave.

Naawu is the largest union in the industry with an estimated 20 000 workers and is the main union at eight out of nine manufacturing plants — the exception is Nissan, where it has about 20 percent membership of the workforce — according to Transvaal regional secretary Mr Charles Nthite.

None of Naawu's demands have been fully met and employers view them as "unrealistic" in light of recent setbacks in the industry, said Mr N...

SA's in an economic mess, says bank chief

Weekend Post Reporter

SOUTH AFRICA is in an economic and financial mess, with whites divided about solutions and blacks increasingly believing in violence and disinvestment.

This was said last night by Dr Chris van Wyk, managing director of Trust Bank, who spoke at the annual dinner of the Port Elizabeth Afrikaanse Sakekamer.

He said the biggest challenge facing Afrikaans businessmen at present was helping to find a solution to South Africa's problems and to be a part of that solution.

Dr Van Wyk said socio-political stability was vital for businessmen and they would have to work hard at it.

For politicians economic viability and a strong business sector were important, otherwise no political "scheme" would succeed.

He said whites were faced with the challenge of perpetuating and ensuring their existence on the sub-continent through inspired, but also magnanimous and benevolent leadership.

It was time Afrikaans businessmen became more involved, prepared their children for the future by not letting them live under the delusion that they were a chosen white people with money and luxuries to spare, and convinced blacks of the benefits of capitalism.

"Are we involved in the dialogue and negotiations with the leaders of the different communities, or do we still live in our own world and then become surprised and shocked about the misunderstandings, unrest and violence?"

Economic revival will bring big rent increases

By Frank Jeans

While the office oversupply situation will persist for about another 18 months, the eventual economic revival must force the businessman to expand, with the result that rent increases will be sharp.

Mr Nick Hill, commercial leasing manager of Landmark Real Estate, believes prime Johannesburg CBD office space, at present commanding rents of R13 a sq m, could go as high as R20 to R27 a sq m by 1987.

"The local businessman has geared himself up to economic recovery and cannot afford not to expand himself and his share of the market, despite the fact that certain multi-nationals with South African interests may have put brakes on their own expansion," he says.

Johannesburg's vacancy factor, Landmark believes, is far from critical compared with some American cities, even allowing for their greater population densities.

While Johannesburg's estimated surplus for next year is about 5,5 percent, the figure in San Francisco is currently 24 percent. Dallas is 21 percent, Los Angeles 14 percent and Boston 12 percent.

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Nat Mutual drive

In the past nine months, Cape-based life assurer National Mutual has pushed up the value of its property portfolio by a further R23 million

"Property will never be as cheap as it is now," says NM property manager, Mr David Martin.

Recent investments include the headquarters for Sky Couriers at DF Malan Airport and the 500-car Parkade in Commissioner Street, Johannesburg.

"We are now at the bottom of the cost cycle and we will never again have the opportunities that exist now," says Mr Martin.

"When the upswing comes and the oversupply in office, commercial and industrial property is taken up, we are going to see a round of the most horrendous increases in construction costs."

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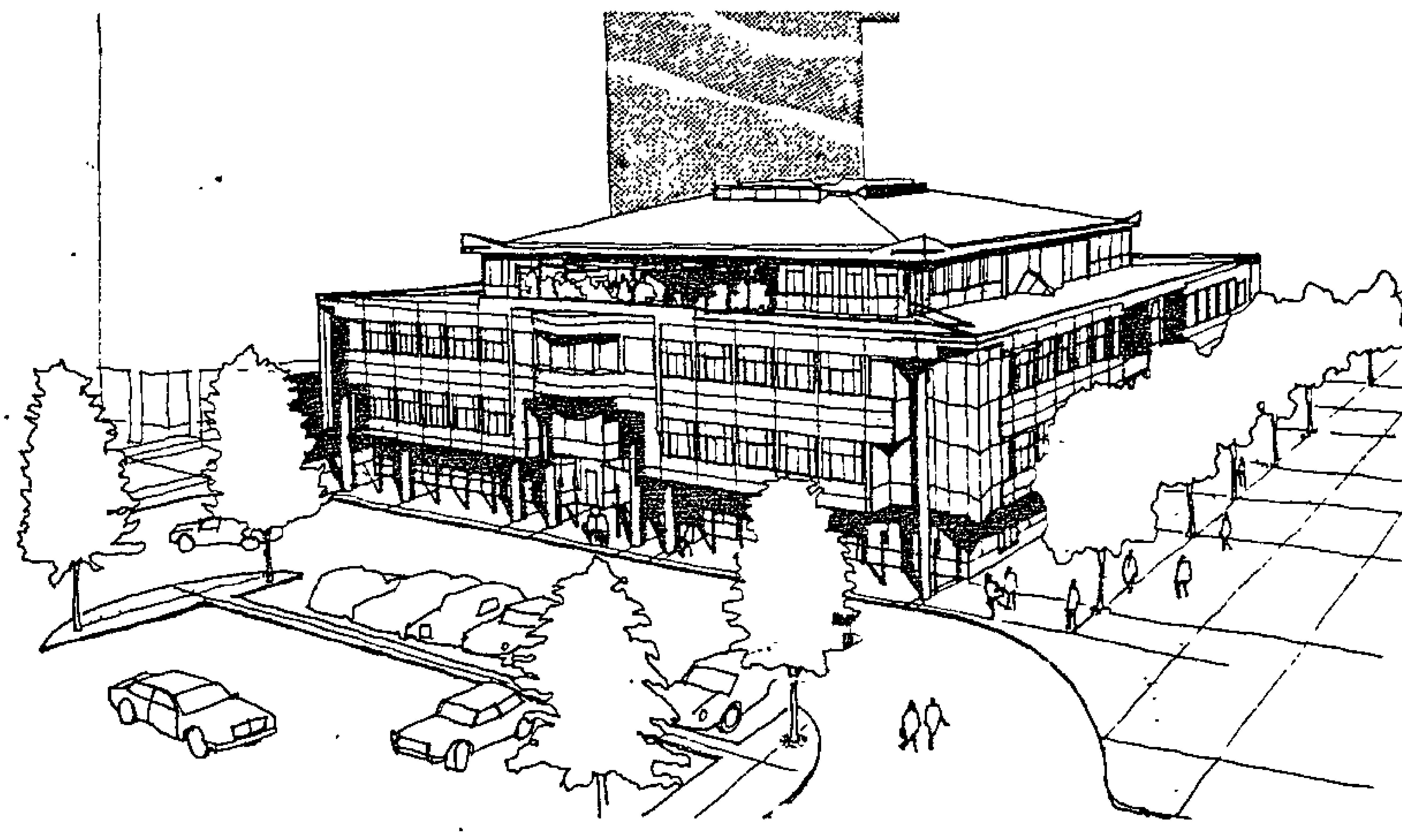
Grand Central

17/9/85

Three stands in Grand Central Commercial Park township at Midrand have been sold to Gold Fields Property Company for R750 000, bringing to more than R2,5 million the value of sites taken up in the township in the past six months.

STAR

"Grand Central Commercial Park is an ideally-placed township to serve the growing number of new industries being established along the Ben Schoeman highway," says Mr Harold Kimmel, of the industrial division of JH Isaacs, who handled the latest sale.



An artist's impression of the proposed R7,8 million headquarters for consulting engineers Liebenberg and Stander on Cape Town's foreshore which is being financed by National Mutual.

First signs of Third World debt backlash

(49) STAR 17/9/85

In two recent articles Dr Roger Gidlow argued that the South African debt standstill could alter the course of the Third World debt crisis and rebound on the international banking community.

He pointed out that if a country as financially strong as South Africa and one that has met all the stringent International Monetary Fund (IMF) monetary and fiscal requirements is forced to adopt a debt standstill, how could the IMF possibly hope to coerce African and South American debtor nations to buckle down to austerity measures.

The first warning supporting Dr Gidlow's arguments came yesterday from Mr Alistair McIntyre, deputy secretary general and officer in charge of the United Nations Conference on Trade and Development (Unctad).

The Financial Times re-
orting out of Geneva said Mr
cIntyre said many indebted
eveloping countries have
ached the limits of austerity
fter cutting imports to the
one and reducing living stan-
ards, in order to generate trade
rpluses.

The simultaneous decline in
ank lending to them and high
terest rates made it doubtful
hether they could sustain the
resent large transfer of re-
ources needed to service their
ebts.

Valid reasons

he newspaper said it was no
oincidence that this warning
as come just before the start of
e annual meeting of the IM-
und in Seoul, South Korea next
onth.

It was yet another shot at the
rogrammes prescribed for
ebtor countries by the IMF and
incided with the publication of
report by the Inter-American
evelopment Bank, which de-
ared that Latin American
ebtor countries had "valid rea-
ns" for resisting the policies of
e IMF.

Mr McIntyre called for "a thorough re-examination of the situation and of the policies, measures and actions necessary to deal with it".

As long as the present situation prevailed, the health of the international banking system would be at risk, he said.

He was speaking at the start of a two-week meeting of Unctad's trade and development board which will discuss the annual report of the Unctad secretariat.

The report, published earlier this month, concluded that debtor countries' efforts to generate large trade surpluses were frustrating hopes of economic development in the Third World.

It calculated that debtor countries would continue to face serious difficulties even if net bank lending to them grew at an annual rate of six percent.

In fact, Mr McIntyre pointed out, net lending by commercial banks from countries belonging to the Organisation for Economic Cooperation and Development (OECD) declined by $2,4 billion in the first quarter of this year.

Debt service

Indebted developing countries had managed to cut their collective current account deficit from $120 billion in 1981 to $35 billion last year but it was doubtful whether they could sustain such a draconian shift in resources.

The debt service of countries in sub-Saharan Africa, Unctad estimates, will practically double from $5,7 billion in 1983 to $11,1 billion this year.

In some Latin American countres the net transfer of resources amounts to five percent of gross national product or more.

Mr MacIntyre said any action taken would have to include a lengthening of debt maturities and a softening of the interest rates faced by Third World debtor countries.

The financial cost would have to be borne "on some agreed basis" by the international community.

Governments and international agencies should increase their financial flows to the developing countries, reschedule debt in multi-year packages and cancel some debts outright.

Careful study

Countries with a large share of commercial bank lending should consider establishing an international facility to subsidise interest rates.

It could be akin to the IMF's compensatory financing facility but with different repayment obligations.

Another idea which warranted careful study, Mr MacIntyre said, was the establishment of a direct link between debt service and export earnings.

He underscored the importance of holding back pressures for trade protection in the industrialised countries.

Discussions over the next few months on arrangements to replace the multi-fibre arrangement (MFA), which controls world trade in textiles and clothing, would be a test case of the preparedness of the international community to strengthen the open trading system and to reverse the tendencies which now deprived the developing countries of its full benefits, Mr McIntyre said.

Lower K-rand sales force SA to sell every ounce of bullion

49 STAR 18/9/85

By Trevor Walker

The South African Reserve Bank has been forced to increase its sales of gold on the international bullion markets because of a substantial fall in Krugerrand sales this year, banking sources said.

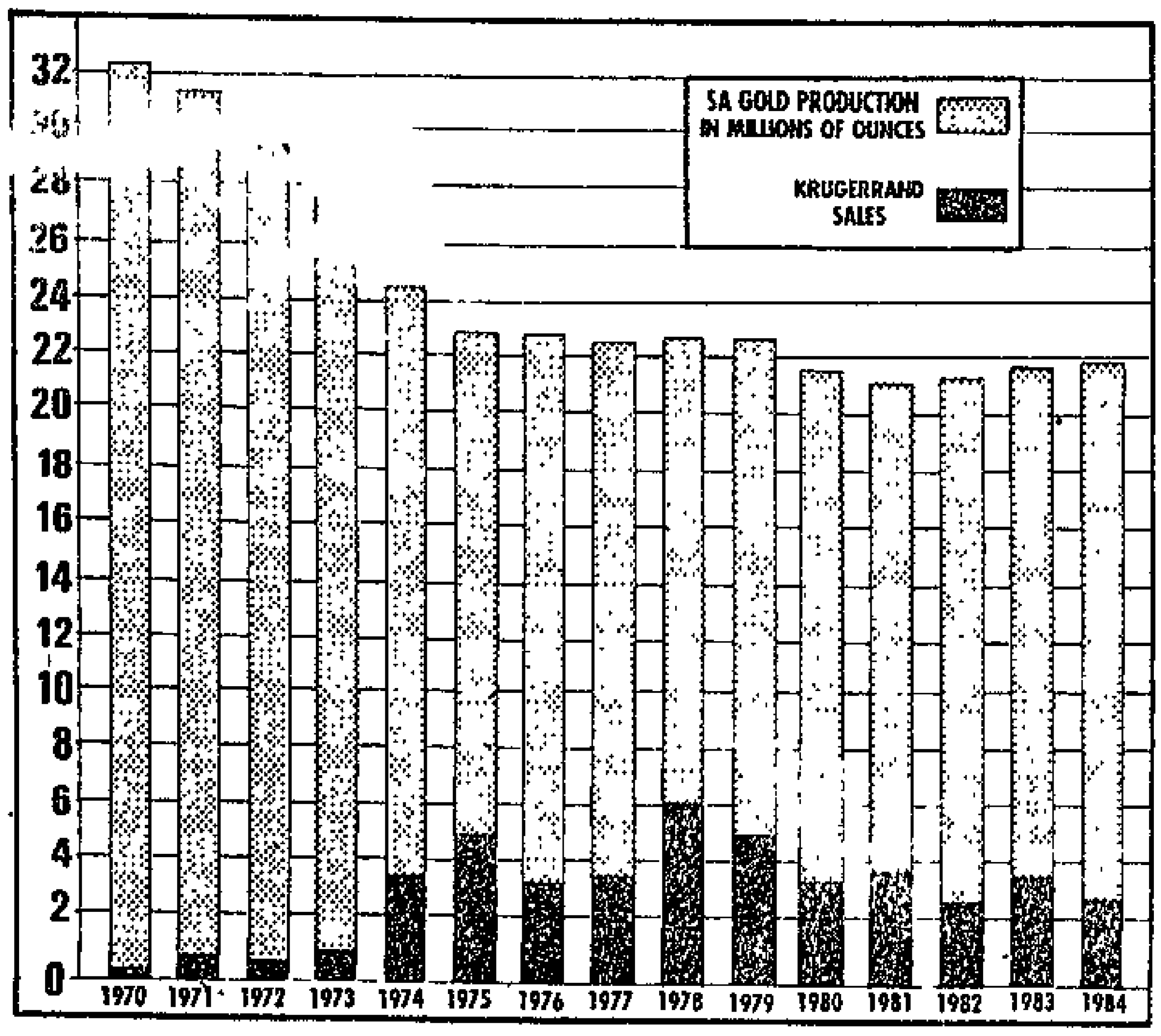
Because of the bank's massive need to acquire dollars over the next four months it will be necessary to sell every ounce of gold coming into its vaults.

The increase in South African sales is seen as yet another reason why the gold price has been unable to break substantially away from around the $320 level.

Lower oil prices and the prospect of even lower prices in the months ahead, coupled with the strong dollar are the other main factors holding the gold price down.

Industrial demand has picked up this year and according to market analysts this demand has for all practical purposes placed a floor price of around $300 an ounce on the price of gold.

Banking sources in Hong Kong said today a major sales drive of the Canadian Maple leaf gold coin launched two weeks ago had hit Krugerrand sales hard.



They commented that if Hong Kong, one of the most apolitical market places in the world, was swinging to the Maple Leaf because it was not made in South Africa, then sales of Krugerrands in Japan and other Far East markets could be expected to suffer even more.

A spokesman for Intergold in Johannesburg said sales of Krugerrands had fallen substantially and until the highly liquid situation in the market place ended, Intergold would persist in not publishing monthly sales figures.

Sales figures were last issued at the end of May when it was announced sales for the first five months had totalled 685 228 coins.

Analysts said substantial numbers of Krugerrands held by Americans were being sold and offered in Europe.

The Krugerrand was introduced to give the gold mining industry some control over the sale of its product; prior to that the South African Reserve Bank had been responsible for selling the Republic's entire output of gold.

Sales of Krugerrands overseas commenced late in 1970 and by 1974 had risen to account for 13 percent of total gold output. Sales peaked in 1978 at 6,01 million ounces or some 26 percent of total gold output that year.

The highest monthly sales were reached in November 1978 when 921 396 coins were sold, or some 48 percent of that month's gold output of 1 894 924 ounces.

However, in 1985 the Krugerrand market has weakened markedly and it is highly unlikely that sales will reach anywhere near 10 percent of total production.

South African gold production in the nine months to August fell to 14,43 million ounces from 14,57 milion ounces in the corresponding year-ago period.

19/9/85

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W. Mail

White capitalism and black rage

Young blacks who arrive at ANC recruiting centres ask to join not the ANC, but the Communist Party. In the townships, the youth equate capitalism with apartheid. On the morning of the big-business meeting with the ANC, PATRICK LAURENCE assesses capitalism's uncertain future

THE survival of capitalism is at stake in South Africa as the rebellion against apartheid intensifies.

South Africa's major extra-parliamentary opposition movements bristle with anti-capitalist sentiment. There is no doubt that there is growing hostility towards capitalism among black youth. The reason is simple: capitalism is seen as the driving force behind apartheid.

The threatened mass dismissal of striking black miners by mining corporations last week has reinforced the perception of capitalism and apartheid working in tandem against black interests.

Recent criticisms of President P W Botha by big business as the value of the rand plummeted — it dropped as low as 34,80 US cents before emergency measures — have done little to modify the hostility.

They are seen as an attempt to chide Botha for bad management and to salvage capitalism by belatedly dissociating it from the cruder aspects of aspects of apartheid.

Father Smangaliso Mkhatshwa, a patron of the United Democratic Front, said of these recent criticisms of Botha by big business: "They are trying to boost their own interests. They want to create a climate conducive to healthy profit-making. They are not really against apartheid. But they realise that the township unrest is against their interests."

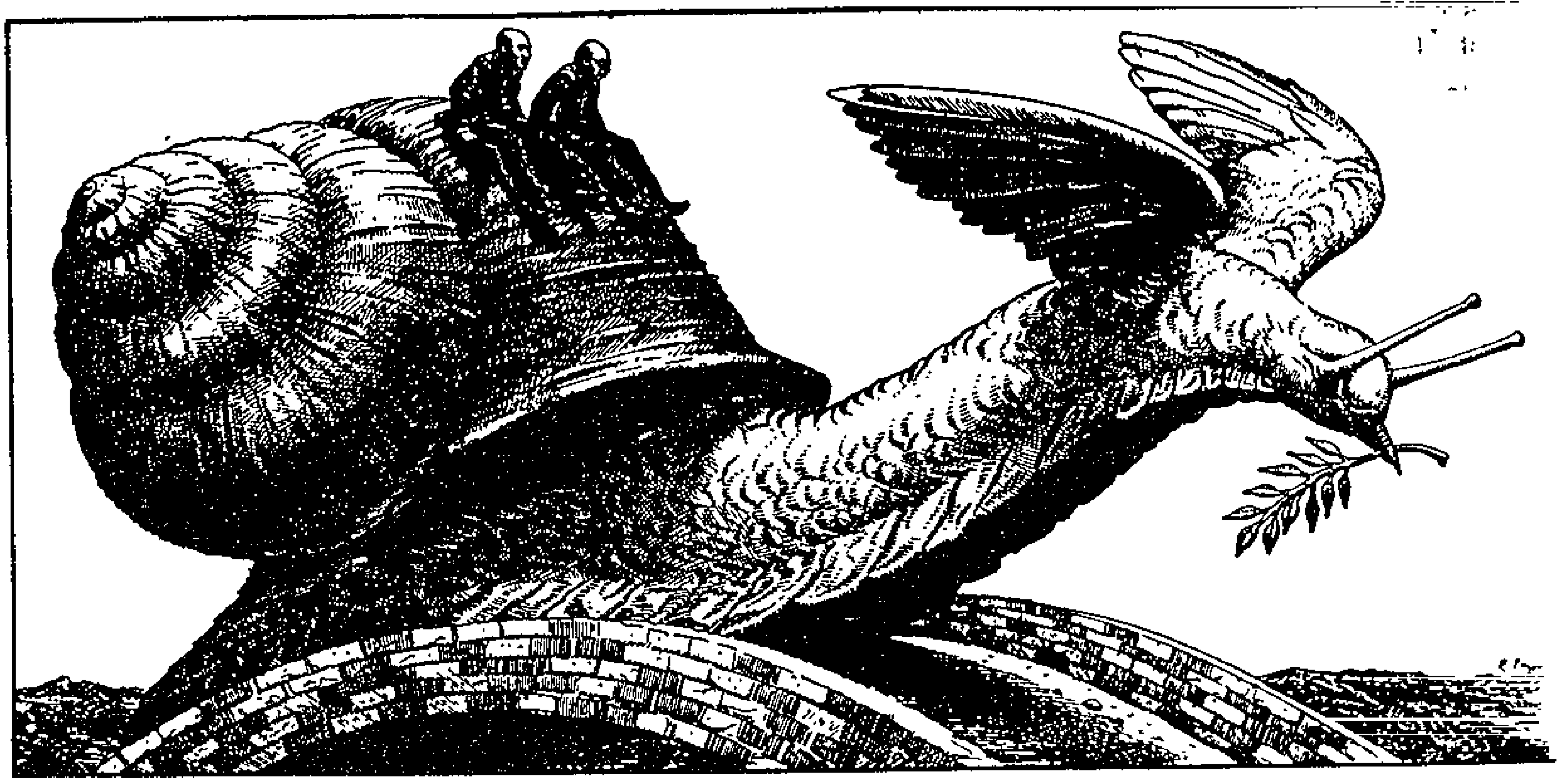
George Wauchope, vice president of the Azanian People's Organisation, said: "Big business feel its interests are threatened. They want Botha to undertake a few palliative measures to hoodwink the outside world. They still want to maintain capitalism within the framework of apartheid, which provides them with cheap labour."

The Manifesto of the Azanian People, which was adopted by the pro-black consciousness National Forum, an umbrella organisation with 200 affiliates, reflects these feelings. "Our struggle for national liberation is directed against the system of racial capitalism which holds the people of Azania (South Africa) in bondage for the benefit of the small minority of white capitalists and their allies," the manifesto declares.

The United Democratic Front (UDF), which has largely pushed the National Forum to the sidelines, is loosely described as "Charterist." The label reflects the allegiance of many of its more than 600 affiliates to the Freedom Charter, which asserts: "The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole."

The exiled African National Congress shares commitment to the Freedom Charter with UDF affiliates. At the ANC's recent consultative conference in Kabwe, Zambia, a leading South African communist, Joe Slovo, was elected to the national executive. Slovo, Chief of Staff of Umkhonto we Sizwe, the ANC's fighting arm, helped to draft the Freedom Charter.

As Dr Tom Lodge, of the University of the Witwatersrand, has observed of black political thinking: "There has developed a profound and widespread antipathy to capitalism ... It is evident in the anti-capitalist polemic of virtually every black trade union spokesman (and) in the ▲



On the road to Lusaka ... slow beginnings to a peace?

ANC will play it tough

By HOWARD BARRELL, Harare

THE African National Congress is likely to place the ball firmly in South African business leaders' court when the two sides meet for talks in Lusaka today.

The business leaders will be asked to explain what prompted their request for the meeting and what they expect from the ANC.

The ANC believes that its economic policies and its desire for a non-racial democracy in a unitary country are publicly available in numerous documents, so that businessmen have no sound reason to plead ignorance on these counts.

ANC President Oliver Tambo will lead the delegation which is likely to be comprised of several other members of the national executive committee.

The ANC has been at pains in previous comments on the talks to specify the meeting will in no sense constitute negotiations. Instead, it will be only an "exchange of views".

The ANC views the meeting as a sign of relatively serious tensions developing in the white bloc, with advanced sections of big business beginning to consider fairly radical political options as possibly the best means to attempt to safeguard businesss interests.

Over the past year in particular, there have been signs that the ANC is hostile to some sections of the business community.

The offices of Anglo American and Anglovaal were bombed earlier this year, following the sacking of several thousand black miners.

In this connection, the ANC is likely to want an explanation as to why the Chamber of Mines split several ways in wage bargaining with the National Union of Mineworkers.

From the perspective of the ANC, the Chamber split had the effect of neutralising and demobilising a large proportion of miners who were trying for a better set of working conditions

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SA ECONOMY

Growth without foreign credit

The labours of Mr Micawber to live within his means hardly bear comparison with the economic options facing SA. He didn't have political problems.

Politically and financially, SA has been sent to Coventry. It must seek to grow and prosper from a self-imposed quarantine. Having declared a unilateral debt standstill it must seek to reschedule its obligations in such a way that will allow fresh credit and investment into the country. That is the crucial part.

It may well be easy enough to reschedule the country's $24 billion debt — $14 billion of it falling due this year.

It now seems certain that Fritz Leutwiler, former president of the Swiss National Bank and the Bank for International Settlements, will mediate between SA and US, British, West German and Swiss banks. A tougher, more fair-minded man could hardly be hoped for. As one Swiss bank spokesman put it "Leutwiler would let the banks (especially the Americans) off the hook of being seen to be negotiating directly with the South African authorities."

But the hardest part of his job may well be to reconcile the demands of the creditor banks with SA's need to keep fresh credit flowing in an attempt to drag the economy out of recession, create work and restore political stability.

Without it, SA would be nailed to the cross of having to maintain a balance of payments surplus for the foreseeable future in order to pay its dues. But that would only be achieved at the cost of high inflation, high interest rates and little growth.

On purely economic terms, the London *Financial Times* pointed out this week, most bankers accept that SA is a solid risk. It projects a current-account BoP surplus of $2 billion this year and interest payments take up a mere 6% of exports — which is tiny compared with most Latin American countries.

The only real problem in SA's case is the congestion of short-term debt maturities — a legacy of the 25% prime rate

The terrible paradox facing SA is that it has to grow to restore political stability. But can a country in financial quarantine attract foreign credit?

which sent banks scampering for cheaper credit in foreign markets. Although SA faces a short-term squeeze — particularly in the inter-bank market where it owes $6,5 billion — total debt is medium-sized in international terms, more like Chile's.

Nonetheless, there will be king-sized headaches at home. While the monetary authorities are mobilising all resources and setting up a permanent economic secretariat to monitor the situation on a daily basis, crucial decisions on domestic economic policy still have to be made.

In an exclusive interview with the Minister of Finance, Barend du Plessis, the *FM* established that a complete and major evaluation session will take place in Pretoria this week. The monetary authorities will be deciding which economic policies need to be adjusted and changed.

While the current economic pressures are not considered pressing enough to recall Parliament and introduce an interim budget, there is likely to be a move toward giving the Minister of Finance more power — especially through the standing committee on finance — in the future.

Top priority will be given to the standstill. "We see it as imperative to handle the standstill in a way which will enhance confidence in our ability to overcome this temporary setback, and which will make a contribution toward the restoration of confidence in this country," says Du Plessis.

"We will also be dispatching people overseas in the next few days. The results of these deliberations — as to whether we can roll over loans and get new funds — will directly influence our local policy options."

It is now clear that the deliberations concerning the external debt position will be arduous and drawn-out. At one UK bank, carrying some $300m of medium-term SA debt on its books, the *FM* was told: "The whole affair was badly handled. We accept that the South Africans are strangers to rescheduling and therefore inexperienced. But by insisting on laying all the blame on politics, Dr De Kock has unfortunately focused all the attention on politics.

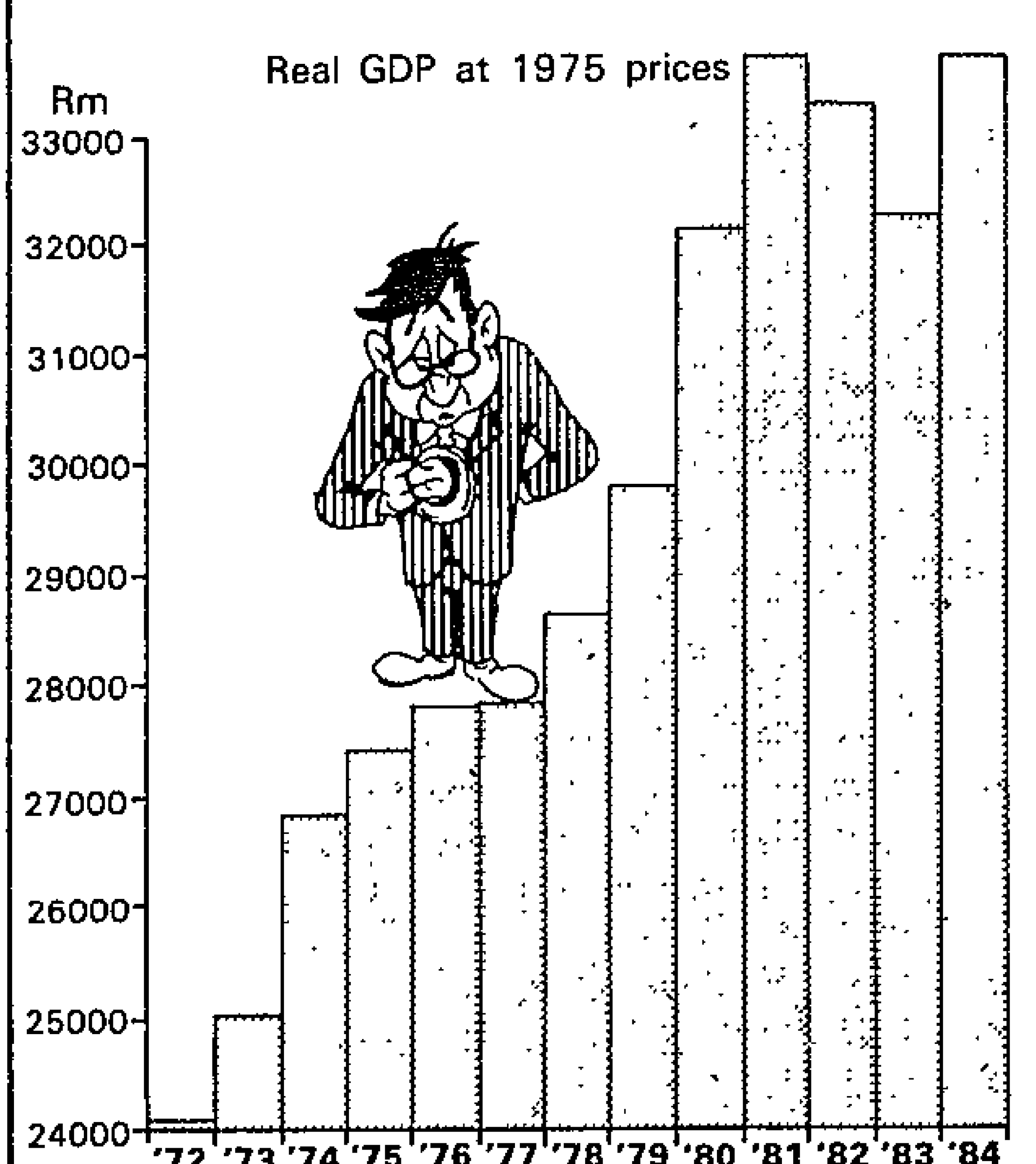
"If he had admitted to some mismanagement of SA's borrowings that would have been less worrying. As it is, Dr De Kock has left investors with the impression that 'mistaken' perceptions of the political situation have been enough to catapult SA into drastic, unprecedented action."

In Switzerland (where total net exposure to SA is nearly SwFr4 billion) the bankers' attitude is business-as-usual, but they are adopting a cautious "wait and see" in considering the question of new credits. None of the top three banks (all members of the Zurich gold pool) condemn SA for its action but, equally, none is prepared to offer to fill the gap left by the US banks.

With these variables in the air, many decisions made will, by definition, have to be

Leutwiler

POOR PROSPECTS?



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flexible. It will take more than four months to readjust the country's overall liabilities

It must be remembered that before Sharpeville in 1960, 62,4% of liabilities were in equity, and only 37,6% debt. By 1983, this position had virtually reversed, with debt accounting for 65,3%, and equity 34,7%.

Meanwhile, local economic policy will have to be dictated by the non-availability of external credit facilities, either in the form of loans or direct foreign investment.

According to an economist at one of the biggest creditor banks overseas, on unchanged economic policies and no big increase in the gold price, the effect of net capital outflows, which necessitate and consume a continued current account surplus, will be savagely deflationary.

"We estimate it could produce negative growth of between 1% and 2% annually and at least another two years of austerity and high inflation," he said.

With the awesome spectre of widespread bankruptcies and rocketing unemployment this is a particularly destabilising and, as many economists now argue, untenable situation. Internal growth is becoming crucial. It must dissipate internal dissent by alleviating unemployment and, ironically, attract foreign investment.

And this is the crunch. Even in the event of a successfully negotiated rescheduling of the debt from January 1, prospects for healthy and sustained domestic economic growth are grim.

Currently the most popular option being mooted by various economists is the "Nigerian route." This would involve a concerted export drive, and the imposition of import controls on everything but investment essentials. Growth could then be achieved without the normal grind of working through to a trade deficit.

But it's not all beer and skittles. The notion of an export-led recovery on the back of a weak rand is exaggerated. The huge turnaround in the current account from a R1 041m deficit in 1984 to the anticipated R5 billion surplus this year is in no small part due to the drop in imports. The 42% rise in value for the year to July is largely a result of the exchange rate.

Export volumes are unlikely to surge ahead either. The positive increase achieved in exports of coal, ferro-chrome, iron ore and wool started from a low base.

The bulk of SA's exports come from metals and minerals. There is not much room to manoeuvre in these international markets, even with a weak rand. Furthermore, the demand for exports in the developed countries will drop as they move into recession next year.

According to Anglo American economist Aubrey Dickman, SA will probably be able to generate a surplus on the current account for the whole of 1986. "But the actual amount generated will gradually diminish over the year," he warns.

Du Plessis

The government, although not ruling out the possibility altogether, is reluctant to re-introduce physical import controls. Says Du Plessis. "We have been steering away from this as far as possible. It is very important for us not to disrupt ordinary trade on top of disrupting international financing in SA. We feel this would be upsetting the applecart altogether.

"Anyway, our analyses have shown that more than 80% of our imports are absolutely essential goods. As such, it would be impossible to impose controls on them. The moment you look at the relative portion of expendable goods, then it becomes very small. What would then be the real gain in terms of foreign exchange savings?

"You also have to weigh up whether any disturbance in that market will really be worthwhile, and to what extent you can stay out of GATT problems. It would also mean creating a whole new bureaucratic machinery to handle this."

As Standard Bank economist Andre Hamersma says: "We urgently need credit and direct foreign investment in SA. The problem is not that of domestic growth and generating internal savings. The bottom line is how are we going to pay for imports to finance growth?"

An ameliorating factor, which would halt the slide into deeper recession, is the continued lowering of interest rates. But here there is also a double bind. As borrowings are brought onshore, and the liquidity in the market tightens, there will be upward pressure on rates.

The scope for a further drop is also limited by interest rate differentials with other industrial countries. SA's real overdraft rate is only 3,5%, compared with 5,5% in the US and the UK.

Says Du Plessis: "We have declared that we will get interest rates down as far as we possibly can. But with the major injection into the inflation curve coming from the low dips the rand took recently, if we allow interest rates to be lowered much further,

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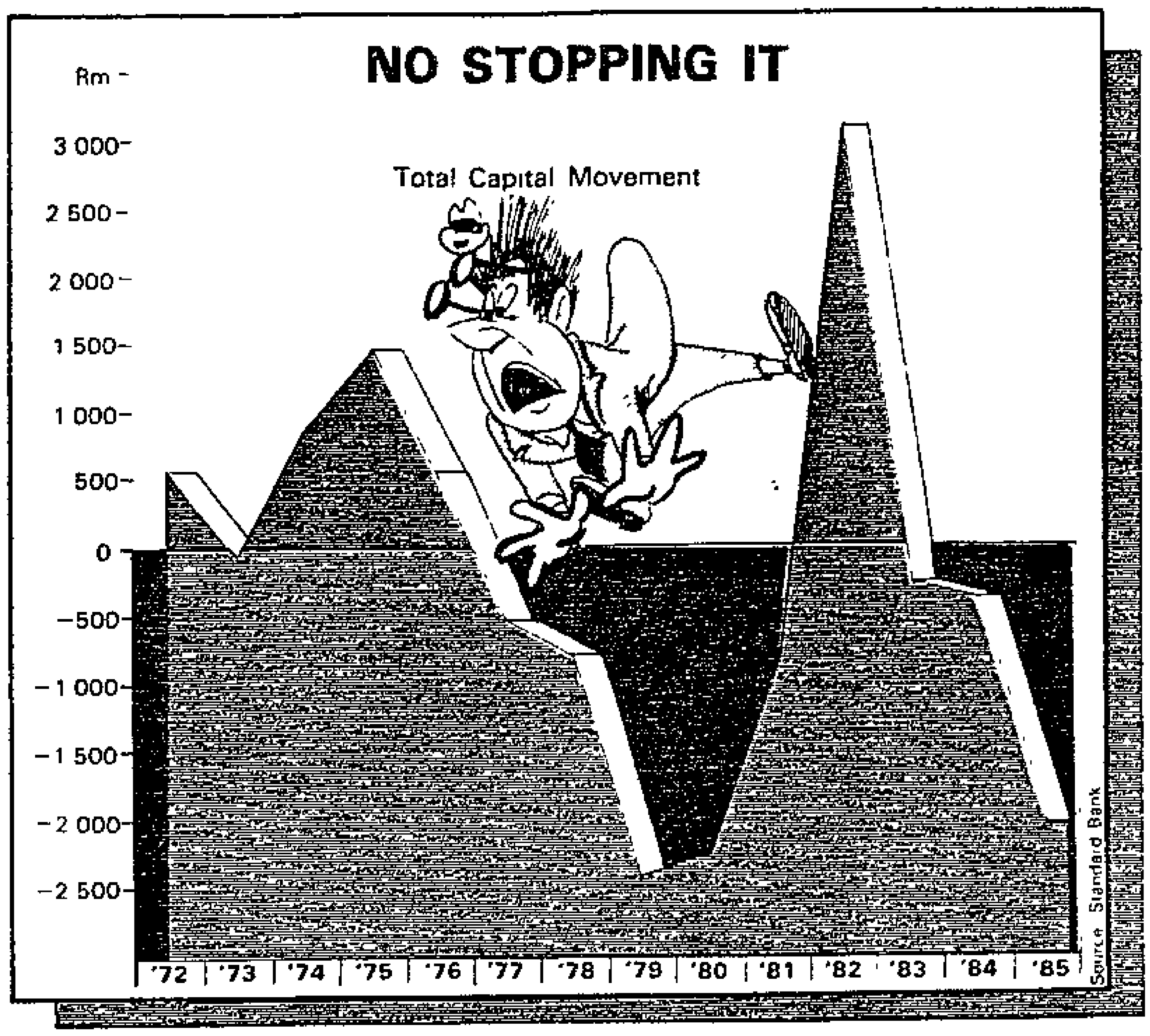


they will be below the inflation rate again. This in itself is inherently dangerous and cannot be sustained for a long time."

The inflation weasel itself is potentially the most menacing prospect of all. Only through a staunch commitment to stringent macroeconomic policies did inflation back off from a peak of 16,4% in June. The rand's subsequent lows, combined with a petrol price rise and electricity tariff increase, leaves little hope for a further inching down from July's 15,9% rate.

Any moves to stimulate the economy at present will, therefore, be off a record base rate. Says one leading banker: "Then they have to just throw inflation out of the window, and just ride with it, because it will only go one way. We are already outpricing ourselves with the inflation rate as it is, but from a political point of view, reflating the economy is probably the only thing to do."

There is also the fear that attempts to accommodate local financing needs without letting interest rates rise will lead to the creation of money.

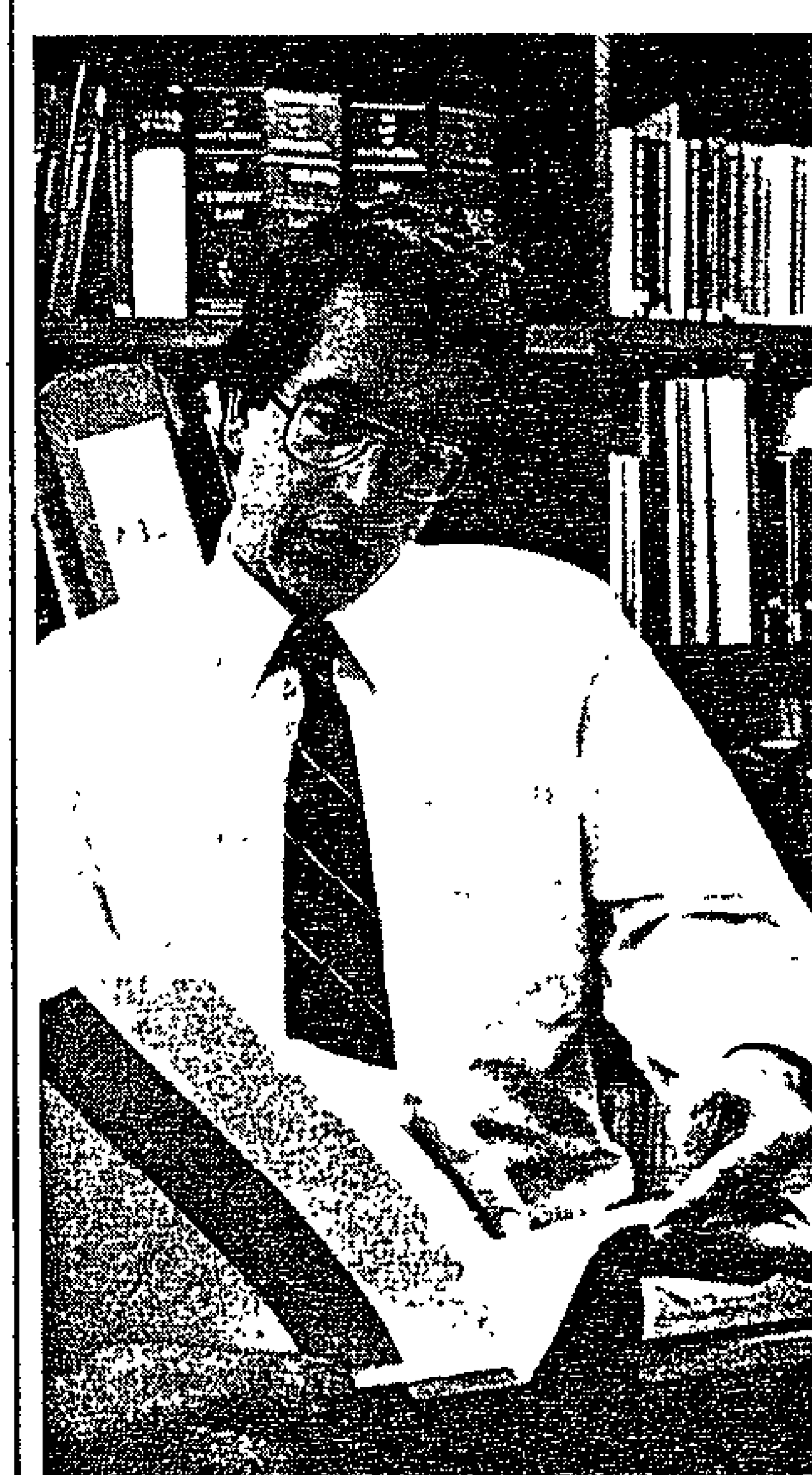
The government, however, is at pains to stress they are not about to go soft on inflation. Says Du Plessis: "We will have to be extremely careful not to let inflation start galloping. We can't afford this as a country and it is a spiral which you never get out of again. We will have to take the medicine for it, and if the implication is in the end a slower growth rate, then perhaps that is the answer."

Realities dictate, however, that decisions will have to be made sooner, rather than later. Clearly, not all variables can be favourably accommodated, and the government will have no option but to let something slide.

An obvious priority is to keep government expenditure in check. The prospects for these figures being held on target, however, are slim. For the first five months of the current fiscal year, expenditure was 23% over budget, although revenue collections were equally buoyant.

The extraordinary pressures for additional government financing are unlikely to diminish. Says Du Plessis: "We have pressure in this regard from the public-debt servicing, on account of the fact that our own estimates indicated that the interest rate would come down quicker than we expected. Secondly, the bundling of our borrowing in the internal market happened right at the beginning of the fiscal year which means we carry that high burden. Thirdly, the bill for the Reserve Bank's mopping operations which they do for monetary purposes is picked up by the Treasury.

"Fourthly, there were some strategic purchases and acquisitions which also had to be done despite a low rand. Fifthly, there is pressure on police and defence force expenditure in the light of the riots, which is fairly substantial. This includes riot damage, such as police homes, schools and other official buildings that have been burnt down. We also earmarked R100m to address infrastructural problems in the rural areas.



Gouws ... sees slower growth

Thus, despite increased revenues, the government is at present reluctant to cut gst, as proposed by some economists. With the future so uncertain at present, forfeiting a substantial amount of revenue could increase SA's dependency on loans to finance running expenditure. "This would be foolhardy under the circumstances," says Du Plessis.

The generation of domestic savings also has an ironic rub Says Nedbank's Rudolf Gouws: "While in the long run, increasing our domestic savings will improve growth prospects, in the short run it means slower growth."

At present, however, there is little incentive to save, admits Du Plessis. "This we will be addressing in the next budget. As far as taxation is concerned, we've already committed ourselves to the abolition of death duties in their present form, and we must look toward relief for the higher income groups. We are going to give back into scale adjustments all the revenue we get from fringe benefits taxation."

Most worrying at present is the continued outflow of capital, despite the imposition of a standstill.

As Gouws says: "The outflows must be pretty substantial. I haven't seen any improvement in the reserves, and we are generating a monthly current-account surplus of R400m."

The leakages are virtually impossible to plug, as much of the capital exodus is legal, or related to over-invoicing which eludes scrutiny. The latest fear is that foreign companies are draining the resources of their local subsidiaries to get some of the capital out.

Dividend payments to these overseas companies have recently been stepped up, even with the currency losses involved. Coupled with diminishing prospects for trade credit, the current-account surplus is being rapidly eroded, further depressing the prospects for the repayment of debt. It leaves even less fat for financing domestic growth.

This catalogue of gloom leaves little room for manoeuvre, as the government sits down, this week, to make decisions on matters of economic policy.

However, there is probably some truth in the generalisation that, when threats to survival and prosperity loom darkest, fear predominates over hope. But, as one banker says: "Things are changing so fast, the situation might be completely different within a month. It all depends on whether we are able to reschedule our debt, which in turn depends on what political blueprint emerges from the government." ■

R900m to fight poverty slump

From WINNIE GRAHAM

PRETORIA. — A three-pronged plan to stimulate employment prospects in South Africa, assist the small-business sector and provide direct relief to the hungry was announced by the Minister of Finance, Mr Barend du Plessis, here last night.

Cape Times, 21/9/85

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The scheme will be financed by a 10 percent surcharge on all imported goods not bound in terms of the General Agreement on Trade and Tariffs (GATT).

The surcharge is expected to yield R400 million over the next six months and the cabinet has also decided to supplement this with a maximum of R500 million from the Treasury.

According to Sapa this would be used for further special employment-creation projects in addition to the R100 million provided in this year's Budget and for assistance to the small-business sector, to be channelled through the Small Business Development Corporation.

Surplus

Mr Du Plessis said the strict monetary and fiscal measures introduced by the government last year had achieved the objective of eliminating excess expenditure.

The growth in the money supplies and government spending had been set within limits and the current account of the balance of payments had turned around dramatically and now reflected a surplus of about 4 percent of the Gross Domestic Product.

"This has enabled the country to start repaying its foreign debts, especially short-term, while the net offical gold and other reserves have increased," he said.

Jobs

The time had come for the economic policy to be adjusted to bring relief in various fields.

"The creation of job opportunities is obviously the most important need," he said.

Relief of the distress caused by unemployment, inadequate income and hunger was also of great concern to the government.

The total unemployment among whites, coloured people and Asians was 65 000, a figure which had more than doubled from the past year when there were 30 000 unemployed. The figure for blacks had increased from 7.2 to 8.4 percent.

He also announced the extension of existing training and retraining programmes for blacks and said the Department

Mr Barend du Plessis

of Manpower had reported an employment success rate of 70 percent with blacks who had undergone these special programmes.

Mr Du Plessis said details of this package were being drawn up and would be announced soon.

The funds would also be used for "direct relief of hunger and distress — which is increasingly evident among all population groups as a result of the high level of unemployment".

Discount

Although the economy was not yet ready for full-scale stimulation, the government planned to reap the fruits of its monetary strategy to help those who had suffered most through the measures.

Mr Du Plessis said the Governor of the Reserve Bank, Dr Gerhard de Kock, had announced a cut of one percent in the discount rate earlier yesterday which would come into effect on Monday. This step was a further relaxation in monetary policy.

"I am looking at a possible cut in the dividend rate in those classes of building society investments enjoying partial exemption from income tax.

"Such a step will reduce the building societies' funding costs which in turn will indicate a fall in mortgage rates," he said.

Further relief measures announced by the minister included a drop in motor vehicle hire-purchase deposits and ad-valorem customs and excise duty on vehicles.

He said the Minister of Trade and Industry had decided to reduce the deposit on passenger cars from 20 to 10 percent and from 30 to 20 percent on commercial vehicles from Monday.

He said in the light of the surcharges' impact on the motor industry, it had further been decided to abolish the ad-valorem duty and the advolorem excise duty of one percent on passenger vehicles from October 1.

'Redistribution'

Among the items affected by the surcharge on imported goods are: Clothing, woollen and woven cloth, footwear with leather uppers, cigarettes, polishes, tools and equipment for indoor sports.

The 10 percent surcharge on imports would affect about 55 percent of all goods brought into the country, said Mr Du Plessis.

Responding to a question, he said the announcements last night could be seen, in a sense, as a move towards a redistribution of wealth in the country.

The PFP spokesman on Finance, Mr Harry Schwarz, said the new package was a welcome change of policy even though its contents were inadequate and came too late.

He told Sapa last night that the government's willingness to spend more money on the relief of poverty, job creation and training was overdue and added: "That the minister has now come round to support a buy South Africa campaign is good news."

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CHARITY BEGINS AT HOME

DAVID CARTE, Editor of Business Times, reports on the Finance Minister's package

WITH its economic relief package announced on Friday, the Government has put the poor and the hungry inside South Africa ahead of foreign creditors in its economic priorities.

This week's economic relief package is more than emergency aid to the starving and unemployed. It is a green light to growth and a message to international bankers that they stand behind locals in the queue for relief.

The package, which will benefit every South African, comprises:

- A surcharge of 10 percent on most imports to raise R400-million in the next six months. This, together with another R100-million from State coffers, will go to hunger and poverty relief, job-creation schemes and aid to small business.
- A further one-percentage point cut in the Reserve Bank's discount rate, which is the benchmark for overdraft and other short-term interest rates.

Hurt

- Measures to reduce building societies' cost of money and thus to reduce mortgage rates.
- Easier terms for buying cars under hire purchase. This is designed to help the motor industry, where not one manufacturer is making profits and collective losses are running at more than R1 000-million a year.

Nearly all car plants are on short time and most have laid off large numbers of workers.

For the first time in most memories, the Government will actually be handing out free food and clothing to citizens in distress.

These will be distributed through registered welfare organisations. Distressed areas such as the Eastern Cape will receive particular attention.

The Minister of Finance, Mr Barend du Plessis, made it clear that this is an ad hoc, six-month programme and not a permanent relief scheme.

"We want economic growth to eliminate distress in the long term," he said. Without the vital 10 percent of South Africa's capital needs traditionally provided by foreigners, South Africa could grow at 3,5 percent a year instead of the 5,5 percent possible with foreign capital.

"That is why we think foreign disinvestment will hurt the very people it is supposed to help."

Upgrading

About R100-million of the relief money will be added to the R100-million set aside in the last Budget for "a highly successful" job-creation programme already under way.

Relief to small business amounting to R100-million will be channelled through the Small Business Development Corporation. Large amounts will also go to training.

The R500-million is by no means the full extent of aid to the poor. The State President, Mr P W Botha, announced six weeks ago that an additional R1 000-million would be spent upgrading townships in the next five years.

Less than an hour after the rediscount rate was cut, Barclays National Bank announced that it would cut its prime rate for best customers to 18,5 percent.

Nedbank and Trust followed shortly afterwards. Other banks are expected to trim rates tomorrow.

Lower overdraft rates will bring relief to businesses right across the country and should stave off further bankruptcies and staff lay-offs.

Building societies have been prevented from cutting their mortgage rates because of the high cost of long-term funds they "bought" from depositors at high rates some months ago.

Mr du Plessis's intention to reduce rates on tax-exempt savings is a signal to building societies to trim their mortgage rates.

Building societies and banks have been tardy in bringing down their rates to borrowers. They have all been trying to build up capital and reserves with fatter profits

Mortgage rates are causing acute distress, even hunger, in some households, so the authorities are expected to push building societies to bring down rates soon.

The import surcharge will affect about 55 percent of all imports It will reduce import volumes even further and push up the surplus on the current account of the balance of payments towards R6 000-million.

Crude-oil imports will not be subject to the surcharge, so petrol prices will not be affected by this particular step.

The import surcharge will increase the prices of imported goods, but, because it will also dampen demand for these goods and importers will not easily pass on the extra cost, it should not be strongly inflationary.

Blow

Coming on top of a weakening rand that has doubled the cost of most imports, plus demands by foreign suppliers to pay cash, the surcharge is a heavy blow to importing businesses and could send some to the wall.

Some economists have expressed alarm that the Government is getting ready for growth, while the inflation rate is 16 percent and due to rise sharply because of the soft rand and inaccessibility of foreign capital (see page 1, Business Times).

But, because most companies are operating at less than capacity and consumers are not in any position to start spending wildly again, the relief measures themselves should not boost inflation much, particularly since they are being financed mainly by an import surcharge and not by debt.

Commodities

Zurich open $327,60-$328,10
Hong Kong close $330,14 (319,65)

Some imported goods to cost more

Substantial tax cuts likely in next budget

49

STAR 23/9/85

By Trevor Walker

Substantial tax cuts could be introduced in the national budget next March if the 10 percent import surcharge imposed today were extended for the whole of 1986.

Bankers said the tax burden on individuals in South Africa had reached usuary proportions and the imposition of yet another tax, that on imports, was uncalled for when not accompanied by some form of tax relief.

Following the unilateral debt moratorium, the import surcharge comes as no surprise, despite it running counter to the wishes of the International Monetary Fund and especially with the country running a massive R5 billion surplus on its current account of its balance of payments.

The import surcharge was eliminated some two years ago, following pressure from the IMF and bankers said today it was highly likely the government would extend it next year to allow it to continue its profligate ways and at the same time enable it to introduce tax cuts.

The rise in GST by two points to 12 percent this year will bring in a further R1,2 billion, and meant this most wide ranging of all taxes was now netting R8,3 billion every year for the government to play with.

A wide range of imported goods will become dearer as a result of the decision to reintroduce an import surcharge.

While the 10 percent surcharge imposed from today affected only those goods not included in the General Agreement on Tariff and Trade (Gatt), it nevertheless would hit imported components of most locally manufactured or assembled goods.

Motor cars, electrical goods, fridges will be hit to some extent, while clothing, textile and footwear items will carry the full 10 percent duty.

Cigarettes, tobacco, furniture polish and creams, plastic bottles, plastic coated electrical wire, hand tools and a wide range of steel, copper and aluminium items will also have to pay the full 10 percent on import.

The new tariff will only affect between 45 and 50 percent of the country's total import bill of R20 billion.

Treasury sources said the estimate of R400 million that the exchequer expected to net over the next six months was fairly wide.

The GATT structure is based largely on a tariff structure agreed to internationally and covers such diverse interests as live horses, anchovies, cheese, hog sausage casings and duck down.

Recession hits job mobility, says professor

Education Reporter

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There is a loss of career mobility during recession periods, according to Professor Ronel Erwee of the University of Pretoria's Graduate School of Management.

She was speaking to members of the Associated Scientific and Technical Societies of South Africa in Johannesburg yesterday.

Professor Erwee said people were reluctant to move during tough economic times because they feared they might not find another job.

Many people would be forced to take up new positions within their own company and Professor Erwee said these moves were often very stressful.

"Moving from one area to another may be extremely stressful for a person — even a minor move may be disturbing," she said.

STAR

This stress was often carried over into the person's home life.

"The person could be under so much pressure that he may experience problems with his wife and they could drift apart," she said.

25/9/85

Professor Erwee described these moves as "career crossroads" and said that companies should properly prepare their employees for any career shifts.

"There must be better job succession and personnel planning. The person's potential must be evaluated properly," she stressed.

Professor Erwee recommended that companies send their employees on courses which could train them to cope with any new demands.

Forex market desperate for Reserve Bank direction

STAR 49 25/9/85

Rand once again fails to reflect fall in dollar

By Trevor Walker

The South African foreign exchange market is grinding itself into an impasse because of a complete lack of direction from the Reserve Bank, banking sources said.

Yesterday the rand traded around 39 US cents, failing totally to reflect either the current performance of the dollar or bullion in the international market places.

Dealers said since the closure of the market because of the lack of dollars to meet the massive outflow demand, dealings had never returned to any semblance of what went before.

Local dealings begin these days around 0900 hours, yet it is possible to pick up London rand dollar quotes on the news agency TV screens well before this, despite the fact that the local market is one hour ahead of the London market.

The Reserve Bank generally posts a quote around 0900 hours and until this occurs the local market sits on its hands.

The time has surely come for further talks between the commercial banks and the central bank as to how the foreign exchange market should be run.

Yesterday the dollar, bouyed by favourable news about the US economy, firmed after the big decline on Monday that cut nearly five percent from its value.

Reuter says as the drama faded from the past weekend's meeting of the Big Five finance ministers at which they agreed to pressure the dollar's value down, currency dealers acted to recoup some of the currency's losses.

By the end of the day, the dollar had gained 2,5 pfennigs against the West German mark and closed at 2,7130, up from 2,6885 Monday.

Sterling was down almost two cents to 1,4308 dollars from Monday's close of 1,4490.

The dollar's performance came despite efforts abroad to put more US dollars in circulation and so lower their value.

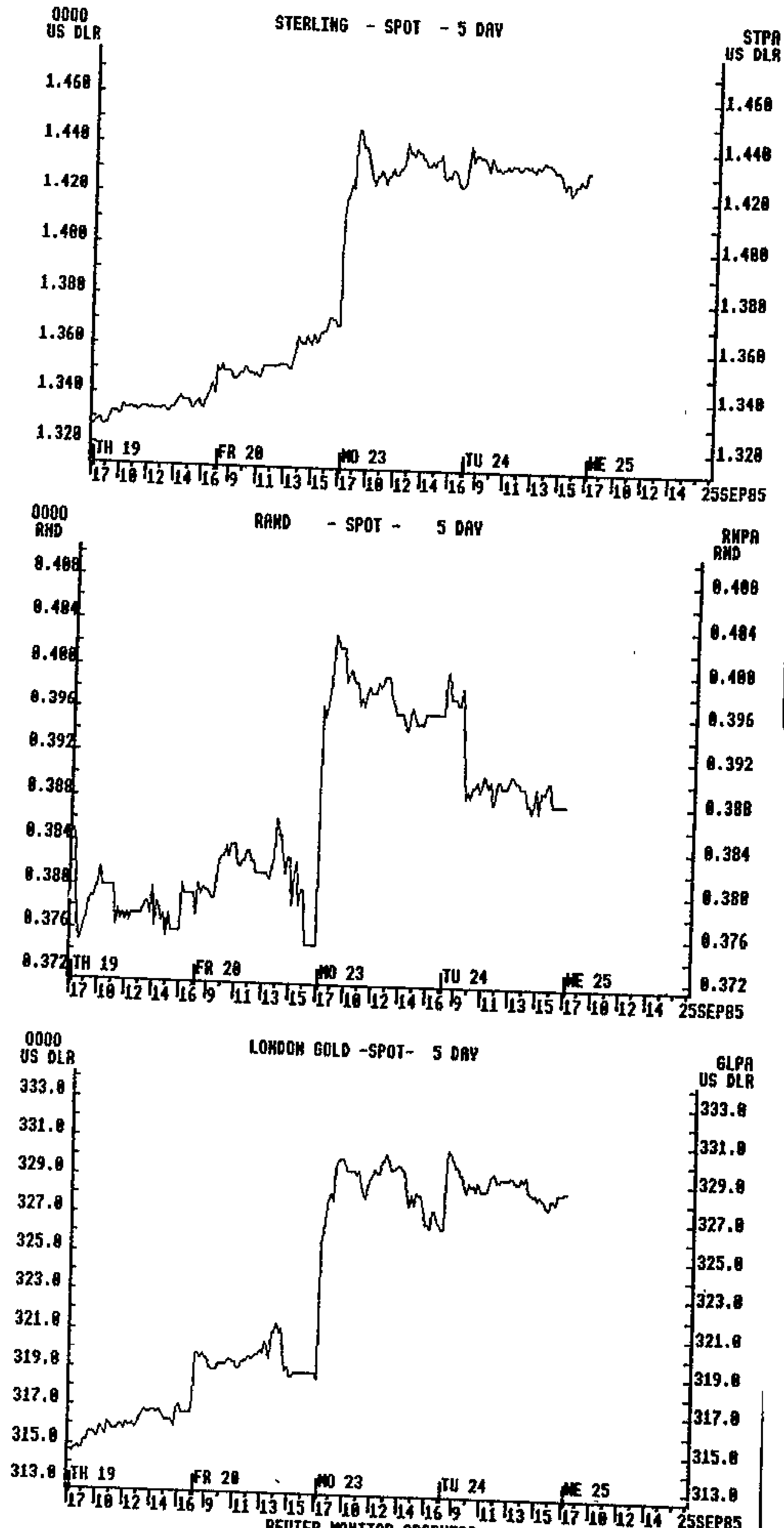
The West German Bundesbank sold \$46,6 million during the morning and the Bank of Japan was estimated to have sold \$1,5 billion to \$2 billion.

"But the intervention could not bring the dollar down because of commercial demand and the inherent strength of the dollar," one dealer commented.

The piquancy of South Africa's trading fundamentals was clearly demonstrated yesterday by the announcement from the Department of Statistics that the inflation rate had shot back above 16 percent.

Then later in the day the US Labour Department said US consumer prices had risen by 0,2 percent in August, the fourth consecutive monthly increase of that size, indicating that inflation remained well under control.

The US consumer price index has been rising at an annual rate of 3,3 percent for the first eight months of the year, compared with a four percent rate for all of 1984.



Bond rates cut — and further drop expected

Following the decision yesterday by the Minister of Finance to drop the share rate, the Natal Building Society today cut bond rates — and further decreases can be expected soon.

The mortgage rate cuts are:

- Up to R20 000, from 19 to 18,75 percent.
- R20 000 to R40 000, from 19,5 to 19 percent.
- R40 000 to R60 000, from 20 to 19 percent.
- Over R60 000, from 21,5 to 20 percent.

STAR

26/9/85

These cuts are with immediate effect on new loans and from December 1 on existing loans.

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Mr Brian Short, NBS general manager, says: "The Minister's agreement to a drop in the share rate means the society can confirm further reductions in bond rates can be expected within a couple of months."

There is no change in the 10,5 percent tax-free share rate, but paid-up shares drop from 16 to 14,5 percent and fixed period shares from 15,5 to 15 percent.

"This is a reversal of the system that has been operating to a more logical pattern, in that the longer the term you leave your money in, the higher the interest rate," says Mr Short.

Upturn in SA economic activity sought — Barend

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Pretoria Bureau STAR

Despite recent setbacks the Government was looking for an upturn in the country's economic activity, the Minister of Finance, Mr Barend du Plessis, said in Pretoria today.

The Minister officially opened the multi-million-rand McCarthy Mercedes-Benz commercial vehicle complex at Zandfontein.

26/9/85

"The dramatic improvement on the current account of the balance of payments and the consequent easing of interest rates, coupled with recent relaxations of hire-purchase conditions, has started to exert a stimulatory effect on domestic economic conditions," Mr du Plessis said.

MODERATE STIMULATION

"This stimulation is further enhanced by the new programmes regarding jobs, assistance to the small business sector, hunger and distress relief, and the expansion of training programmes."

Mr du Plessis said the new measures were aimed at the moderate and controlled stimulation of the domestic economy.

Referring to the motor industry, he said the relaxation of hire purchase deposits and the abolition of the ad valorem customs and excise duties would stimulate the demand for vehicles, and improve job opportunities.

He noted that the McCarthy Group, which started as a mere two-man business in the early years of this century, now had an annual turnover of R800 million and provided jobs for 6 000 workers.

Interest rate cuts to bring cheers and tears

Mercury 27/9/85

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Finance Reporter

THOUSANDS of old people could face a drop in income of nearly 10 percent this morning, while homeowners will be smiling as a result of the latest interest developments in building societies.

Those dependent on building society investments as their only source of income will be hard hit by a cut in interest rates in some case by as much as 1,5 percent.

At the same time Natal Building Society yesterday reduced bond rates by 0,5 percent indicating that further reductions would be announced soon.

The United Building Society and the S A Perm have already cut bond rates, but both, along with all the other societies, are expected to announce further reductions following the cuts in the amounts of interest the societies have to pay investors.

The biggest cut is for savers with paid-up shares and partly tax-free subscription shares, both of which have been slashed by 1,5 percent to 14,5 percent.

Fixed-period shares are down from 16,5 percent to 15 percent, while tax-free period shares and tax-free subscription shares remain unchanged at 10,5 percent.

The new NBS interest rates for the various categories of shares will become effective on October 1 for new clients and on December 1 for existing clients.

The same dates apply to old and new bond holders.

Mortgage holders with bonds of R60 000 and more will benefit from the biggest cut of 1,5 percent but the 1 percent cut for holders in the R40 000 to R60 000 bracket, the largest for all home loans, will obviously bring some cheer.

Rate pattern

Other rates are reduced by 0,5 percent.

The society, following approval by the authorities, has also introduced a new rate pattern which finance director Mr John Gafney said now offered maximum relief to the largest category of borrowers.

The new mortgage interest rates are (with old rate in brackets):

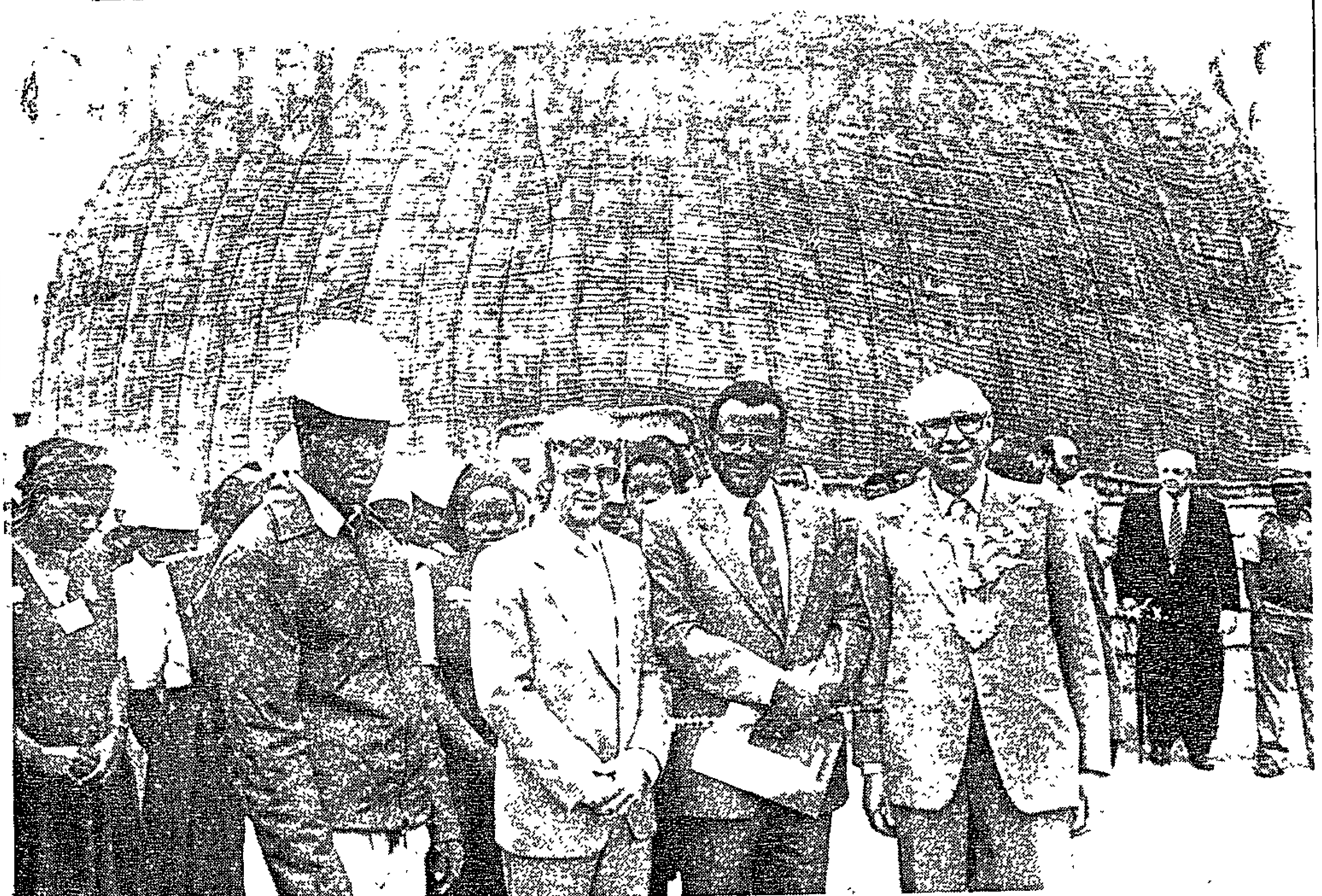
Up to R20 000 18,75 percent (19)

R20 001 to R40 000 19 percent (19,5)

R40 001 to R60 000 19 percent (20)

R60 001 and over 20 percent (21,5).

The society has also reduced the rate for commercial buildings and flats by 1 percent to 22 percent.



The Chief Minister of KwaZulu, Chief Mangosuthu Buthelezi (second right) with (from left) indlu induna Mr A N Ncube, chairman of Expo 85 Mr Don Smith and Durban's Mayor Mr Stan Lange.

Blacks must share in the free enterprise system, says chief

(49) Mercury 27/9/85

Mercury Reporter

GREAT pains were taken in building the KwaZulu indlu (traditional hut) at Expo 85, to emphasise that KwaZulu and Natal were totally interdependent and that the future of all the people in the region was inextricably intertwined.

This was said by Chief Mangosuthu Buthelezi, Chief Minister of KwaZulu, at the official opening of the joint KwaZulu Government/KwaZulu Finance and Investment Corporation exhibit at Expo.

He said people had flocked to the city in search of a better life and had made the city economically strong, but they had lived under appalling conditions on the periphery of the city.

While the KwaZulu Government had refused to apply any form of influx control on these people, and the South African Government had been powerless to stop the natural migration, the Government had harassed the people when they came in search of jobs.

'(They) generally behaved as if the hundreds of thousands of people on the edge of this city did not exist. Nothing was done to provide even the most basic of services and people were simply left to their own devices,' Chief Buthelezi said.

He said the exhibit strove to depict the major development needs of KwaZulu and highlighted the enormous differences in development between Natal and KwaZulu, in spite of 'the fact that the two areas are inextricably linked together'.

Chief Buthelezi said the KFC had done much to make the free enterprise system meaningful to black people, 'and this work is of particular relevance on a day like today'.

'The private sector would do well to ponder how it too can foster the free enterprise system for black people.

'It does not need a soothsayer to predict that unless this happens, pressures for the introduction of alternative economic systems will mount and ultimately become irresistable,' said Chief Buthelezi.

He said a share of the capitalist system would mean the black people had something to lose, otherwise 'the devil they don't know would be better than the devil they do'.

The chief said nearly R60 000 had been spent on the exhibit, but that the vast bulk of this had gone into the pockets of those who desperately needed it.

'More than 60 people, the majority of whom were brought in from really depressed rural areas like Nqutu and Nondweni, have had a job for three months while this indlu was being built.

'In addition, all the natural materials used in the construction were bought from people who are suffering grinding poverty at present,' said the chief minister.

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ANC believes in 'mixed economy'

By BARRY STREEK

THE banned African National Congress believes in a mixed economy with room for private initiative in trade and industry and State control over certain sectors, according to Finansies en Tegniek, the weekly financial magazine.

The ANC would nationalize high-finance activities, such as mining, banks, the energy industry and basic communication enterprises such as the railways and harbours, but it would not nationalize the media, the magazine said.

Finansies en Tegniek, which is owned by Nasionale Pers, said the ANC's economic policies had never been clearly spelt out but after discussions with an ANC representative in Zambia these had been clarified.

Written by Esmare van der Merwe, the article said: "Land will be held in trust by the State and distributed to people who worked it, without overturning existing production. Incentives for commercial and co-operative farming will be introduced."

"The economy would not be nationalized wholesale. All activities, apart from those specified before, would be in the hands of the private sector. Trade and industry would be private or co-operative.

"Private initiative will go hand-in-hand with State control and co-operative undertakings in the armaments industry, construction, transport, tourism as well as small and large trading."

Asked whether private enterprise would not be suppressed, as had happened with Marxist governments, Finansies en Tegniek said the ANC's position was that "private enterprise exists in what you call a Marxist economy. Any existing socialist economy demonstrates it with its small trading and small manufacturing activities".

It was impossible to say what taxation policies would be applied because these depended on economic conditions and expectations and it had to take into account government services, internal and external trade, loans and financial structures.

However, there would be "personal income tax, company tax, capital gains tax, trading tax and much more — each with its own rules and administration, each with its own combinations and exceptions".

The ANC would regard job creation and raising incomes as priorities as well as housing, health services, education (particularly technical education) and the development of under-developed areas. Defence and administrative expenses "will definitely be restricted".

Asked if there would be large-scale withdrawal of foreign capital from the economy if a socialist government came to power, Finansies en Tegniek said the ANC's position was that "we are not fighting for a socialist government, but for all universal democratic rights in a non-racial society. Foreign investments depend on the political climate and taxation structure.

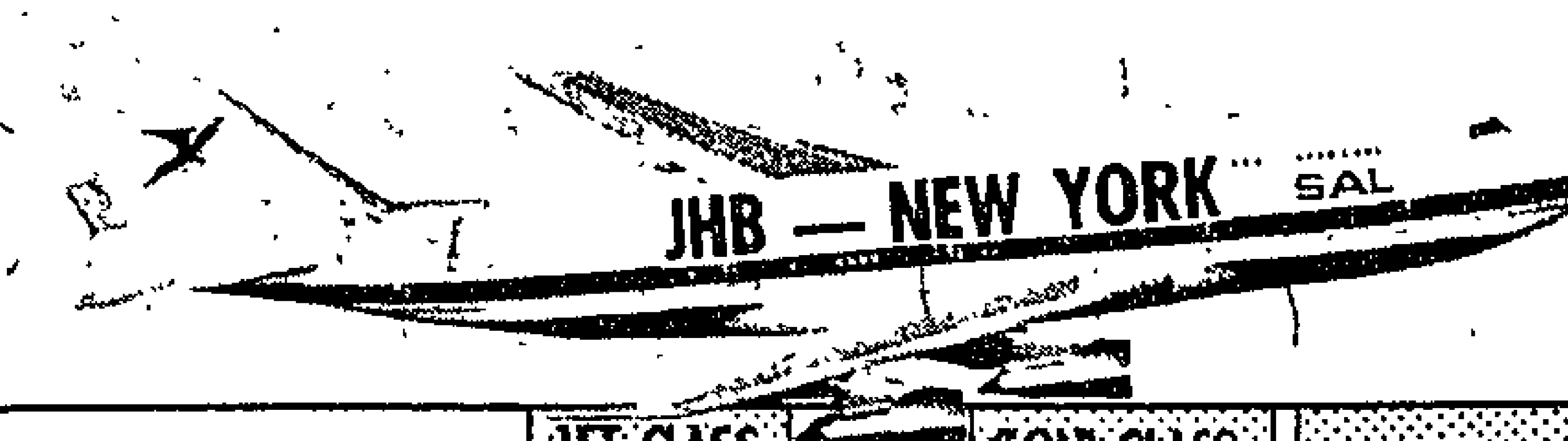
"Where there is a need and the investment is not exploitative, but for the advantage of the community, it will be encouraged."

The ANC also believed businessmen were entitled to be involved in politics because economic and political issues could not be separated. The political climate had to be advantageous to the economy, otherwise the economy suffered as was happening at present.

The businessmen who met the ANC were encouraged by a desire to create a healthy economic climate which would be conducive to normal economic activities without bloodshed and oppression.

"Their action was therefore more than a sign of goodwill."

	1ST CLASS RETURN	GOLD CLASS RETURN	APEX
SEPT 1985	R4 926	R3 254	R1 179
JULY 1985	R4 448	R2 940	R1 179
FEB 1985	R4 318	R2 852	R1 137
1984	R4 010	R2 648	R1 052
	INCREASE 21,3%	INCREASE 21,4%	INCREASE 11,7%



	1ST CLASS RETURN	GOLD CLASS RETURN	SUPER APEX / APEX
SEPT 1985	R5 480	R3 619	SUPER APEX R1 199 APEX R2 020
AUG 1985	R4 950	R3 268	R1 824
FEB 1985	R4 756	R3 050	R1 611
1984	R4 310	R2 764	R1 460
	INCREASE 25%	INCREASE 28%	INCREASE 34,2%

SEPT 1985
APRIL 198
FEB 1985
1984

Airlines try to absorb the decline in the rand

49 STAR 30/9/85

Transport Reporter

Airlines operating to South Africa are absorbing a large proportion of the increased costs brought about by the decline of the rand against most currencies, says the president of the Association of South African Travel Agents, Mr Peter Botterill.

The plunging value of the rand has also inhibited overseas travel, with the result that airlines are experiencing severe drops in passenger loads.

Mr Botterill said international air fares were "uncontrollable" because fuel had to be paid for in dollars.

"Fares for overseas flights are still below the devaluation of the rand. They could be higher, but airlines have to fill their aircraft by making fares as attractive as possible.

"Airlines are trying hard to accommodate passengers. I don't think they are making money at this particular time."

The currency surcharge of about 11 percent, which came into effect on international flights this month, was the third increase this year.

A business-class return ticket to London cost R2 648 last year. It has now gone up by 21,4 percent to R3 254. An advanced-purchase excursion ticket (Apex), the cheapest fare, has risen from R1 052 to R1 179.

A business-class return ticket to New York went up by 28 percent from R2 764 last year to R3 619. Apex fares rose from R1 460 to R2 020.

On the Johannesburg-Sydney route, the business-class return shot up from R3 246 to R4 257, and the Apex fare from R1 973 to R2 266.

Mr Botterill estimates that there has, been a 40 percent drop-off in passengers from South Africa to the US, a 12 percent drop-off to London, and a fall of 20 percent to 30 percent to central Europe.

SAA has announced that cancellation or combination of international flights is imminent because of the drop in passengers.

Mr Botterill said incoming passenger loads had also been badly hit because of the "bad publicity we are receiving worldwide on the unrest situation".

"Sometimes it is very biased publicity, and is doing the tourism industry — and, in turn, the economy — a lot of harm.

"We should be seeing thousands of people coming in every day from the US, the UK and Europe, because the exchange rate is so favourable to them. It's a gift."

He said the tourism industry was placing greater emphasis on domestic and regional travel.

"We are seeing a lot more internal travel, due to the excellent special fares SAA has initiated. Namibia, Zimbabwe, Malawi, Swaziland, Botswana and other countries are still doing very well out of us."

Damages for victim

LONDON — A man has been awarded R1,5 million damages in the High Court here for road injuries which changed his personality and wrecked his marriage.

It is the largest sum awarded to a road accident victim in England and Wales.

Mr Vivian Pritchard (39) suffered brain damage after his car was hit by a lorry.

He became "callous, irritable and on occasion violent", said the judge. — Star Bureau.

	APEX
	R1 179
	R1 179
	R1 137
	R1 052
	INCREASE 11,7%

	1ST CLASS RETURN	GOLD CLASS RETURN	SUPER APEX / APEX
SEPT 1985	R5 480	R3 619	SUPER APEX R1 199 APEX R2 020
AUG 1985	R4 950	R3 268	R1 824
FEB 1985	R4 756	R3 050	R1 611
1984	R4 310	R2 764	R1 460
	INCREASE 25%	INCREASE 28%	INCREASE 34,2%

	1ST CLASS RETURN	GOLD CLASS RETURN	APEX
SEPT 1985	R5 580	R4 257	R2 266
APRIL 1985	R5 040	R3 845	R2 131
FEB 1985	R4 893	R3 495	R2 131
1984	R4 544	R3 246	R1 973
	INCREASE 21,4	INCREASE 28,3%	INCREASE 19%

ry to absorb e in the rand

STAR 30/9/85

...se this R3 619. Apex fares rose from R1 460 to R2 020.

...return ...n cost ... It has ...1,4 per-... An ad-... excur-...x), the ...s risen ...179.

...return ...rk went ...t from ...ar to

On the Johannesburg-Sydney route, the business-class return shot up from R3 246 to R4 257, and the Apex fare from R1 973 to R2 266.

Mr Botterill estimates that there has been a 40 percent drop-off in passengers from South Africa to the US, a 12 percent drop-off to London, and a fall of 20 percent to 30 percent to central Europe.

SAA has announced that cancellation or combination of international flights is imminent because of the drop in passengers.

Mr Botterill said incoming passenger loads had also been badly hit because of the "bad publicity we are receiving worldwide on the unrest situation".

"Sometimes it is very biased publicity, and is doing the tourism industry — and, in turn, the economy — a lot of harm.

"We should be seeing thousands of people coming in every day from the US, the UK and Europe, because the exchange rate is so favourable to them. It's a gift."

He said the tourism industry was placing greater emphasis on domestic and regional travel.

"We are seeing a lot more internal travel, due to the excellent special fares SAA has initiated. Namibia, Zimbabwe, Malawi, Swaziland, Botswana and other countries are still doing very well out of us."

Damages for victim

LONDON — A man has been awarded R1,5 million damages in the High Court here for road injuries which changed his personality and wrecked his marriage.

It is the largest sum awarded to a road accident victim in England and Wales.

Mr Vivian Pritchard (39) suffered brain damage after his car was hit by a lorry.

He became "callous, irritable and on occasion violent", said the judge. — Star Bureau.

Just a lever controls the dreaded biting blackfly

Science Reporter

Water research scientists in Pretoria have found a surprising solution to one of South Africa's most irritating pest epidemics, that of the bloodsucking blackfly. The epidemic can be controlled simply by turning a lever.

The blackfly, endemic along the Vaal and Orange Rivers from Parys down to Verwoerd Dam and into the Kalahari, has migrated to the Fish River valley in the Eastern Cape, biting man, cattle, sheep and poultry.

Through bacteria it introduces into wounds as it chews through the skin it has caused allergies in man, blindness in sheep, abortions in cattle and the feared Rift Valley fever.

There is evidence, says Dr Mark Chutter, head of the freshwater biology division of the National Institute for Water Research of the CSIR, that the spread of the blackfly epidemic was the result of building dams which increased the survival rate of larvae and so caused population explosions.

It was an entomologist at Onderstepoort Veterinary Research Institute, Dr Ferdie de Moor, who eventually hit on the solution: by stopping the flow of the Vaal and Orange Rivers at a critical stage in the development of blackfly pupae clinging to river rocks.

Now irrigation engineers at P K le Roux Dam and the Vaalhartz Weir press a button or turn a lever once a week to destroy the young blackflies by exposing them to the sun.

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OLD MUTUAL

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INTRODUCTION

The Minister has found it imperative that this Budget should contribute towards economic recovery and a lower inflation rate. In order to achieve this goal the increase in Government expenditure must be limited to 11,4%. This increase is below the current rate of inflation and means that there will be a decrease in real terms. Additional taxes will be raised to generate sufficient revenue, keeping Government borrowing at a very low level.

Customs and excise on, among others, imported cars and video cassette recorders has been increased. A surcharge of 7% for individuals of all ages has been announced and GST will be increased to 12%.

The Margo Commission of Enquiry into the South African tax structure will submit final proposals in the near future regarding aspects such as working married couples, pure endowments, estate duty and taxes on fringe benefits.

Allowances for senior citizens have been announced in the form of increased pensions and tax abatements. It is, however, regrettable that existing channels for retirement planning, e.g. annuities, did not receive the necessary attention.

As was the case in previous years, this booklet will deal with fiscal changes that have been announced and that are of interest to the general tax-paying public.

The Minister's proposals are subject to approval by Parliament before they become law. The Income Tax Abatement Bill is expected to be submitted by May or June 1985.

OLD MUTUAL

19 March 1985

NOTE

All enquiries and comments regarding this booklet can be addressed to:

The Marketing Actuary, Old Mutual, P O Box 66, Cape Town 8000.Telephone: (021) 53-1231 extension 3556 or 3418.

THE MARGO COMMISSION

The appointment of the Margo Commission is the Government's own acknowledgement that the present taxation system needs an in-depth investigation. The Minister expects that the Margo Commission, which has been appointed to investigate the tax structure in South Africa and to recommend changes to the Government, will be innovative in its enquiry and if need be, propose far-reaching changes in order to enable the new structure to meet the many and varied demands the economy will place on it.

Certain interim tax adjustments have been unavoidable and although they are of an *ad hoc* nature, the Commission will be requested to evaluate them as part of its enquiry.

Comment

The appointment of the Margo Commission is a positive step. It is expected that the Commission will clarify the many uncertainties with regard to, inter alia, the taxation of fringe benefits and that it will make general proposals to set taxation legislation on a proper course.

The following matters pointed out by the Minister have not yet been finalised or conclusively investigated by the Margo Commission.

WORKING COUPLES

Although the Minister had hoped to deal with the problem of working couples in the 1985 Budget, it would clearly be inappropriate either to confirm or change the system before the recommendations of the Commission have been received.

Comment

Representations made by various institutions throughout the years for the separate taxation of working couples, have finally been considered on merit. Although it is an open question as to whether separate taxation will become a reality, the amount that qualifies for a deduction from a wife's earnings is likely to receive attention.

ESTATE DUTY

The Margo Commission has been informed that, in the Government's opinion, estate duty, at least in its present form, can no longer be regarded as appropriate to the needs of our time. Certain amendments will, as an interim measure, be introduced during this session.

Comment

Amendments pertaining to estate duty have become essential because of the uncertainty which has arisen around clauses in the Matrimonial Property Act.

For example, the question must be resolved as to whether or not the amount which a deceased partner's estate must pay to the surviving partner's estate as an accrual debt, should qualify as a deduction for estate duty purposes.

INSURANCE POLICIES

According to the Minister, the growth in the "number and value of pure endowments" is cause for concern.

Comment

In effect this concern is an acknowledgement that the rate of return on pure endowment policies is appreciably higher than that offered on many other investments.

As soon as the Margo Commission's report is available, the Government will give this matter urgent attention.

However, it is highly improbable that any new legislation affecting these policies will be retrospective For the time being, pure endowments remain an important vehicle for personal savings.

FRINGE BENEFITS

Dubious schemes for avoiding taxation on fringe benefits continue to be devised. The Minister warned that he will not hesitate to implement legislation, even with retrospective effect, to counter such schemes.

Comment

The taxation of fringe benefits commences on 1 March 1985. Details were announced by the Minister in two previous press statements. No further details were released in the Budget The Margo Commission will submit its final recommendations in due course regarding minor aspects of the fringe benefits legislation.

GENERAL SALES TAX

The present rate of 10% has been increased to 12%. To allow the business community sufficient time to make the necessary arrangements, the new rate will only become effective as from 25 March 1985.

Comment

Although certain bodies have made representations for further exemptions of particular food items, it was not possible to extend the list of existing exemptions.

TAXATION OF COMPANIES

In the case of non-mining companies, the rate of 50% remains unchanged.

Gold and diamond mining companies will, in addition to the current 20% surcharge, be liable for a special temporary additional surcharge of 5%.

A special surcharge of 15% will be applicable to all other mining companies.

Comment

Since the bulk of the economy and the people of South Africa have had to tighten their belts, the Minister has seen fit to call upon these companies to make a special contribution to the tax revenue by means of this surcharge on their tax.

LEVIES

A special levy on Life Assurers which will amount to an effective 7,5% tax on gross income, has been proposed.

A special levy will also be applicable to all banking institutions at a rate of one quarter of 1% of the average amount of all deposits held in the Republic at the end of each quarter during the 1984 calendar year.

Comment

These measures have been introduced with a view towards spreading the tax burden as widely as possible and to ensuring an equitable balance among the various sectors of the economy capable of such effort.

DEDUCTIONS IN RESPECT OF MEDICAL EXPENDITURE

The current maximum deduction in respect of medical expenses actually incurred and contributions to medical aid schemes, has been increased as follows:

Married persons under 60,	from R1 000 to R1 500
Unmarried persons under 60,	from R750 to R1 000
Married persons over 60 and under 70,	from R3 000 to R4 000
Unmarried persons over 60 and under 70,	from R2 250 to R3 000

For those over 70 there is already no ceiling to their medical deductions.

Comment

In the light of significant increases in medical expenses during the past year, these allowances are to be welcomed.

TAX REBATES

The Minister announced that the basic tax rates and primary rebates are to be increased. Additional rebates for senior citizens have also been increased.

The primary rebate of R460 increases to R880 for married persons, and from R380 to R620 for unmarried persons.

For senior citizens the current rebates of R120 for persons from 65 to 69 and R300 for those from 70, is replaced by a uniform tax rebate of R500. The rebate for the 60 to 64 age group will remain at R120.

Comment

The increase in basic tax rates and primary rebates has been necessitated by the adjustment to the thresholds at which tax liability begins.

The increase in additional rebates for senior citizens stems from the problems experienced by the elderly as a result of the devastating effect of inflation on retirement income. By implication, recognition has been given to the need for meaningful and timeous planning for retirement.

SURCHARGE ON TAX

A surcharge of 7% on tax payable has been introduced for all age groups. This surcharge will only be payable on the amount by which a person's net tax, calculated in accordance with the new tax tables, exceeds R750.

Comment

The surcharge of 5%, which was announced on 6 December 1984, has been increased to 7% This is partly to offset the loss of revenue arising from the phasing in of taxation of car benefits and soft loans.

The result is that the effective tax rate has been raised and hence all available deductions, e.g annuity contributions, will obviously be more valuable.

INTEREST EXEMPTION

R250 of income earned by way of interest, will be exempt from tax

Comment

The present exemption limit of R100 of income earned by way of interest and dividends has been amended. The amount has been increased to R250, but will be applicable on interest earnings only. This exemption has been increased, inter alia, to encourage the smaller saver, because modest savings seldom offer an attractive after-tax return and since personal savings ratios are disappointingly low

TAX RATES

Different tax rates will be applicable for married and unmarried persons.

The minimum marginal rate for individuals has been increased from 12% to 16%. This rate is applicable for the first R12 000 of married persons' taxable income and for the first R10 000 of unmarried persons' taxable income The threshold for the maximum marginal rate on taxable income for unmarried persons has been increased from R28 000 to R42 000.

Comment

As already indicated, the primary rebates have been adjusted to compensate for these increases.

The threshold of the maximum marginal rate for unmarried persons has been raised because it was found that the relief originally announced on 6 December 1984 (threshold for unmarried persons' maximum marginal rate increased from R28 000 to R32 000) compared unfavourably with that of married persons.

ANNEXURE A

PROPOSED INCOME TAX RATES FOR MARRIED PERSONS

(Year of assessment ending 28.2.1986 or 30.6.1986)

Tax Schedule

Taxable Income: Exceeds	Taxable Income: But does not exceed	Rates of Tax
R	R	R / R
0	12 000	16% of each R1
12 000	13 000	1 920 + 18% of the amount over 12 000
13 000	14 000	2 100 + 20% ,, ,, ,, ,, 13 000
14 000	15 000	2 300 + 22% ,, ,, ,, ,, 14 000
15 000	16 000	2 520 + 24% ,, ,, ,, ,, 15 000
16 000	18 000	2 760 + 26% ,, ,, ,, ,, 16 000
18 000	20 000	3 280 + 28% ,, ,, ,, ,, 18 000
20 000	22 000	3 840 + 30% ,, ,, ,, ,, 20 000
22 000	24 000	4 440 + 32% ,, ,, ,, ,, 22 000
24 000	26 000	5 080 + 34% ,, ,, ,, ,, 24 000
26 000	28 000	5 760 + 36% ,, ,, ,, ,, 26 000
28 000	30 000	6 480 + 38% ,, ,, ,, ,, 28 000
30 000	32 000	7 240 + 40% ,, ,, ,, ,, 30 000
32 000	34 000	8 040 + 42% ,, ,, ,, ,, 32 000
34 000	36 000	8 880 + 43% ,, ,, ,, ,, 34 000
36 000	38 000	9 740 + 44% ,, ,, ,, ,, 36 000
38 000	40 000	10 620 + 45% ,, ,, ,, ,, 38 000
40 000	50 000	11 520 + 46% ,, ,, ,, ,, 40 000
50 000	60 000	16 120 + 48% ,, ,, ,, ,, 50 000
60 000		20 920 + 50% ,, ,, ,, ,, 60 000

A surcharge is added equal to 7% of so much of the tax (after deduction of rebates) as exceeds R750.

ANNEXURE B

PROPOSED INCOME TAX RATES FOR UNMARRIED PERSONS

(Year of assessment ending 28.2.1986 or 30.6.1986)

Tax Schedule

Taxable Income: Exceeds	But does not exceed	Rates of Tax				
R	R	R				R
0	10 000	16% of each R1				
10 000	11 000	1 600 + 18% of the amount over				10 000
11 000	12 000	1 780 + 20% ,,	,,	,,	,,	11 000
12 000	13 000	1 980 + 22% ,,	,,	,,	,,	12 000
13 000	14 000	2 200 + 24% ,,	,,	,,	,,	13 000
14 000	15 000	2 440 + 26% ,,	,,	,,	,,	14 000
15 000	16 000	2 700 + 28% ,,	,,	,,	,,	15 000
16 000	18 000	2 980 + 30% ,,	,,	,,	,,	16 000
18 000	20 000	3 580 + 32% ,,	,,	,,	,,	18 000
20 000	22 000	4 220 + 34% ,,	,,	,,	,,	20 000
22 000	24 000	4 900 + 36% ,,	,,	,,	,,	22 000
24 000	26 000	5 620 + 38% ,,	,,	,,	,,	24 000
26 000	28 000	6 380 + 40% ,,	,,	,,	,,	26 000
28 000	30 000	7 180 + 42% ,,	,,	,,	,,	28 000
30 000	32 000	8 020 + 44% ,,	,,	,,	,,	30 000
32 000	34 000	8 900 + 45% ,,	,,	,,	,,	32 000
34 000	36 000	9 800 + 46% ,,	,,	,,	,,	34 000
36 000	38 000	10 720 + 47% ,,	,,	,,	,,	36 000
38 000	40 000	11 660 + 48% ,,	,,	,,	,,	38 000
40 000	42 000	12 620 + 49% ,,	,,	,,	,,	40 000
42 000		13 600 + 50% ,,	,,	,,	,,	42 000

A surcharge is added equal to 7% of so much of the tax (after deduction of rebates) as exceeds R750.

ANNEXURE C

RSA SAVINGS SERVICE

(Post Office)

INVESTMENT TYPE	INTEREST/DIVIDEND RATES	INVESTMENT TERM	INCOME TAX AND ESTATE DUTY IMPLICATIONS
PO Telebank/Savings Bank Accounts (minimum investment of R1) (Current account)	6,5% per annum on daily balance; credited to account yearly	Indefinite	Interest on an amount of up to R10 000 per person per annum tax-free. Maximum investment is R25 000 per person
PO Savings Bank Certificates (units of R50)	10,5% per annum on daily balance; payable half-yearly	Indefinite; Minimum 12 months	Interest on an investment of up to R70 000 per taxpayer per annum tax-free.
Treasury Bonds (units of R100 with minimum of R500 per application)	10,5% per annum; payable half-yearly	Indefinite; Minimum 12 months	Total interest tax-free per taxpayer per annum. Maximum investment of R60 000 per taxpayer (including previous issues)
National Defence Bonds (units of R50)	16% per annum; payable half-yearly as from 15 September 1984	Indefinite; Minimum 12 months	Interest fully taxable. Capital qualifies for an estate duty deduction up to R100 000 (less certain insurance proceeds and fund benefits of which a maximum of R50 000 may be exempted)

ANNEXURE D

BUILDING SOCIETY INVESTMENTS

INVESTMENT TYPE	INTEREST/DIVIDEND RATES	INVESTMENT TERM	INCOME TAX AND ESTATE DUTY IMPLICATIONS
Ordinary Savings Account	6% per annum on daily or minimum monthly balance; credited to account yearly	Indefinite	Interest fully taxable. Maximum investment of R25 000 per person (combined maximum for Special and Ordinary Savings Accounts)
Special Savings Account (limited withdrawals)	Varies, depending on the amount - R 200 - R 9 999: 10% R10 000 - R14 999: 11,5% R15 000 - R19 999: 19% R20 000 - R24 999: 19,5% R25 000 - R49 999: 20,5% R50 000 and more: 21%	Indefinite	Interest fully taxable. Maximum investment of R50 000 per person (combined maximum for Special and Ordinary Savings Accounts)
Fixed Deposits	Varies, according to term of investment- 12 Months: 20,5% 60 Months: 16,5%	Varies between 12 and 60 months	Interest fully taxable. Maximum investment R6 000 000 unless Registrar's permission to exceed this amount is obtained
Subscription Shares	(a) 10,5% per annum credited yearly	Indefinite with a minimum of 36 months	Interest fully tax-free. Maximum investment R50 000 per taxpayer (as at 29.2.1984)
	(b) 16% per annum credited yearly	Indefinite with a minimum of 36 months	Interest ranging from 100% to 33,3% tax-free (depending on taxable income of investor)
Ordinary Paid-up Shares	16% per annum payable half-yearly	Indefinite with a minimum of 18 months	Dividends ranging from 100% to 33,3% tax-free (depending on taxable income of investor)
Fixed Period Paid-up Shares	15,5% per annum payable half-yearly	Ranging from 5 to 20 years	Dividends ranging from 100% to 33,3% tax-free (depending on taxable income of investor)

ANNEXURE E

TAX ALLOWANCES ON CAPITAL ASSETS

Machinery and equipment

brought into use

on or after	13 8 70	1.4.73	15.8 74	27.2.75	1.7.85
but before	31 3 73	14.8.74	26 3.75	30.6.85	31 12.86

Rates

Investment allowance	15%	20%	25%	30%	Cease
Initial allowance	15%	15%	25%	25%	50%*

Machinery or plant brought into use after 30 June 1979 and used in a process similar to that of manufacture, will not qualify for the investment allowance.

* For the time being, until the Margo Commission has reported on this, the allowance will be applicable only to new or unused machinery and plant brought into use by 31.12.86.

Used machinery brought into use on or after 1 April 1978 and used in a process of manufacture or similar process, will be granted an initial allowance of 25% of cost.

Industrial buildings and improvements

Erection commenced

on or after	13.8.70	1.4 73	27 3 75	1 7 79	1 7 86	—
but before	31 3 73	26 3 75	30.6.79	30.6.86	—	31.12.86
and brought into use before	—	—	—	—	—	—

Rates

Investment allowance						
similar process	10%	15%	20%	—	—	—
direct process	10%	15%	20%	20%	—	—
Initial allowance					20%	17½%
Annual allowance	2% (since 1959)					

Economic development areas

In economic development areas all the rates shown above can be increased at the discretion of the Minister of Finance by:

Machinery and equipment

Investment allowance: an additional percentage of cost not exceeding 5%

Initial allowance: an additional percentage of cost not exceeding 15%

Industrial buildings and improvements

Investment allowance: an additional percentage of cost not exceeding 5%

ANNEXURE E (Continued)

TAX ALLOWANCES ON CAPITAL ASSETS

Residential buildings

Accommodation for rent where not less than 5 residential units are erected:

Erection commenced on or after 1.4.82

Rates

Initial allowance: 10%

Annual allowance: 2%

Hotels

Equipment

Investment allowance: 20%

Initial allowance: 15%

Buildings

Investment allowance: 10%

Annual allowance: 2%

Grading allowance (depending on star rating): 2 - 8%

Note: The wear and tear allowance (the amount of which is at the discretion of the Commissioner) on plant and machinery acquired on or after 15 March 1984, is to be calculated on the cash cost only.

ANNEXURE F

MAXIMUM AND MINIMUM DEDUCTIONS

Medical expenses and Medical Aid contributions (actual expenditure)	
Over 70	No limit
Over 60	
Married	R4 000
Unmarried	R3 000
Under 60	
Married	R1 500
Unmarried	R1 000
Physically disabled persons (actual expenditure)	R3 000
Standard minimum deduction (in lieu of above)	
Married	R 300
Unmarried	R 200
Wife's earnings allowance	R1 600
Pension Fund contributions	
The greater of	R1 750 OR $7\frac{1}{2}\%$ of pensionable income
Backdated contributions (additional)	R1 800
Retirement Annuity Fund contributions	
The greater of	15% of taxable income (of non-pensionable income) OR R3 500 less current contributions to pension funds OR R1 750
Reinstatement contributions (additional)	R1 800

ANNEXURE G

TAX REBATES

Year of assessment ending 28.2.86 or 30.6.86

Primary	R
Married	880
Unmarried	620
Children	
First five children, each	100
Subsequent children, each	150
Dependants	
On whom the taxpayer spent R200 or more, but less than R350, each	30
On whom the taxpayer spent R350 or more, each	50
Assurance premiums and contributions to provident and benefit funds	
10% of amounts paid in the year of assessment with a maximum of	75

This rebate is <u>not reduced</u> proportionately when the period assessed is less than twelve months.

A standard minimum rebate of R30 for all married taxpayers and R25 for all unmarried taxpayers is allowed. These standard rebates <u>are reduced</u> proportionately when the period of assessment is less than twelve months.

Persons from 60 to 64	
Special rebate	120
Persons 65 and older	
Special additional rebate	500

ANNEXURE H

RATES OF DONATIONS TAX

Total value of all donations made by the taxpayer on or after 24 March 1955, or 1.3.1984 in the case of donations made by Blacks, excluding exempt donations:		Total tax payable on cumulative tax values:	
R	R	R	R
0 —	8 000	3% of each R1	
8 000 —	10 000	240 + 4% of amount over	8 000
10 000 —	12 000	320 + 5% " " "	10 000
12 000 —	14 000	420 + 6% " " "	12 000
14 000 —	16 000	540 + 7% " " "	14 000
16 000 —	18 000	680 + 8% " " "	16 000
18 000 —	20 000	840 + 9% " " "	18 000
20 000 —	22 000	1 020 + 10% " " "	20 000
22 000 —	24 000	1 220 + 11% " " "	22 000
24 000 —	26 000	1 440 + 12% " " "	24 000
26 000 —	28 000	1 680 + 13% " " "	26 000
28 000 —	32 000	1 940 + 14% " " "	28 000
32 000 —	36 000	2 500 + 15% " " "	32 000
36 000 —	40 000	3 100 + 16% " " "	36 000
40 000 —	44 000	3 740 + 17% " " "	40 000
44 000 —	48 000	4 420 + 18% " " "	44 000
48 000 —	52 000	5 140 + 19% " " "	48 000
52 000 —	56 000	5 900 + 20% " " "	52 000
56 000 —	60 000	6 700 + 21% " " "	56 000
60 000 —	70 000	7 540 + 22% " " "	60 000
70 000 —	80 000	9 740 + 23% " " "	70 000
80 000 —	90 000	12 040 + 24% " " "	80 000
90 000 and more		14 440 + 25% " " "	90 000

ANNEXURE I

ESTATE DUTY
RATES

Dutiable amount of estate		Duty payable	
R	R	R	R
0 -	50 000	10% of each R1	
50 000 —	100 000	5 000 + 13% of amount over	50 000
100 000 —	150 000	11 500 + 16% „ „ „	100 000
150 000 —	200 000	19 500 + 19% „ „ „	150 000
200 000 —	250 000	29 000 + 22% „ „ „	200 000
250 000 —	300 000	40 000 + 25% „ „ „	250 000
300 000 —	350 000	52 500 + 28% „ „ „	300 000
350 000 —	400 000	66 500 + 31% „ „ „	350 000
400 000 and more		82 000 + 35% „ „ „	400 000

ABATEMENTS AND DEDUCTIONS

Primary	R50 000
Surviving spouse	R50 000
Surviving children (each)	R40 000
Predeceased children leaving issue or a spouse who has not remarried (each)	R40 000

In addition the estate is allowed to deduct amongst other things:

(a) The proceeds of assurance on the life of the deceased together with certain dutiable fund benefits subject to a maximum deduction of R50 000.

(b) The value of certain public stock and bonds (including Land Bank stock and debentures) up to a maximum of R100 000 less the amount deducted under (a) above.