

ECONOMY - 1988

JANUARY - MARCH

Liberals must stand and be counted

S/Times

3/1/88

(49)

APARTHEID and capitalism are increasingly viewed as two sides of the same coin by a large section of the South African population, and there is little doubt that liberation will herald a new economic order.

It is too early to accurately predict what its nature will be, but one can be sure that unless the middle ground of South African politics quickly gets its act together liberation is likely to have a strong marxist, "one man one vote once" flavour.

The liberal centre is unfortunately pitifully weak and divided at present. One of the underlying causes of this state of affairs is the lack of clarity as to what liberal economics in the South Africa of the late 1980s should be.

Economically, South African liberals range from free marketeers on the right to social democrats on the left, with both strains claiming to be the genuine inheritors of the liberal tradition.

The problem is that one or the other must represent liberal economics (both can't), and until this intra-liberal divide disappears the liberal lobby is further weakened.

The solution of this free marketeer vs social democratic debate should be for the New Year.

Unfortunately, the sad state of liberal affairs generally means that many liberals are wary of deciding the economic issue.

They fear the loss of further support that would inevitably follow resolution of the free marketeer/so-

Stellenbosch University's KIERIN O'MALLEY looks at a long-standing economic dispute

cial democratic divide in one form or another. This might appear as an understandable reaction at first, but on closer consideration is exposed as fatally flawed.

The fact is that until the intra-liberal economic debate is resolved, the liberal centre of South African politics will always be pitifully weak.

Thus while a postponement of the decision would leave one with greater ostensible unity, under the surface the cracks will widen and eventually reappear.

Failure to address the economic problem of South African liberalism at the earliest stage possible not

makes the decision polarisation in wider society will have destroyed the social democratic strain that existed when the decision first ought to have been made.

What ought the decision to be? Is social democratic or free market economics the "real McCoy" of liberal economics?

The debate has not yet reached great heights, primarily because the radical free marketeers claim to be the sole representatives of economic liberalism.

The fact that South African-style liberalism has a strong social democratic strain within it (especially the more recent and vibrant Afrikaner liberalism) is conveniently ignored.

Free marketeer arguments are very often couched in terms of learning from the lessons of other countries.

Thus the success of That-

cherite economics in Britain and the economic powerhouses of the Far East is used as evidence of the superiority of capitalism.

That parallels drawn between these and other societies must be kosher is an assumption often too readily taken for granted.

For can one simultaneously concede the necessity and desirability of Thatcherite economics in an excessively bungled-up welfare state and advocate the necessity of redistributionive measures by the state in a highly inegalitarian society like South Africa?

Whatever the outcome may be, the debate must take place. The socialist versus capitalist invective has reached dangerously sterile proportions and consideration of "compromise" economic systems a necessity.

Strong quarter bodes well for new year

Economic prospects look better

49
B/day
4/1/88

MICK COLLINS

STRONG fourth-quarter upward trends of all of SA's prime economic indicators bode well for growth in the new year with the motor, retail and building sectors leading the charge.

Although coming off low bases and still awaiting final figures, economists said a last-quarter review of Central Statistical Services (CSS) findings were the strongest indicators received in the past five years and could be taken as "extremely" positive.

Among the positive growth indications were the massive increases in the number of new vehicles registered, reflected in CSS figures released late last month. These showed that during November 1987, 15 846 vehicles were registered in the Transvaal alone — an increase of 52,9% compared with November 1986.

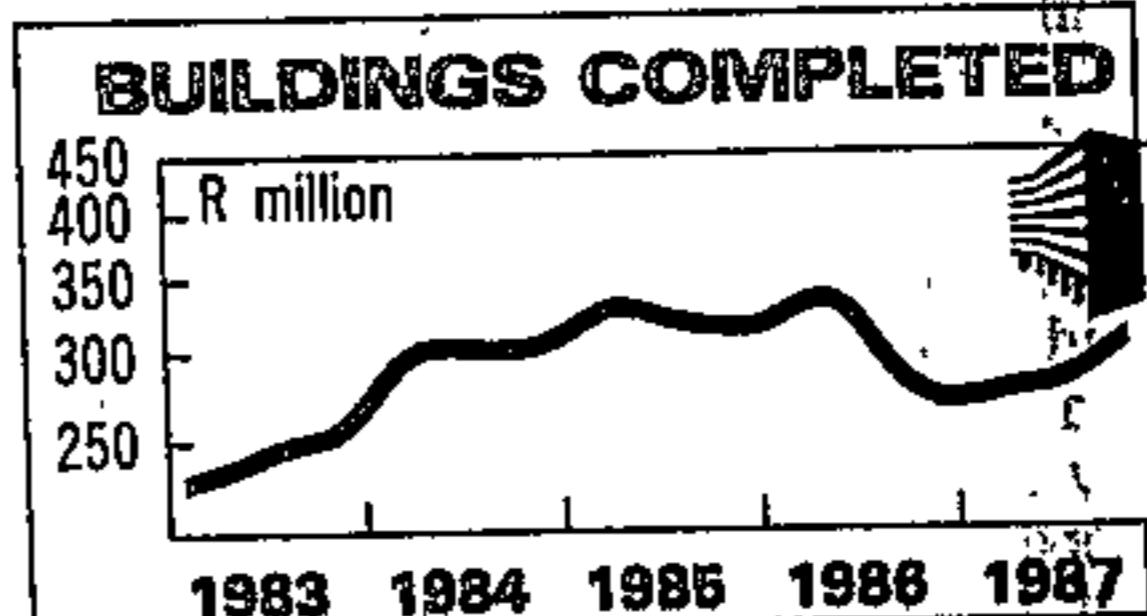
● See Page 3

A slight decrease of 2,2% between October (16 208) and November was accounted for by the 8,5% fall off in new cars but was more than recompensed by a sharp increase (35,5%) in the registration of new trailers.

The expected trading revenue of retailers in motor vehicles and accessories for November 1987 was about 32% higher than for November 1986.

The total trading revenue for the six months up to November showed a seasonally adjusted increase of 13,1% compared with the previous six months.

Reaffirming the hardening in consumer confidence, the total value of building



Graphic: FIONA KRISCH Source: CSS

plans passed for October jumped by 37,9% compared with the same period in 1986. The total value of buildings completed also showed a healthy upward trend and increased by 18,2% compared with October 1986.

The CSS said the urban areas of Cape Town and the Witwatersrand were mainly responsible for the increases in both categories.

Value of wholesale trade figures (excluding diamonds) for November was R6,9bn which was 20% higher than for November 1986.

Although the expected real wholesale trade sales, at constant 1980 prices, for the month showed an increase of 9,1% compared with November 1986, and a seasonally adjusted decrease of 2% compared with October 1987, the total real wholesale trade sales for the three months up to November 1987 were 0,7% (seasonally adjusted) higher than for the preceding three months.

Stocks of primary and secondary steel products at the end of September 1987 decreased by 2,2% compared with September 1986.

Stocks of primary steel and profile

● To Page 2

Economic prospects look better

← ● From Page 1

products increased by 6,2%. Decreases in stocks of profile products occurred in billets and blooms (minus 6,9%), heavy and medium sections (minus 9,4%), wire rod and wire (minus 4,4%) and drill and spring steel (minus 7,8%).

The most promising indicator was the huge jump in the gross domestic product (GDP) for the first nine months of last year when the total GDP increased by 18,7% at factor incomes and by 17,9% at market prices.

Total remuneration of employees increased by 16,8% during this period and total gross operating surplus by 21,4%. The operating surplus for the non-agricultural sector increased by 21,6%.

October's retail trade sales were R3,7bn, which was 20,5% higher than the figure for October 1986.

The CSS said real retail trade sales for the month showed an increase of 1,9% compared with the previous period in 1986 and a seasonally adjusted increase of 4,4% compared with September 1987.

Increases during the latter period occurred across a broad spectrum of business with the largest increases recorded by dealers in foodstuffs (5,6%) and clothing and footwear (7,6%).

Total manufacturing for the three months up to October also showed a seasonally adjusted increase of 1,6% compared with the previous three months.

The largest increases occurred in furniture (wood), rubber products, plastic products and scientific equipment.

Analysts optimistic about recovery

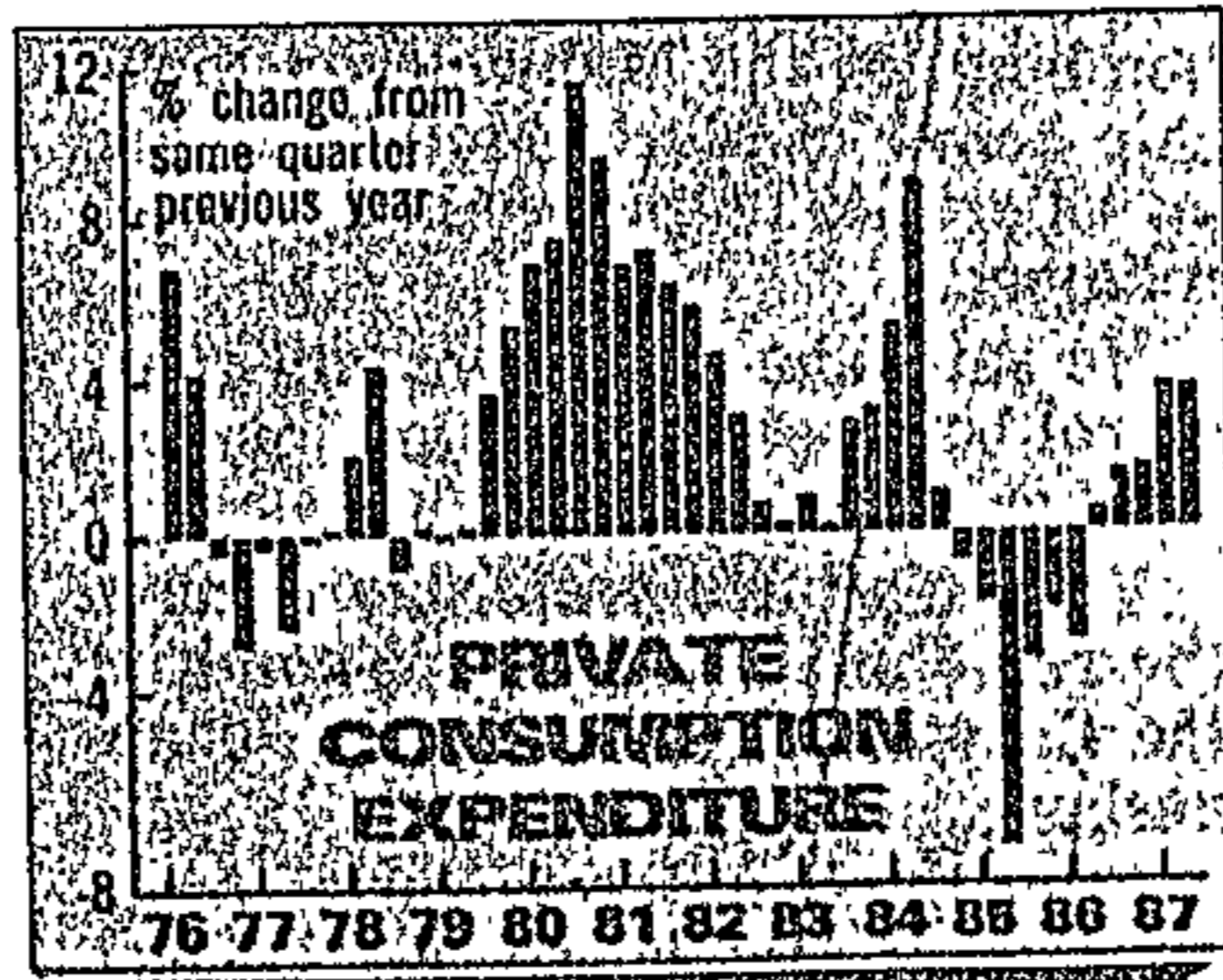
B/dam
5/11/88

LIZ ROUSE

(49)

THE outlook for a sustained recovery in consumer spending this year is positive, says the annual Retail Report compiled by Max Pollak & Freemantle analysts.

Positive factors for an increase in real private consumption expenditure are



Graphic: FIONA KRISCH Source: MAX POLLAK & FREEMANTLE

government policy to encourage economic growth; the current strength of the balance of payments; escalating increases in salaries and wages; a meaningful improvement in the debt capacity of consumers; the fall in the rate of inflation; and relative social stability.

However, levels of demand are still relatively low, especially when measured against population growth. Durables are 36% below volumes recorded three years ago and semi-durables are

● To Page 2 →

P.T.O

o,
es
e
e
k
0
6.
h-
al
to
y
e
al
ve
ly
n
b
ar
le
n.
of
k-
lin
of
e50
y's
gid
pc-
a-
ad
e

TT
I
after an attack by a six-

RESERVE BANK Governor Gerhard de Kock has sketched an optimistic scenario for 1988 with the SA economy returning to relative normality after more than two years of abnormality.

But he warned that too large a deficit in the March Budget could "create difficulties" and said discipline on the part of government was imperative.

"At this stage, the picture for 1988 looks very different from 1987. If all goes well we will get back to a more normal economy, including less rigidity in interest and exchange rates," he said yesterday.

However, a more buoyant economy would place great importance on the March Budget.

"Last year it was not crucial that the deficit was on the large side, given the spare capacity in the economy. However, this year too large a deficit could create difficulties, making fiscal discipline imperative."

Although it was too early for final figures for the fourth quarter of last year, indicators pointed to increased investment and consumer spending, higher import levels and a higher growth rate.

"The bits of the jigsaw puzzle which are falling into place form a more optimistic picture."

He said bank credit and money supply were increasing more rapidly, while the reserves had stopped rising. There was also a slight upward tendency in interest rates despite repurchases by the Reserve Bank, the placement of CPD funds in the market and Bank accommodation at the discount window.

"Recently, banks have needed funds in order to comply with cash reserve and liquid asset requirements. This means there must be demand for credit — someone is borrowing in order to spend."

He said bank notes in circulation had reached record levels in December, a rise that was not merely seasonal.

De Kock sees better year for economy

49
Blaauw 6/1/88

GERALD PROSALENDIS
Financial Editor

"The increase suggests that the informal sector is experiencing some life.

"For the first time in more than two years there is the sense that the growth rate is really picking up, although it is still too early for firm conclusions to be drawn.

"But we must accept that if we do get the growth we want, we might have to live with somewhat higher interest rates. Some rise in interest rates would, in fact, be a sure sign that the country was experiencing higher growth.

However, he warned that there had to be follow-through for the present trend to become self-sustaining. This would be assisted if inventory investment, which was income-generating, picked up in the first quarter.

During the past two years the main constraint on growth in SA had not been the balance of payments, as some be-

● To Page 2 →

Hopes for sound economy in '88

lieved, but a lack of confidence. If, however, confidence improved, which was desirable, the balance of payments would at some stage become a constraining factor.

"We have to prevent the current account surplus from disappearing. SA does not have unlimited access to foreign credit. There must be an incentive for people to use foreign credit and it is here that domestic interest rates could play a key role.

"Interest rates are unlikely to rise

← ● From Page 1

sharply, but their movement will have to be monitored extremely carefully.

"Timing is of utmost importance. Should demand strengthen significantly, and if we wait too long, we could be confronted with an overheated economy which is something we cannot afford.

"However, too strict a monetary policy too early could choke off the nascent upswing, especially in investment spending."

49

UN gloomy over world '88 economy

12/1/88
49
SMC

NEW YORK — The world economy will be precariously unstable this year, the United Nations said yesterday in a new forecast even gloomier than that issued before the stock market crash.

UN experts now expected the world economy to grow by only 3 percent instead of the 3.5 percent predicted before October.

The economists also said that world trade would grow by a sluggish 3 percent instead of the 4.3 percent expected in early October.

"The international financial system and the global economy remain vulnerable to new shocks and to the possibility of a worldwide recession in the coming months," the report said.

The UN forecast was more pessimistic than some. An Associated Press survey of experts round the world found that many expected 1988 to be a fairly good year.

"We're slightly on the gloomy side of normal, but it's certainly not tearing the hair out," said Mr Geoffrey Horton, chief economist in the London office of DRI Europe, a research and consulting firm.

Unusually difficult dilemmas

The UN report anticipated a bleak 1988. It said governments faced unusually difficult dilemmas in the coming year: they must find a way to cut debt and trade imbalances without causing a recession or rekindling inflation.

"Confidence and stability in the economy must be restored if a worldwide recession is to be averted next year," it said.

The best hope was concerted international action, UN Secretary-General Mr Javier Perez de Cuellar said in a message accompanying the new forecast.

The UN said global economic problems "can be overcome if all countries make more determined efforts to address the weaknesses in their economic performance and to harmonise their respective policies".

Pattern of decline from 1980s

The report said economic growth slowed worldwide in 1987 and was expected to slow even more in 1988, continuing a pattern of decline that began in the early 1980s.

This meant a struggling African farmer could have a harder time buying seed and fertiliser, and earn less money for the crops he could grow.

It meant the pay of a Western Europe factory worker would buy less than in 1987.

Looking back on the past year, UN economists said the gross national product of the developing countries, excluding China, grew by only 2.1 percent in 1987, down from 3.2 percent in 1986.

China, the report said, would continue to be the world's fastest-growing economy. Its economy expanded by 7.4 percent in 1986 and 10 percent in 1987. It was expected to grow by 8 percent this year.

Other bright spots were also in Asia. The forecast said growth in south and east Asia was expected to continue in the 4.7 percent range as it had since 1981. — Sapa-AP.

49 B/day 12/1/88

Credit demand improving — Standard

Pace of SA economy 'is accelerating'

HELENA PATTEN

SA's economy is on the way up, but not all the clouds have evaporated and South Africans may be forced to "tolerate high inflation, a weaker rand and somewhat higher interest rates."

Standard Bank's latest Review says the economy's pace has been accelerating slowly but noticeably during the second half of 1987. A significant feature of this period was the emergence of a gradual improvement in credit demand, initially from consumers, but subsequently also from the corporate sector.

However, "the pace of overall economic activity remains unsatisfactory. The balance of payments position is likely to be negatively influenced by a sluggish world economy — impaired by the crash on Wall Street, the financial position of individuals is still precarious, many companies still prefer re-

maining liquid to committing funds for investment in to new production capacity and stock building, and inflation remains unpalatably high," the Review said.

The Reserve Bank, which for the past two years has managed to rebuild the gold and foreign exchange reserves while following a relatively stimulatory policy, will no longer be able to ignore external pressures.

Standard says if no action is taken, the shrinking current account surplus will lead to declining reserves and possibly to a renewed fall in the rand, exacerbating cost pressures when demand is reasonably strong and causing sharply higher inflation.

"To forestall these problems, or at least minimise them, the Reserve Bank will probably choose the prudent path of gradually tightening monetary policy."

Caught between clashing scenarios

INTERNATIONAL economies are about to tackle a year of conflicting scenarios.

By KATE LAST

Many need to bolster their economies because of low growth rates while higher interest rates are necessary to service other areas, eg current accounts. The bottom line for them is what takes precedence.

Our own economy is indicating a period of recovery. Increased consumption expenditure and public sector investment have led to real growth figures.

But although a further stimulation of the economy through lower interest rates is desirable, a narrowing current account surplus requires higher interest rates.

This will encourage local businessmen to make their capital borrowings overseas, taking pressure off the local capital market and also giving the rand a breathing space.

Financing through foreign sources means an inflow of other currencies into our market, which bolsters our own forex reserves. With our current account debt for 1988 at a not-to-be-sniffed-at \$400-million (about R800-million), a healthy stock of foreign money is needed to maintain a surplus on our current account, which in turn is necessary to service this debt bill.

Although higher interest rates do not automatically imply higher inflation, 1988 is likely not to bode well for the consumer.

One of the best indicators of inflation is M3 (a figure made up of currency deposits and time deposits). This has been growing in leaps and bounds for some time now.

Don't be fooled by what appears to be a lower inflation rate. The base year is now 1980 and no longer 1975. The current inflation rate is now based on a year which displayed an annualised inflation rate of approximately 15 percent as opposed to the old base year which experienced approximately 10,5 percent inflation (annualised).

The rand is not expected to perform very well. It displays inherent weakness — a falling dollar results in rand appreciation but depreciation against other currencies. The dollar strength usually results in the rand losing more ground than it ever gains.

Growth internationally is expected to decline this year. Lower demands for our exports implies a lower current account surplus. So unless the anticipated higher interest rates bolster the current account surplus, the rand will come under even more pressure.

South Africa is not alone in its dilemma of growth versus a potentially weaker currency.

The US requires a higher growth rate and an increased export bill. Lower interest rates are one of the

ways of achieving this. But the weakness of the dollar dictates that the Americans cannot afford to lower their rates to any extent. To encourage foreign investment in the US, higher real returns to investors are required. An alternative to this is to make investment in the US by foreigners cheaper by allowing the dollar to drift lower.

The UK's dilemma is similar to our own but different from the US where recession poses a bigger fear than inflation. A slowdown in the UK economy is expected for 1988 as a result of a rising import prosperity and declining export growth.

Higher interest rates seem to be a pre-requisite there, as in South Africa. This would assist in dampening inflation pressures and limiting the downward pressure on the sterling. But a call for higher domestic growth would require a lowering of local rates.

198/11/2-51

49

FM

15/1/88

ECONOMIC OUTLOOK

Unsatisfying growth

Things are looking up. New-car sales have improved; manufacturing output has been rising since the second quarter of last year; capital spending, retail sales and credit demand are on the rise; and the outlook for homebuilders is brighter.

But the latest *Standard Bank Review* warns against getting excited about a projected 2,5%-3% growth rate this year: "No one can or should be satisfied with an annual GDP growth of less than 3%. SA should set itself a target of 5%-6%, a rate it is fundamentally capable of achieving."

After five years of negligible growth and with millions of people to put to work, bold steps by Pretoria are needed to free the economy: "Stimulation could come from more and far faster privatisation; a significant reduction in the size of government and its claims on resources; less restrictions on the movement of people and on where and how business operates; aggressive encouragement of informal sector activities; as well as a tax system conducive to capital accumulation and investment."

Pretoria ought to consider the prescription carefully. It doesn't ask government to stimulate the economy artificially through public-works projects, subsidies and other self-defeating schemes. Rather, the key is for government to disengage itself and let the market boom on its own.

Three impediments

The *Review* sees three impediments to faster growth:

□ A low level of confidence — in many cases stemming from Pretoria's foibles. Though some companies face capacity constraints, many are unwilling to look at long-term projects because they fear the future. Their reasons include an unfavourable world economy; political uncertainties; uneasiness about how Pretoria will implement economic policies; fear that interest rates will again go above 20% in 2-5 years because of an emerg-

ing capital scarcity and rising inflation; and uncertainty about tax reform.

□ Weak export performance, which could "be the main factor acting to end prematurely the current recovery." The shrinking trade surplus could lead to declining forex reserves and a renewed fall in the rand this year.

□ The growing militancy of trade unions. Huge wage demands are likely to be accompanied by more frequent strikes, leading to damaging disruptions of production and reduced business confidence.

"The country has experienced, and seemingly accepted, a decline in the annual growth performance from an average of more than 6% during much of the Sixties, to some 3% for the Seventies, to about 0,5% for the period 1982-1986," the *Review* says.

"Compared with the past 5 years, average GDP growth of some 2,5%-3% for 1987 and 1988 may look good, but in the light of a population growth rate of more or less the same magnitude, compounded by rising expectations, this is unsatisfactory." ■

Women, as consumers, exercise control over the economy, says Ms Jocelyn Bell, an economist for a South African mining house.

Ms Bell spoke on women's role in the South African economy as consumers, producers, investors and entrepreneurs at a convention on women, leadership and development last weekend.

The conference was organised by the South African Association of University Women, Soroptimists International Pretoria and the SA Federation of Business and Professional Women.

Arbiters

Ms Bell said it would be wrong to conclude because of the lack of women in companies on the Johannesburg Stock Exchange that women had little part in the economic system.

"All those companies are operating to provide products which will ultimately titillate the consumer, and the consumer, by and large, is a woman," she said.

She observed that the higher the status of women in society, the more prosperous society became.

Principal role

For an economy to prosper women perhaps needed to fulfill their role as arbiters of consumption, she said.

In the South African economy private consumption expenditure amounts to R77 billion per annum or 25 percent of the gross domestic

product, and that is the measure of women's principal role in the economy," she said.

Referring to women as producers in the economy, Ms Bell said that while women were prominent in the more junior echelons of business, they had not yet made serious inroads higher in organisations.

And while the woman's role as a producer was important, Ms Bell said it was still subordinate to their role as consumers. This could be a manifestation of the efficiency of the division of labour within an economy.

"If women have the pivotal role as consumers, men have the commanding role as producers."

While there was no training for consumers, except that passed from mother to daughter, there

A convention held in Pretoria this weekend aimed at increasing women's contribution to economic growth, social betterment and cross-cultural co-operation in South Africa, as well as to demonstrate unity of purpose among leading women's organisations. PAULA FRAY reports.

were varied forms of training for producers.

Many women excelled in leadership roles "if they were allowed to attain them", said Ms Bell.

"Unless women assume leadership roles they will not achieve anything, but leadership which develops within the system is much more efficacious than the usual suggestions of affirmative action of one kind or another."

She said women as investors had an opportunity to affect the fortunes

of public companies. However, leadership roles were still very far in the future.

"As entrepreneurs, however, women can come into their own as controllers of their own destiny and leaders in the struggle for and upliftment of the quality of life," she said.

Ms Nomvuyo Ntibe, a careers counsellor, spoke on the vocational aspirations of the black child in South Africa, its problems and achievements.

As no individual could be understood apart from his environment, the measuring instruments used in counselling for black students needed to be Africanised, said Ms Ntibe, who is a trained social worker.

She said: "More counselling needs to be done at school when the young person is developing his identity, preparing for a career, developing a personal set of values and becoming a socially responsible member of the community."

Counsellors could not give only career guidance when the students were faced with high unemployment.

"They should be encouraging their candidates to place more value on a balanced life where work, careers, family and self-development re-

ceived equal attention," she said.

"The training of counselling psychologists and the relevance of the training to the community needs to be given further consideration," Ms Ntibe said.

Priority

The training of teacher-counsellors should also be given priority.

She said student counselling was plagued by a number of problems including large numbers of students and the lack of specialised guidance teachers and the training of black counsellors along Western lines.

The latter was unsatisfactory as guidance was a behavioural science and, to be effective, had to be adapted to the culture of the society in which it operated.

Women 'control' SA economy

57M 181158
149

Bright view of year's growth

B/Day 18/11/88
49

STELLENBOSCH's Bureau for Economic Research (BER) is sticking out its neck on economic growth this year, forecasting a higher rate of real growth for the SA economy and a lower inflation rate than most analysts.

With inflation at 14,1% average for the year and real growth at 3,4%, BER economist Glenn Moore admits the research unit is taking an optimistic view. "Since the beginning of last year, we have been optimistic about 1988," he says.

The BER's forecast for real growth tops that of Nedbank and stockbroker Davis Borkhum Hare by more than a percentage, but is echoed by J D Anderson's Piet van Schaik. Most other analysts see growth at between 2,5% and 3%.

Moore says the link between the inflation rate and real Gross Domestic Product is important. "Real growth is the percentage change in GDP after allowing for inflation — obviously, a lower inflation rate implies higher real GDP growth." The BER's optimistic view of inflation partly explains its bullish outlook for real growth.

But why the positive outlook for inflation? Moore sees the exchange rate as a crucial determinant for inflation: the BER expects a rand/dollar average of 50,5c, again higher than most other analysts. Inflation could touch far lower levels this year on the back of an improved rand/dollar exchange rate,

GRETA STEYN

Moore says.

Bullish on gross domestic fixed investment (GDFI), the BER expects a 6,5% real increase compared with Volkskas's much lower 1,1% growth prediction. "But the joker in the pack here is the US double tax bill, which could force SA companies to buy out US companies instead of spending on new fixed investment," Moore says. The GDFI forecast was done before news of the double tax bill and is based on the assumption that there will be no large-scale pull-out of foreign companies.

The BER sees real economic growth of around 3,4% as the peak of the current business cycle, with economic performance slowing again after the point has been reached.

It is unlikely that the economy will beat this year's growth in the next few years, Moore says, because of SA's need to maintain a surplus on the current account of the balance of payments (BoP). SA's foreign debt commitments placed a BoP constraint on the economy, limiting growth because the current account could not swing into deficit.

Contrasting sharply with the BER's optimistic view is Davis Borkhum Hare's Mike Brown, who believes GDFI growth will not experience an impressive recovery this year. Brown also does not fore-

see inflation dropping dramatically.

On the subject of fixed investment, Brown says stock market crashes are usually followed by a slowdown in fixed investment. Another factor putting a brake on investment spending is, in Brown's view, uncertainty about changes following the Margo report, "particularly regarding capital investment allowances".

He adds: "Work stoppages, strikes, consumer boycotts and sanctions create an uncertain environment in which to base long-term investment plans."

Spare capacity levels in the manufacturing industry also place a constraint on investment spending.

Turning to the inflation rate, Brown says demand pressures on inflation are expected to remain much the same in the near future, while it is unlikely that a stronger rand will put a damper on the inflation rate. "The dampening factors that have helped pull inflation down over the past year look less likely to exert the same influence in future."

Brown, like the BER, believes the economy will grow less in 1988 than this year. "There are a number of factors pointing towards our reaching a peak in the business cycle in 1988," Brown says, citing the declining surplus on the current account, the likely rise in interest rates, and the JSE slump.

FORECAST OF KEY ECONOMIC INDICATORS 1988

| % Change in Real Growth | BER | Nedbank | Davis Borkhum Hare | Sanlam | Volkskas | JD Anderson |
|--|---------|---------|--------------------|---------|----------|-------------|
| Private Consumption Expenditure..... | 4,3 | 2,3 | 3,8 | 3,7 | 2,0 | 6,0 |
| Govt. Consumption Expenditure | 4,0 | 2,0 | 3,1 | 3,0 | 2,5 | 3,7 |
| Gross Domestic Fixed Investment..... | 6,5 | 4,0 | 2,9 | 5,0 | 1,1 | 3,0 |
| Change in Inventories (Rm) | +572 | +500 | +940 | +1 000 | +600 | +900 |
| Gross Domestic Expenditure | 5,6 | 3,4 | 5,0 | 5,7 | 3,6 | 6,4 |
| Exports | 1,0 | 2,0 | -4,1 | 0,2 | 0 | -2,2 |
| Imports | 8,5 | 7,5 | 3,9 | 9,6 | 2,9 | 7,0 |
| Gross Domestic Product | 3,4 | 2,1 | 2,1 | 3,1 | 2,5 | 3,3 |
| Forecasts For: | | | | | | |
| Inflation Rate (Average for the year)..... | 14,1 | 17,0 | 16,0 | 15,0 | 16,0 | 15,5 |
| Current Account Surplus | R3,78bn | R4,5bn | R4,4bn | R4,25bn | R6bn | R5bn |
| Prime Rate (year-end) | 13,0 | 13,5 | 13,0 | 13,5 | 13,0 | 14,0 |
| Long-term Rates (year-end) | 16,0 | 17,0 | 17,0 | — | 16,0 | 16,5 |
| Exchange Rate (Average for the year) | 50,5 | 0,48 | 0,46 | 0,48 | 0,47 | 48,0 |

SA on R5-billion

W/C ARGUS 23/1/88

49

SINCE the beginning of October South Africa has been engulfed in a flood of spending. Reserve Bank figures issued this week show that in the past two months companies and individuals, with a little help from the Government, have increased the money supply by an extra R5 200-million to generate the biggest splurge since the 1980 boom.

The huge increase in money supply has taken many people by surprise. Even the Reserve Bank thinks the figures might be too good to be true. So the bank has emphasised that they are only preliminary figures and may have to be adjusted.

The bank's caution is understandable. The increase is more than six times the R800-million rise in the M3 money supply in the same two months of 1986 and more than three times the R1,5-million rise in 1985 and 1984.

Upsurge

But as the difference between these and the 1987 figures is so large, it is clear that even if there were a major error in the figures, something extraordinary is happening.

As increased bank lending is believed to have fueled much of the growth in the money supply, the decision of the commercial banks this week to raise their prime rate from 12,5 to 13 percent to replenish their funds is understandable.

"There is no doubt that the boom has arrived," said Mr Jos Gerson, chief economist with Matthison and Hollidge.

He was, however, concerned that the upsurge in spending could lead to increased imports and to pressure on the balance of payments later this year.

This could force the authorities to take remedial action,

By DEREK TOMMEY, Finance Editor

such as raising interest rates or allowing the rand to drop which would intensify inflation.

The upsurge in spending by both companies and individuals is seen as reflecting greater confidence in the country's economic prospects and possibly in its political prospects.

Several favourable developments, both political and economic, have made individuals and companies more willing to borrow and spend.

The cooling of unrest and the absence of further major sanctions has helped to reduce tension. The ending last year of the huge capital outflow which held the country back in 1985 and 1986 was a positive factor for the economy.

The sharp increases in 1986 and 1987 in the prices of gold and platinum which stimulated new investment was also bullish for the economy.

Better crops

Finally, the ending of the drought in the Transvaal has been a major plus factor.

The prospects of better crops with farmers' earnings rising at least a third has increased optimism. Some businessmen maintain that the good rains triggered the jump in spending.

While a number of economists have doubts about wheth-

er the November and December trend will be maintained, others are certain the boom will continue with the problems Mr Gerson fears.

There is much evidence to show that the Christmas spending spree has depleted stores and wholesalers and is leading to a frantic drive to restock — mainly with bank finance.

Pressure

Motor dealers are especially desperate for stock and the motor assemblers are expected to experience a boom for a number of months.

And though there are fears that a rocketing demand for imports could put pressure on the balance of payments, some economists feel this would not necessarily lead to restrictions on the economy.

The possibility of higher gold and platinum prices helping the balance of payments is always there and even a renewed in-flow of foreign capital can not be ruled out, they say.

It has also been suggested that, rather than see the upturn prematurely ended, the country could temporarily reduce its import bill by using some of its strategic oil stocks.

So, while the outlook for the economy is not completely problem-free, it is generally accepted that it should be much more exciting than for several years.

stry

stry - Li

stry - Ra

stry - Ra

s Divisi

ape

istry, F

istry

ape

ons of

Afric

lied

Spending Surges

Economy upturn — more staff wanted

Weekend Argus Correspondent

JOHANNESBURG. — Job opportunities in most sectors of the economy are increasing by the day as companies expand their workforces to keep pace with the upturn and to replace staff who left at the end of the year.

According to Mr John Dawkins, managing director of Kelly Personnel, demand for general office staff, particularly temporary, has increased by more than 100 percent since last June.

"This was followed by an increased demand for permanent staff. This seems to imply that there is a more active and positive economy.

"When companies first experience an upturn in business they are reluctant to recruit permanent staff immediately. They are more likely to employ temporary staff while they gauge if the upturn is going to last.

"As soon as they feel confident about the upturn continuing they look to increasing their workforce and take on permanent staff."

The greatest demand is for secretaries with shorthand, word-processing operators and bookkeepers. At the same time a salary survey made by the group shows that in certain job categories where there were shortages last year salaries have risen considerably.

For instance, salaries of bookkeepers, secretaries and executive secretaries have increased by 18,3 percent, 18,1 percent and 12,5 percent respectively.

Mr Dawkins says that with the increasing demand for skilled staff, starting salaries will become progressively higher as companies strive to retain their staff and to attract additional staff with the necessary skills.

He says consumer demand is

increasing and this is fuelling the production side of most companies to the extent that many are finding it difficult to keep up with the demand for services and goods.

Mr Ray Rosse, general manager, Professional Assignments, says that in the past year there has been a 200 to 300 percent increase in the demand for senior professional people.

"Two years ago we had a surplus of applicants and no opportunities. This year there is a complete reversal.

"Clients are also taking a much more positive approach to the future and are opening their doors. Discrimination is falling away."

Mr Bruce Herholdt of Don Gray Technical Management Services says the high-technology industry in the Transvaal is desperately in need of graduate and diplomat engineers and technicians for the light current electronics area.

Foreign developments ^{B/day} ~~6/24~~ ⁽⁴⁹⁾ hit SA growth prospects ^{25/1/88}

SA'S economic growth in 1988 and 1989 will depend on the effect of foreign trends in growth and inflation on SA's export position, says Southern Life economist Mike Daly in his latest Economic Comment.

He says recent international developments have "reduced prospects for sustained economic growth in SA through to 1989".

The estimated 1987 current account surplus of R6bn would fall to around R3bn in 1988 under the "certain impact of rising import volumes and prices, and a certain fall in export volumes (around 3% after a 2% fall in

HELENA PATTEN

1987) and a less certain fall in commodity prices.

International stock exchange collapses and sanctions will inhibit revenue from exports, but the falling dollar will be a major reason for international commodity prices to firm on average because most commodity prices were denominated in the US currency.

He says in the current local economy "nearly every important indicator of economic conditions has moved up a gear as we enter 1988".

These include increased volumes of manufacturing production, an upward trend in real wholesale sales, real growth in disposable income in 1987, private consumption expenditure up 4% in 1987, stronger consumer credit demand, a strong net gold and foreign exchange position, an end to the reduction of inventories and manufacturing investment, and a softer inflation rate.

But the balance of payments could restrict growth for the first time in three years, while inflation in 1988 could renew an upward trend in response to a rand allowed to depreciate by the Reserve Bank.

49 B/day 4/1/88

The big question is: Will history repeat itself?

Statistics say there should be recession

THE statistical records show that every time the US stock market has declined more than 35%, the collapse has been followed by an economic recession.

Including the October plunge in share prices, there have been nine stock market declines of this magnitude this century.

The burning question now is whether this year's collapse will conform with historical precedent and lead to recession.

Looking at past experience of bear markets, traders and investors could be excused for being a little rattled.

Statistics alone are of limited use, of course, in forecasting the post-crash pattern this time. The clue to predicting the impact of a substantial stock market decline still lies with such realities as policy response and the robustness or otherwise of the real economy.

If investors are afraid that October's 35%-plus share price collapse will lead to a recession, like all the others, they will boycott the market, share prices will continue to fall, more personal wealth will be wiped out and the chances of a recession will have increased dramatically.

Any who doubt the power that technical analysis exerts on a market should remember the influence both on the way up and the way down of Robert Prechter, whose predictions are based entirely on past patterns (The Elliot Wave Theory).

The longest sustained downturn in equity prices this century, as well as the largest, occurred between September 1929 and July 1932, a bear market which was triggered by what

JANET BUSH of the Financial Times ponders precedents for post-crash stock markets

is now known in the history books as the Wall Street Crash on October 28 and 29 and which led to the Great Depression.

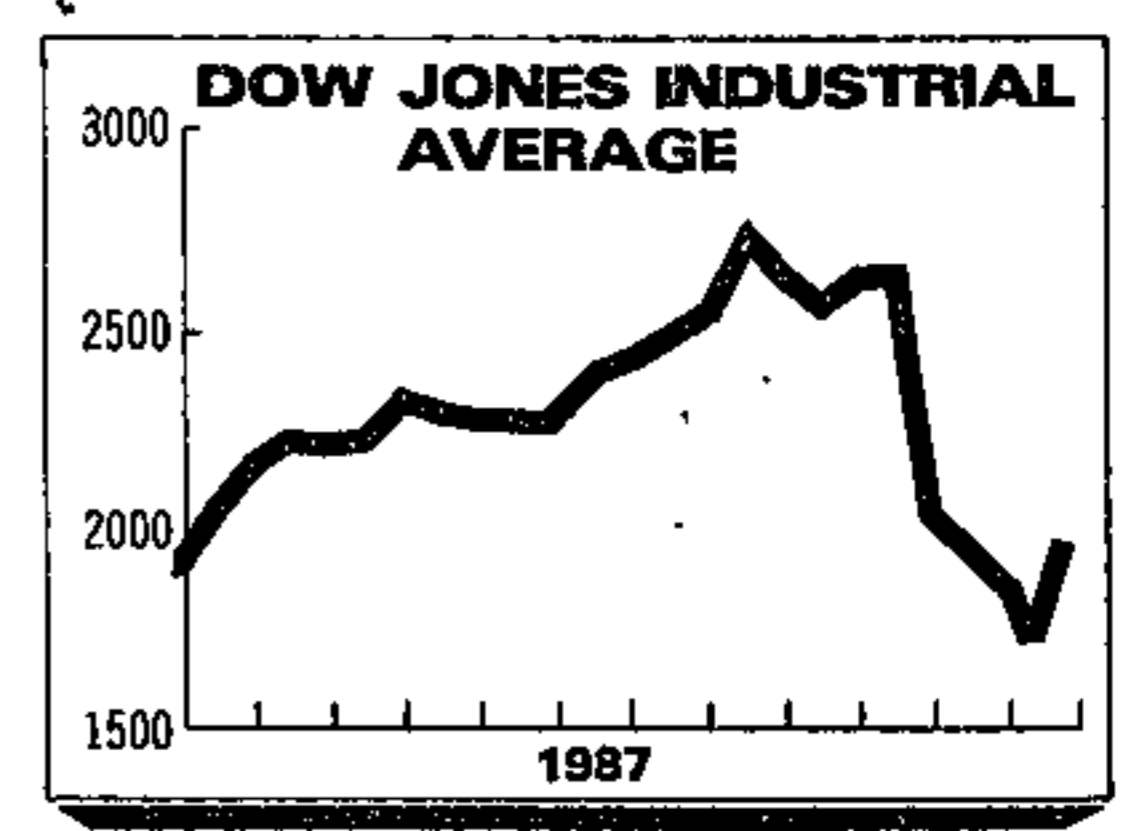
Over that period, the Dow Jones index of leading industrial stocks dropped by a staggering 89.2%.

The stock market crash of 1987 has, so far, been more limited, but has been telescoped dramatically into a very short period. The decline can be measured from the market's peak on August 25 to the close on October 19 — which will go down in the record books as Black Monday. In this eight-week period, the Dow Jones Industrial Average plunged by 36.1%.

The 1987 crash will certainly provide statisticians with superlatives. The free-fall in share prices on October 19 constituted the largest one-day percentage fall in stock values by a very long chalk — a fall of 22.61% compared with a fall of 12.82% on October 28, the worst single day of the 1929-1932 bear market.

The open question is whether the crash of 1987 will trigger developments (as the 1929 crash did) which will be written into the history books as well as provide excitement for statisticians.

No bear market repeats the pattern of a previous one, and so far the



Graphic: FIONA KRISCH Source: FINANCIAL TIMES

aftermath of October 19 has been substantially different to the weeks after October 28, 1929.

In the 10 weeks since Black Monday, the Dow Jones Industrial Average has recovered by 204.55 points. The recovery in the 10 weeks after the 1929 crash was far less dramatic.

Another difference between the two periods was that, in 1929, the stock market quickly recorded new lows, falling another 13.6% within a fortnight of the major collapse. This time round, the low has not been seriously tested.

It may seem strange to investors who simply want the market to get back to where it was before the crash (so that they can cash in their chips), but technicians are disappointed there hasn't been a really good market fall since October 19.

Of course, the power of precedent works both ways. One of the most important supports now for the equity market is the so-called January effect — the belief that because share prices have traditionally risen in January, they will again this month.

BUSINESS

by Matthew Moonieya
business editor
EAST LONDON — The
Bureau for Economic
Research at Stellen-
bosch University has
predicted a consumer-
led recovery for 1988.

In its latest forecast
of economic pro-
spects, the bureau
says the confidence
factor, which has re-
strained economic
growth, appears to
have changed and
both businessmen and
consumers have re-
vealed a new sense of
optimism.

The bureau said the
higher demand would
encourage a turn-
around in the invest-
ment cycle and these
factors would be in-
strumental in realis-
ing a 5,6 per cent
growth in domestic ex-
penditure. This dom-
estic economic expan-
sion will cause
imports to increase at
a more rapid rate than
exports.

"As a result, econ-
omic growth, as meas-
ured by the increase
in gross domestic
product, is predicted
to attain a level of 3,4
per cent for 1988."

The bureau pre-
sented its forecast with
a look at prospects for
the world economy. It
says the prospects for
world economic
growth in 1988 have
been negatively af-
fected by the stock
market collapse
which has necessi-
tated a review of the
optimistic assessment
last September.

"World growth this
year is not expected to
be higher than in 1987
even though some La-
tin American coun-
tries may improve on
their 1987 perform-
ance. This less opti-

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

mistic scenario will
have an adverse effect
on South Africa's non-
gold export volumes.

"On the other hand,
the anticipated de-
preciation in the dol-
lar, together with high
US inflation, should
have a positive impact
on commodity prices."

Dealing with the
American budget defi-
cit and the role to be
played by Japan and

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

West Germany in pre-
venting a global econ-
omic collapse, the bu-
reau says only time
will tell whether
world-wide co-ordi-
nation of economic
policies is possible.

The world economic
situation will impact
on South Africa's ex-
port performance and
total export volumes
are projected to in-
crease by one per

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

Bureau: consumer-led recovery on the way

cent, compared to the
1,4 per cent forecast
in September.

"Export prices are
expected to benefit
from the anticipated
rise in commodity
prices and the rise in
inflation. The full ex-
tent of these price
rises, however, will
not be realised by ex-
porters due to the ap-
preciation foreseen in
the rand vis-a-vis the

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

dollar. Thus export
prices are projected
to rise by 5,9 per cent.

"It is clear that this
moderate increase in
export prices is well
below the current rate
of domestic cost in-
creases and this will
result in shrinking
margins. Thus if South
African exports are to
remain competitive
on international mar-
kets, exporters will
have to cut costs or be
satisfied with lower
profit margins."

On the overall bal-
ance of payments, the
bureau says imports
will be growing at a

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

more rapid tempo
than exports and this
implies that the cur-
rent account surplus
will narrow during
1988.

"The projected cur-
rent account surplus
for 1987 is R5,8 billion
and this surplus is ex-
pected to decline to
R3,8 billion on aver-
age for 1988. Despite
this decline, it should
still be sufficient to
cover commitments on
the capital account."

Domestic financial
variables dealt with
include the exchange
rates, inflation and in-
terest rates.

A slightly firmer
dollar exchange rate
is predicted following
the continual depre-
ciation of the dollar
against the deutsche
mark.

"The dramatic
build-up in reserves
foreseen during the
first quarter of 1988
will result in an aver-
age dollar-rand ex-
change rate of 52c and
as the accumulation of
reserves tapers off
during the rest of the
year, the exchange

rate will depreciate
marginally.

"However, the rand
is expected to remain
above 50 US cents.
This represents a 3,4
per cent appreciation
in the exchange rate."

The strength of the
rand has important
consequences for the
rate of increase in im-
port prices and thus
inflation which is pre-
dicted at 14,1 per cent
for 1988.

"The good rains
which have fallen in
most parts of the
country should ensure
more stable food
prices in 1988. Meat
prices, however, are
expected to remain
high since herds have
to be re-established
after the years of
drought."

Moderate increase
in short-term rates are
projected for 1988.
The lower inflation
projected should
exert a restraining in-
fluence on long-term
interest rates and the
next budget deficit
will be crucial in de-
termining the course
of long-term rates in
1988.

19 per cent state spending hike predicted

projected economic
growth for 1987 will
probably result in a
budget deficit before
borrowing of approxi-
mately six per cent of
gross domestic prod-
uct.

"A nominal in-
crease of 19 per cent
in government expen-
diture is projected
and thus effective tax
relief is not antici-
pated in the 1988-89

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

EAST LONDON — The
faster growth ex-
pected in private con-
sumption expenditure
should encourage fis-
cal restraint in 1988,
according to the bu-
reau.

"It is no longer
necessary for govern-
ment to stimulate the
economy by increas-
ing expenditure. In-
deed the authorities
have realised this and

government expendi-
ture is expected to be
lower in real terms
during 1988."

Despite the de-
clared restrictive fis-
cal stance regarding
increases in expendi-
ture, events such as
the Natal flood will
result in spending ex-
ceeding the targeted
projections.

"The lower than
have realised this and

DD 26/1/88 (up)

CARE TIME 26/1/88 (49)

Southern warns on inflation

By AUDREY D'ANGELO
Financial Editor

FORECASTING better growth figures and an upward trend in fixed investment this year, Southern Life chief economist Mike Daly warns, however, that the inflation rate is likely to average "close to 16%".

And he expects short-term interest rates to rise "to 2% or 3% above current levels by the end of this year".

Day starts his quarterly economic forecast on an optimistic note. "Nearly every important indicator of economic conditions has moved up a gear as we enter 1988."

And although export volumes are likely to fall by 3% following a 2% fall in 1987, he expects this to be partially offset by a rise in dollar prices of commodities.

"The falling trend in the dollar will be a major reason to expect some continued firming in inter-

national commodity prices on average, at least until the trend in the dollar, in which most commodities are denominated, reverses.

"In addition, supplies have been adjusting to the long downswing of the commodity price cycle which bottomed out some 12 to 15 months ago and inventories of many key commodities are significantly lower than a year ago.

Exports

"This fairly encouraging side of the outlook for international commodity prices is of vital importance for SA's export performance and balance of payments in the year ahead."

Daly says that apart from commodities, the growth performance of developed economies will not suffice to help SA's exports.

"Regarding export volumes,

sanctions will be another inhibiting factor against moving sufficient quantities at satisfactory prices and we expect export volumes to be between 2% and 3% down in 1988."

This, he says, will inhibit SA's growth rate and place more stress on domestic demand as the factor sustaining a recovery.

"For the next two quarters at least, official policy will aim at getting the economy closer to a 3% growth rate.

"Thereafter the shrinking balance of payments surplus on current account will be felt via a weakening of the exchange rate of the rand against major currencies, falling net reserves and rising interest rates.

"The need to maintain a surplus on the current account to meet foreign debt commitments will become dominant and the peak growth of the economy will have been passed."

88/11/88
B/day/88

2 BUSINESS DAY, Wednesday, January 27 1988

RSCs must be efficient — Cruywagen

GERALD REILLY

PRETORIA — The reluctance of many people in business and agriculture to pay the RSC levies was understandable, Administrator Willem Cruywagen said in Pietersburg yesterday, but they must prove their worth by being efficient.

Opening the first sessions of the Northern Transvaal Regional Services Council, he said: "Being unhappy about taxes and additional financial commitments is a phenomenon almost as old as mankind."

He stressed the need for a just determination of priorities in the spending of funds. A programme would have to be compiled for the purposeful elimination of accumulated backlogs and relative inequalities in infra-structural services.

"Every effort must be made to alter the present pattern, which tends to increase the existing gap in welfare and contribute to negative growth." One of the important aims of the RSCs was efficient and better co-ordinated services and the optimal use of resources.

Their primary function would be upgrading essential minimum standard services to the various communities.

88/11/88
B/day/88

Recovery will result in real growth of more than 3%

Outlook is bullish say Old Mutual and BER

GRETA STEYN

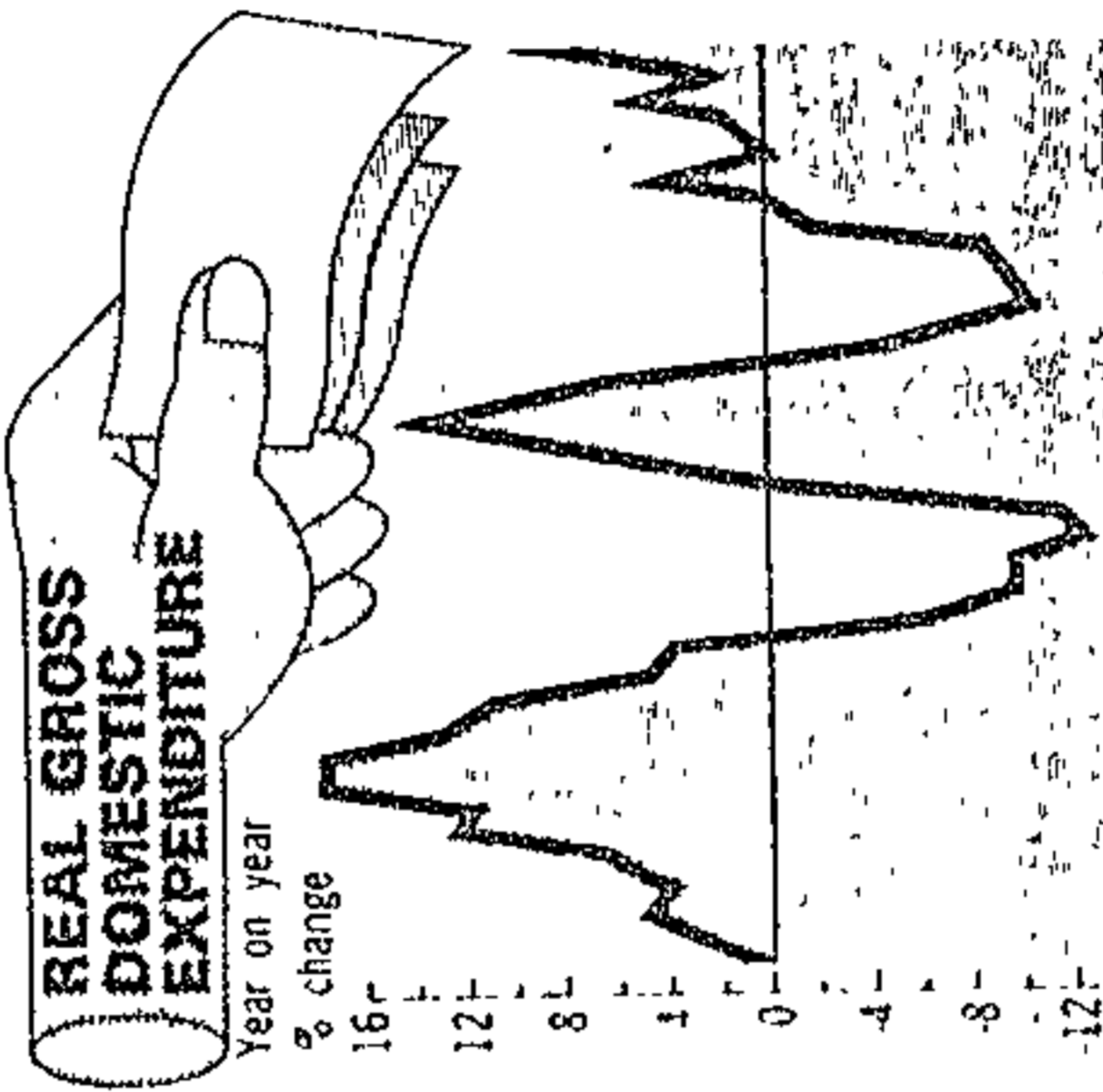
THE OUTLOOK for the economy in 1988 is bullish, with a consumer-led recovery resulting in real growth of more than 3% and inflation not causing too many headaches.

That is the view of both Old Mutual and the Bureau for Economic Research (BER), which, in separate publications, show optimism for the year ahead.

The BER says in its latest Economic Prospects: "Both businessmen and consumers have revealed a renewed sense of optimism. The confidence factor which has been constraining economic growth now appears to have changed for the better."

Renewed confidence, along with improved household finances will result in a consumer-led recovery during 1988, the BER says.

"The low real interest rates now seem to be encouraging the consumer to incur debt. This is reflected in the



Source BER Graphic KOSY MCCANN
Quarters 80 1 81 1 82 1 83 1 84 1 85 1 86 1 87 1

positive growth in bank credit and the recent increase in money supply."

It notes that sales of new cars, and more recently, domestic appliances have been more buoyant than for a number of years. In nominal terms, an

average increase of 18.9% in consumer spending is forecast.

Similarly, Old Mutual's Dave Mohr says in his latest Economic Monitor the recovery is now firmly in the domestic demand phase of the business cycle while foreign demand for SA goods and services is weakening.

"Domestic demand, which as a result of very low levels of confidence was initially slow to react to the more expansionary economic policies being applied since 1985, gained considerable momentum during the course of 1987 as confidence, the financial position of consumers and business conditions in general improved notably."

Conditions for a continued revival in personal consumption remain reasonably favourable, Mohr says, noting that the seasonally adjusted wage and salary bill of the economy gained momentum throughout 1987 with the third quarter some 18.4% higher than during the corresponding quarter of 1986.

Economic gloom and doom in store

South 28/1 - 3/21 88

WORKERS who do not get a wage increase of more than R15 for every R100 earned will be worse off this year.

This increase is necessary to keep pace with inflation which is expected to be between 15 and 20 percent this year.

Prices of many foodstuffs could be kept in check provided producer prices paid to South African farmers — often higher than world market prices — are not increased.

This is, however, unlikely to happen. In contrast to the more democratically-based Third World countries, the interests of producers in South Africa are usually put ahead of those of the consumer.

This explains the recent South African Sugar Association's announcement of a 12 percent sugar price increase to nearly R1 000 a ton, though the world market price is only R700 a ton. Whether the workers can defend themselves successfully against expected price increases depends on their ability to stand together in their unions.

In 1987 the Cosatu-affiliated unions succeeded in gaining average wage increases of 18 percent, slightly higher than the inflation rate.

But even if the unions should succeed in beating inflation, they still face a long struggle ahead before every worker will be assured a living wage.

Pensioners and the unemployed, however, have no way to fight increasing prices, and their position will deteriorate even further.

The economy must grow at a rate of at least five percent a year to keep unemployment constant, and it has to grow at six percent to bring down the number of unemployed.

If the growth rate is as little as one or two percent, as many believe likely in the wake of the Wall Street crash, the increase in unemployment will be even more rapid.

This will increase poverty in communities where as many as a third to a half of the people are unemployed, as in many areas in the Eastern and Central Cape.

Although greater unemployment in the long run undermines the power of the Government, in the short run it increases the Government's hold on many of the poorer communities.

In an attempt to buy political stability, the Government has initiated a variety of employment schemes in many areas, giving it additional leverage over these communities.

It is expected that interest rates, at present substantially below the inflation rate, will increase significantly.

So, if you buy a house now because of very low bond rates, you might find that you end up paying more. On the other hand it may not be a bad investment, since property prices are expected to rise rapidly as money flees the stockmarket.

Similarly, if you buy a motor car on hire purchase, you may soon find that your monthly payments will increase. On the other hand, car prices are increasing all the time, especially of German or Japanese cars, as the Rand

has been falling rapidly against the Yen and German Mark.

The problem of whether to buy a house or a German car is unlikely to keep workers awake at night.

Rather, they will have to decide on suitable tactics in the battle for survival as they face rapidly rising prices.

Progressive organisations are going to have to deal with the difficult situation which has arisen from the reluctance of many Western countries to implement comprehensive sanctions.

Although the screws will continue to tighten on the South African regime, with stronger pressure expected from the USA before the end of 1988.

Unfortunately, however, it seems as though the overall pace will not be fast enough to force the Government seriously to consider negotiations with the democratic movement.

• By Pieter Le Roux, Director of the Institute for Social Development, UWC.

ECONOMIC OUTLOOK

Cry caution

Analysts are cautiously optimistic about growth this year, but less bullish on 1989, the latest batch of economic reviews show.

"We remain optimistic that the recovery will gain further momentum during 1988 and that a growth rate of 3%-plus in real GDP is possible, with real domestic spending recording an even better performance," says Old Mutual's *Economic Monitor*.

Among the reasons things are looking up:

- Confidence keeps rising. "Both businessmen and consumers have revealed a renewed sense of optimism," says *Economic Prospects*, published by the Stellenbosch Bureau for Economic Research (BER). "This factor, in conjunction with improved household fi-

nances, will result in a consumer-led recovery during 1988." BER says business confidence has been improving since the fourth quarter of 1985;

- There's an upswing in investment and inventory-building. "Higher consumer demand during 1987 caught some businessmen by surprise and should result in some stocking up during 1988," BER says. It predicts that private fixed investment, which had fallen since 1982, will rise a real 8,5% this year following a 4,2% rise in 1987.

As Southern Life's *Economic Comment* argues: "It is clear from past experience that only in the second year after the upswing begins does investment typically catch up to consumption expenditure, and then rapidly move ahead on a relative basis in the third year when expectations are running high. Investment will, on this basis, increase at a faster pace than consumption in 1988, when its real growth rate could be 5% or more;"

- The manufacturing sector is showing signs of life, after shedding 140 000 jobs since 1982. Output in the third quarter of 1987 rose to its highest level since the second quarter of 1984 and capacity utilisation rose to 80,6% from the recent low of 77,4% in the second quarter of 1986. "Several industries in the manufacturing sector were already experiencing supply shortages towards year-end, particularly in some durable goods industries," says Old Mutual; and

- Employment and disposable income are moving up. There are more jobs in the manufacturing and construction industries, a rise in job advertisements and an easing of official unemployment statistics. Southern Life says disposable income has been growing faster than inflation for the past three quarters, thanks to higher wage settlements and slowly rising employment.

Preliminary figures from Customs & Excise show a November trade surplus of R1,45bn — R418m more than October — as imports dipped and exports rose. But economists say that's just an upward blip in a generally falling trend. The January-November surplus of R13,2bn is down R687m from the same months of 1986.

Says Southern Life: "Exports in volume terms have been particularly worrying and in addition the major rise in import volumes is yet to take place. We should expect import volumes to rise by some 8%-10% this year. The surplus on the current account is therefore in a classic squeeze and the position, critical for interest and exchange rates and the duration of the economic upswing itself, will need to be closely monitored." ■

AM 29/1/88

BUSINESS

JOHANNESBURG — An offer of five Anglo American Corporation shares each in 1988, made in terms of the Anglo American Group Employees Shareholder Scheme, has been accepted by more than 98 per cent of the corporation's 2 445 eligible employees.

The offer, to head office employees with at least two years' service, was accepted by 2 402 and declined by 43.

Anglo's chairman, Mr Gavin Relly, said he was encouraged by the positive response at head office and hopeful that both shareholders and

D/D 29/1/88
98pc Anglo staff take offer share

employees in associated companies would similarly endorse the scheme.

Meetings of associated companies to seek their shareholders' approval to join the scheme will be held shortly.

"It should be noted

that the problems of communicating information about the scheme, particularly on the mines, will be much greater than at head office and consequently, the level of acceptance is unlikely to be as high," Mr Relly said.

Implementation of the

scheme in participating associated companies begins in February and will continue until April.

The scheme is a long-term project and will run for a minimum period of five years.

It is hoped that, over time, employees unfamiliar with share ownership will gain knowledge of and confidence in the scheme.

The secretary of the power Mine Workers' Union, Mr Cyril Rampahosa, rejected the offer of shares when it was first announced — DDC

D/D 29/1/88
Avis, AA deal

JOHANNESBURG — The Automobile Association has appointed Avis, the country's largest car rental company, as its official car rental contractor

The AA appointment, which took effect on January 1, entitles the association's 650 000 members to special rates as well as to a variety of exclusive special offers, in South Africa and internationally — including the facility of acquiring Avis credit cards.

All Avis Renters will automatically be entitled to free use of the AA's breakdown and certain other services

Avis managing director, Mr Tony Langley, said his company would be working closely with the AA in developing new leisure travel packages which would be purpose-designed for the AA membership

In addition, AA members will be given the opportunity to test-rent new models when these are introduced, and to acquire cars when they are retired from the Avis fleet

Mr Peter Elliott, AA director-general, said the AA had been influenced in its decision to appoint Avis by the range of additional benefits that Avis could offer AA members.

Other considerations had been the size of its fleet — currently running at around 6 000 cars — and the spread of its branch network, which has some 85 outlets in business centres, major suburbs and holiday resorts and at all airports throughout the country.

The fact that Avis is able to provide its services internationally as well as domestically had been another consideration, he said. — Sapa

D/D 29/1/88 (49)
Assocom says omens look good

JOHANNESBURG — Assocom's business confidence index (BCI) has made a further upward shift in January to 98 points, from 97,3 in December and 97,1 in November.

"This reflects the renewal of economic growth which is gaining the upper hand over the continuing bear trend on the JSE and the recent small rises in interest rates," says Assocom.

"The economic evidence now points to the

likelihood of a 3 to 3,5 per cent real growth rate in 1988"

Among the positive influences this month were: real imports continued upwards, real retail sales rose strongly, the inflation rate fell, the number of immigrants exceeded the number of emigrants and insolvencies declined. Negative influences were the continuing bear trend on the JSE, the slight upward movement of interest rates, motor vehicle

stock shortages and a slight increase in unemployment.

"The economic omens for 1988 look very favourable," Assocom comments.

"By the end of last year the economic upturn had gathered considerable momentum, especially if the activities of the informal sector are also taken into account. Both corporate and consumer credit demand are rising."

"It seems as if the South African economy has now moved into the next phase of the economic upswing. In a perverse way disinvestment and sanctions may have stimulated a measure of growth through the new

challenges they pose to the business community."

Assocom believes inflation this year is likely to remain at about the same level as in 1987.

Economic policy had an even more important role to play than last year.

"The big question now is not so much South Africa's economic performance in 1988, but rather whether it will be sustained into 1989. There will be a greater need this year to keep the economy on an even keel. The success of such a policy will, in its turn, help long-term business planning and underpin confidence," Assocom says. — Sapa

BOSBOK ARMS
MONTH END SPECIALS

| | |
|---------------------------------|------|
| CZ 75 PISTOLS | R895 |
| 9 mm FIREBIRD..... | R660 |
| STAR BM'S..... | R849 |
| CZ MODEL 83 (7,65 Calibre)..... | R599 |
| WALTHER PPK | R449 |
| 38 SPECIAL REVOLVERS..... | R369 |
| HUNTING RIFLES FROM | R844 |

HUNTING AMMO. Local and Imported
Just arrived
LEE RELOADING EQUIPMENT
AT BEST PRICES
Prices C.O.D. Excluding G.S.T.
PHONE 472591/2
CASA ITALIA BUILDING
Batting Road, Beacon Bay

Delta's new chief

PORT ELIZABETH — Mr Keith Butler-Wheelhouse has been appointed chairman and chief executive officer of Delta Motor Corporation, the company announced here yesterday.

In addition, Mr Len Abrahamse — who has been a non-executive director of Delta Motor Corporation since its inception — has been appointed deputy chairman of the company.

These appointments — both effective immediately — follow the death last year of Mr Bob Price, who was the first chairman of the newly founded South African company.

Mr Butler-Wheelhouse, a former director of General Motors South African, became Delta's managing director when a South African management team took over control of the company on January 1, 1987. Together with the late Mr Price, he has guided Delta through a successful first year of operation. — DDC

Sugar prices

LONDON — RAW No4 Contract indicator \$147 No6 Cif Contract Feb/Mar \$201.20 No6 Caribbean/UK Freight element \$33 No6 Fobs Contract Equivalent \$220.20 WHITE No5 Fobs Contract Feb/Mar \$258 — Sapa-Rns

Prospects bleak for share market upturn

Star 2/2/88

49

~~49~~

By Teigue Payne

The outlook was bleak yesterday for an immediate upturn in the Johannesburg Stock Exchange, with continued weakness in the gold price, a firm financial rand and a strong dollar.

Gold was \$452,75 at the afternoon fix in London, almost two dollars lower than the morning fix, and \$5,25 lower than its close on Friday. It has now dropped 7,5 percent this year, while the dollar has gained slightly less — 6,6 percent.

The JSE's overall index closed 13 points lower, and the all-gold index was also 13 points lower.

Contrary to past patterns, the financial rand has recently been rising in the face of the weakness of gold.

It has appreciated 9,4 percent since the beginning of the year, exacerbating the sell-off of shares on the JSE.

Foreign investors can sell their South African shares advantageously when the financial rand is high and, since they generally hold market leaders, the decline in

those shares has a particularly potent effect on the market overall.

Since the beginning of January, the overall index has declined 14 percent, and the all gold index has dropped 26 percent.

The dollar rose to its highest level since mid-November yesterday in expectation that the Japanese would be big buyers at this week's \$27 billion US quarterly sale of government bonds.

"For the next couple of weeks or so, there's no reason to sell the dollar," said a London currency dealer yesterday.

Investors have also been reassured by statements by US officials speaking at the World Economic Forum in Davos, Switzerland, over the weekend. They said the dollar was where it ought to be to cut the US trade deficit without a recession.

However, historically there has always been bullish comment before the auction, and the dollar may react downwards slightly after it.

Rising inflation in the US would be bullish for gold. Yet despite the

dollar's steep fall over the past few years, inflation is still only about 4,5 percent currently, although it has risen from a low base of two percent. In any case, there seems little fear of inflation in the US or Europe.

With the antithetical relationship between gold and the dollar, if the dollar continues strong, as seems likely, gold is unlikely to rise.

If gold does continue to decline, it will smash support levels which have been ascribed to it by analysts and chartists, and may enter a long-term bear trend.

Meanwhile, the commercial rand, which generally declines when the gold price is weak, and thereby provides the gold mining industry with a cushion of support, is relatively steady. It has declined only three percent since the beginning of the year.

However, in the face of weakening prospects for the gold industry, and for the nascent revival in the South African economy, it is likely to drop further.

DD 3/02/88 49

Analysts find more upswing indicators

**Daily Dispatch
Correspondent**

JOHANNESBURG — The SA economy is firmly on a recovery track, with latest indicators pointing towards the upswing gaining momentum this year as business confidence improves.

Economic statistics, combined by the Reserve Bank to form composite business cycle indicators, show a sustained recovery is likely to be achieved. Indicators of the business mood, too, are pointing in the same direction, the latest coming from Stellenbosch's Bureau for Economic Research (BER).

Latest Reserve Bank figures show the business cycle's leading indicator, an index which points the direction the economy is set to take, broke the 100 level in August last year for the first time since 1980 (the

base year". Preliminary figures show the index stood at 100,9 in September.

The trend has been a steady increase since July 1986, when the index stood at 89,3. The leading indicator leads the business cycle by about a year and reflects expectations on the likely future course of general economic activity.

Statistics used to calculate this index include the value of residential building plans passed, merchandise exports as well as money supply growth and bank credit.

Also on a definite up-trend is the bank's coincident indicator, which shows the current stage of the business cycle. The index reached a preliminary 81,4 in September 1987 — a level last seen in May 1985.

Statistics used to calculate the coincident indicator reflect current economic activity and include real Gross Domestic Product and merchandise imports.

In Stellenbosch University's Bureau for Economic Research (BER) quarterly analysis of consumer activity in the retail, wholesale and motor trades, released today, the bureau said that consumer spending recovered well during the last quarter of 1987 and retailers experienced lively business conditions.

● Strong demand saw the financial rand climb to a new high of \$0,3600 against the previous day's close of \$0,3525.

This was the highest level the currency has reached for a number of years, easily outstripping 1987's highest close of \$0,3488 recorded in March.

c
t
I
c
b

Statistics boost optimism

(49) b/cow 3/2/88

New hopes for upswing in economy

GRETA STEYN

THE SA economy is firmly on a recovery track, with latest indicators pointing towards the upswing gaining momentum this year as business confidence improves.

Economic statistics, combined by the Reserve Bank to form composite business cycle indicators, show a sustained recovery is likely to be achieved. Indicators of the business mood, too, are pointing in the same direction, the latest coming from Stellenbosch's Bureau for Economic Research (BER).

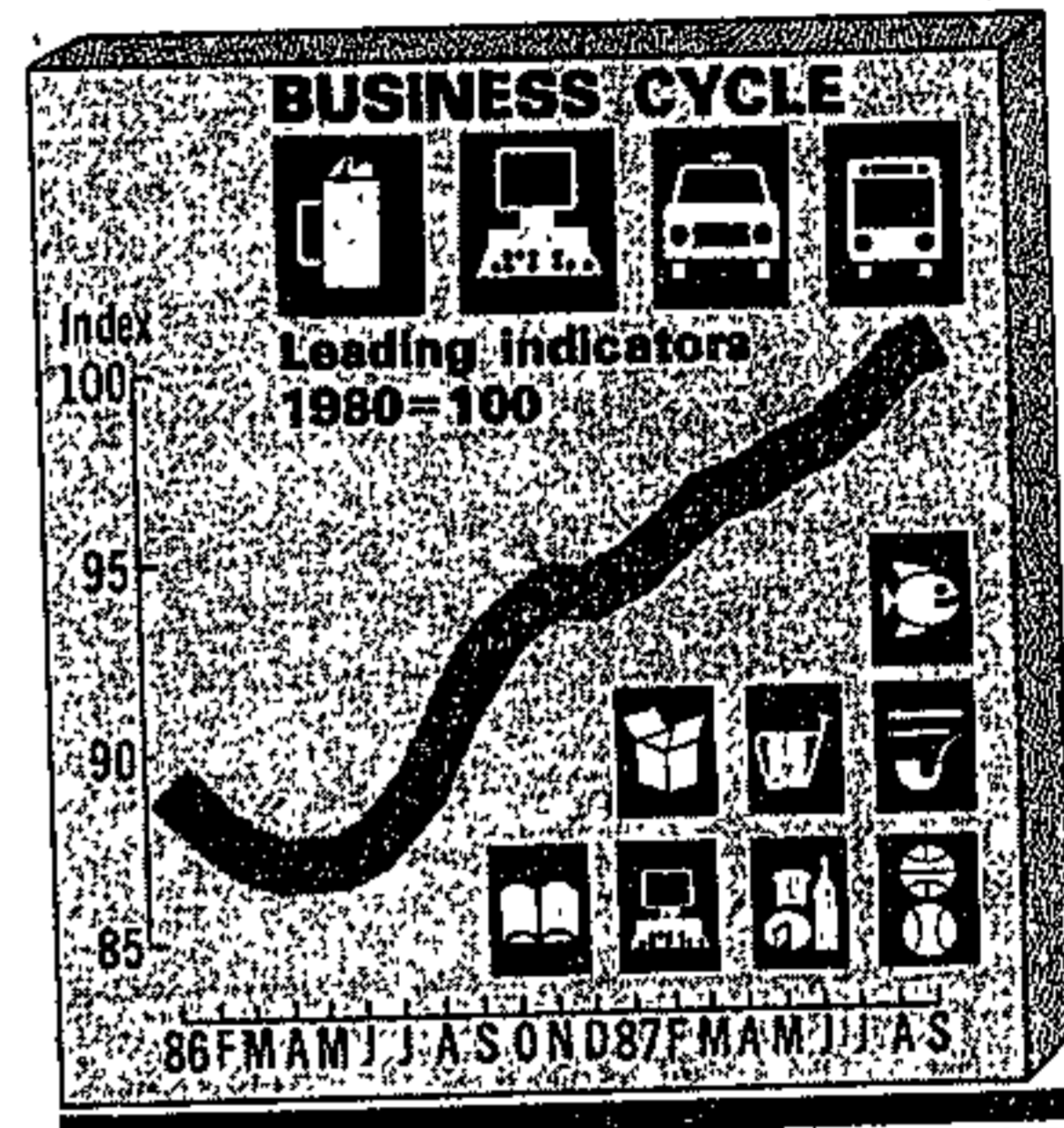
Latest Reserve Bank figures show the business cycle's leading indicator, an index which points to the direction the economy is set to take, broke the 100

- Comment — Page 6
- BER report — Page 11

level in August last year for the first time since 1980 (the base year). Preliminary figures show the index stood at 100.9 in September.

The trend has been a steady increase since July 1986, when the index stood at 89.3. The leading indicator leads the business cycle by about a year and reflects expectations on the likely future course of general economic activity.

Statistics used to calculate this index include the value of residential building plans passed, merchandise exports as well as money supply growth and bank credit.



Source: SA RESERVE BANK. Graphic: JOHN McCANN

Also on a definite uptrend is the Bank's coincident indicator, which shows the current stage of the business cycle. The index reached a preliminary 81.4 in September 1987 — a level last seen in May 1985.

Statistics used to calculate the coincident indicator reflect current economic activity and include real gross domestic product and merchandise imports.

As the figures show the real economy improving, the business mood is also decidedly healthier than a year ago.

Sapa reports that the BER said SA businessmen were brimming with confidence that should lead to greater outlays

● To Page 2 →

(49) b/cow 3/2/88

Reserve Bank, BER figures signal recovery

in fixed investment and a renewed surge in consumer spending.

In its latest quarterly analysis of consumer activity in the retail, wholesale and motor trades, released yesterday, the Bureau said that consumer spending recovered well during the last quarter of 1987 and retailers experienced lively business conditions.

Business conditions in the wholesale and retail trade were much better than a year ago, and participants were looking at further improvements while buoyant business conditions in the motor indus-

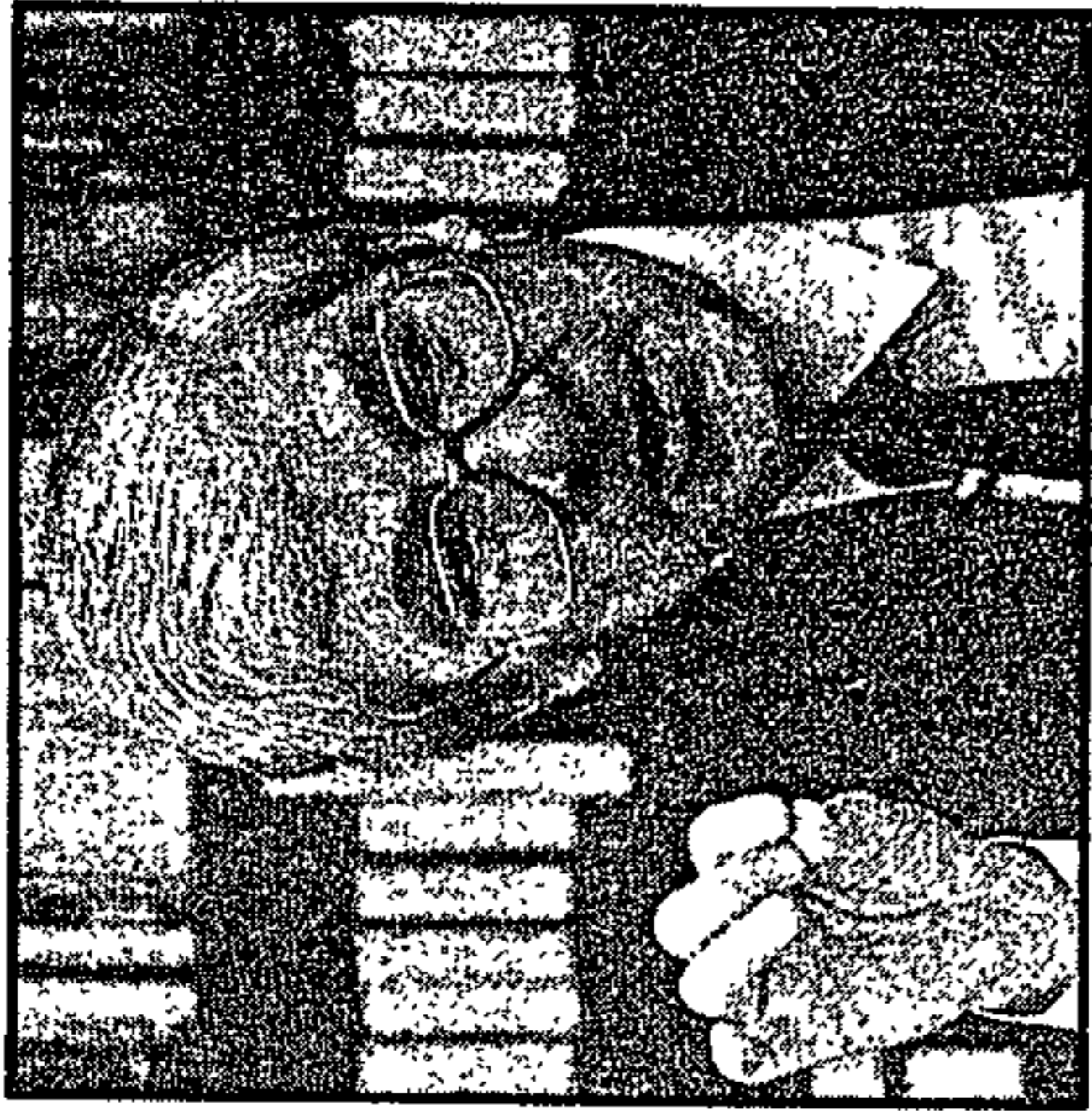
← ● From Page 1

try were likely to lead to livelier macro-economic activity, the BER said.

Its encouraging findings on the business mood reflect Assocom's latest Business Confidence Index, which moved to 98.0 in January this year from December's 97.3.

"Business confidence appears to have recovered from the shock of the collapse in overseas and local stock markets in October 1987," Assocom said.

88/12/3/2/88
B. Vosloo



□ VOSLOO ... regulations are too confusing

South Africa must eliminate unnecessary regulations hampering the development of the informal business sector, which had become vital to the economy, Small Business Development Corporation chief executive BEN VOSLOO told the Human Sciences Research Council "Evolution-Revolution" conference in Pretoria yesterday. Here are extracts from his speech



□ ROAD TO SUCCESS ... tyre business at SBDC complex at KwaTema

Helping the small man start a business is vital to economy

SOUTH AFRICA is to promote evolution rather than revolution, this can only be achieved by convincing the less privileged members of society of the benefits of free enterprise.

Access to the economy will have to be simplified, and this can only be achieved by promoting the small, fledgling enterprises of the informal sector and reducing encumbering legislation and start-up costs.

The South African government has changed its economic thinking. Before 1979 the emphasis was on the development of large industries. Large-scale nationalisation took place, leading to increased governmental control.

Small businesses were largely ignored as a force in the economy. The extraordinary range of unrecorded activities, the large number of people employed in the informal sector, the low cost per job, the near zero skills required and

the low cost of on-the-job training were seldom appreciated.

In the US, the unrecorded economy is as high as 20% to 30%. In other words, the US economy is bigger by 20% to 30% than generally recognised.

It is currently estimated that more than 500 000 businesses out of one-million in SA are unrecorded, providing an income base for as many as 3,5-million people.

Many are one-man operations, subsistence farmers, hawkers, street vendors, backyard mechanics, taxi owners, hairdressing salons, multi stalls and curio makers.

The economic activity of the unrecorded sector is, however, often declared illegal because enterprises are not being conducted within the framework established by the many laws and regulations which govern business activity.

We believe that, in spite of some

effort to get the balance right, the scales are still tipped heavily against entrepreneurship.

Regulations have grown over the years to a stage where many of them are too heavy a drain on national resources. Where they go further than necessary, they lower profits or raise prices — or both.

Regulations can stifle competition and deter new firms from entering the market. Too many people in central and local government spend too much time regulating the activity of others.

Some regulations were framed decades ago, and have now been added to or amended so that they have little relevance to the modern business world.

Other regulations are too complex and confusing, even to professional advisers and sometimes to the people who administer them.

The impact of regulation takes its toll in diverting precious time and energy that would be far better used in generating products,

services, sales and — in the end — jobs.

Every hour spent in form-filling is one less hour spent on running a business.

A great deal of time and energy of officials in central and local government is taken up by enforcing and applying regulations. Simplifying them will save time, money and effort for government and its staff.

Benefits of deregulation have gradually been recognised by government and there has been some movement towards lifting legal restrictions on small business and allowing easier access to economic opportunities.

Following the President's Council report on small business deregulation in 1985, steps have been taken by government to facilitate deregulation.

Instructions were given to cen-

tral government departments to examine legislation for its possible restrictive effect on small business.

Provincial authorities were told to examine ways in which small business could be promoted on the local authority level, and some issues necessitating relief have been identified, notably the position of street vendors and home businesses.

The Competition Board plays a key role in the process, with reports and recommendations for the office of privatisation and deregulation.

The board's recommendations on mini-bus taxis, as well as other transport undertakings, have had a positive effect on facilitating access to the transport industry.

Only by promoting the small, fledgling enterprises of the informal sector and reducing encumbering legislation and start-up costs can this essential access to the economy be achieved.

49 *Smuts*

THE balance of payments issue has the potential to pose a great domestic constraint on South African economic growth. The authorities are determined to maintain a current account surplus at any cost, as it is export earnings which enables South Africa to repay its foreign debt once imports have been paid for.

At the time of the debt standstill in August 1985, South Africa's foreign debt was officially valued at \$23,7 billion. In the subsequent two years, South Africa repaid over \$4,0 billion of this official debt.

However, a significant portion of both public and private debt has been denominated in non-dollar currencies against which the dollar has strongly depreciated during this period. While, therefore one would have expected the foreign debt to fall from \$23,7 billion to \$19,7 billion, the revaluation of the non-dollar component caused the overall foreign debt to therefore remain at \$22 billion by the end of 1986.

Surplus

As the current account surplus declines to a point when it is unable to fund the foreign debt repayments, we find that the authorities have to dip into the foreign reserves.

It is such a situation which we describe as the balance of payments being under pressure. In an ideal situation where the level of export earnings is sufficient to pay for the expected import levels and scheduled foreign debt repayment, there would be no balance of payments pressures. However, this is not the case as the cur-

Balance of payments under pressure



BAREND du Plessis
... Minister of Finance.

FOCUS

By an economist

rent account is slave to two external factors: the price of our exports and the volume growth of our exports.

While balance of payments pressures were not felt much since early 1986, the current trends on the balance of payments do point to such renewed tightening. This is more obviously apparent now as our export position appears to be stagnating, due to a non-performing gold price, a slowdown in international demand for most of our non-gold commodities and sanctions.

In addition, the growth in domestic spending has also been pulling in greater amounts of imports, thus narrowing the balance of payments surplus since early last year. Considering the above scenario, and the authorities commitment to continue repaying debt, the current account is once again likely to come under pressure before long.

In 1985-1986, the South African economy was forced to stay at a low operating level in

order to generate the surplus on the current account needed to meet foreign debt repayments.

However, as the gold price reacted favourably to international developments such as the Gulf War situation, inflationary expectations and a weakening dollar in late 1986 and 1987, the balance of payments position became increasingly stronger.

Recovery

The higher gold price, which resulted in much higher export earnings, together with falling foreign interest rates, and a stabilising dollar/rand exchange rate of near \$.50, contributed to the increase in foreign exchange reserves in dollar terms.

Thus from mid-1986 through to the first half of 1987, the need for the domestic economy to be held back, due to balance of payments considerations, ceased to be necessary, allowing the beginning of an economic recovery which is currently entering its 18th month.

With near term inflationary expectations being discounted by the market and the belief by some that the dollar, at least for the moment, has nearly bottomed out, the prospects for gold are not looking particularly rosy.

The recent drop of the gold price to below the \$470 benchmark was an indication that a possible \$450 outlook for gold may just be in the pipe-

line — a scenario that we are currently witnessing.

The lower oil price is also helping to allay inflationary expectations.

Where precious metals and share markets have lost out, bond (fixed income capital) markets have gained, and are at present absorbing the focus of investors' attention. Many players, especially those who have been badly burnt by unexpected market happenings, are nervous and are thus preferring to remain liquid.

It would appear that the balance of payments surplus on the current account has still been growing for some time. This may be fairly illusory as it is calculated in rand terms, and the rand's substantial appreciation against the dollar during the course of 1987, has thus served to somewhat disguise the true foreign reserve position.

In terms of the dollar, the foreign reserve position peaked as long ago as early 1987 and has actually of late tended to decline.

Economists are beginning to talk of a possible maturing of the business cycle and the authorities are muttering about a necessity to temper economic growth should it create undue balance of payments pressures.

As the pressure on the current account mounts, higher domestic interest rates and a lower dollar/rand exchange may be expected in order to pro-

mote exports while inhibiting imports.

For the time being though, it seems that the Reserve Bank is prepared to maintain the rand at present levels in order to reduce the impact of imported inflation by keeping imported price increases to a minimum. It is uncertain how long this can be sustained though, given the tightening of the balance of payments which will become more noticeable later this year.

Governor of the Reserve Bank, Gerhard de Kock, was recently quoted as saying that importers would have to make more use of trade credits this year if the foreign exchange reserves are not to be overstrained by the expected increase in demand.

Risky

Little use was made of foreign trade credit last year as it was less risky to borrow locally than abroad due to South Africa's vulnerable exchange rate and previous experiences of exporters and importers in this regard.

The memory of the punitively high interest rates during 1984 and 1985, which choked domestic spending and capital investment, is still fresh in the mind of the market causing a stir of scepticism of whether the Reserve Bank is in fact capable of manipulating rates slowly upwards in the face of relatively strong domestic growth and the consequent strain on the current account.

The Reserve Bank faces an extremely difficult task as moving interest rates too much, too fast, or too little too late, are both likely to

Researcher: upturn threatened

D/D 5/2/88

49

~~23~~

JOHANNESBURG — If gold prices continue to drop they could menace South Africa's current economic upturn, threatening the balance of payments surplus just as Pretoria needs money to keep up its debt repayments.

"It is too early to judge if this is a trend or just a temporary blip in the market," said Mr William Bowler, head of research at stockbrokers Fergusson Brothers, said.

If the weak prices for the metal continue to erode the mining companies' profits, this may reduce the mining sector's capital expenditure, which accounts for 15 per cent of the country's total fixed investment.

"This could have quite a significant ripple effect, impacting adversely on consumer spending and demand generally throughout the economy," Mr Bowler said.

The price of other metals such as platinum, is related to gold on international markets and can fall with it. South Africa accounts for 85 per cent of world platinum output.

Erosion of income from its gold exports, 42 per cent of South Africa's total income, could jeopardise the national current account balance of payments surplus, the analysts said.

Many foreign banks are reluctant to lend to South Africa and the country is battling to repay its existing debts under a three-year re-scheduling agreement thrashed out in March.

So Pretoria cannot afford a drop in its current account surplus.

The first casualty of the lower gold price is likely to be the rand, economists said.

To maintain income from gold in rand terms and protect mining houses' profits against a background of rising costs, the Reserve Bank may have to allow the rand to slip against the dollar, even though this could aggravate inflation, they added.

South Africa saw an annual consumer price inflation rate of 14,7 per cent in December and President P. W. Botha met 100 business and trade union leaders from the private sector to discuss the problem.

"Inflation is not enemy number one," economist Carmen Maynard, of Johannesburg stockbrokers Martin and Co said, adding that economic growth and the balance of payments were higher priorities.

Martin and Co forecast a R3 billion balance of payments surplus on the assumption that gold, of which South Africa sells just under 20 million ounces a year, remains at \$450 an ounce and the rand is worth 47 US cents.

Several economists put foreign debt repayments at around R2 billion, leaving a safe margin -- so long as gold prices hold up.

The government is unlikely to allow a sharp drop in profitability of the mining houses which could damage South Africa's tentative economic recovery. — Sapa-Rns

FOR SUBSCRIPTION INQUIRIES — TELEPHONE

BUSINESS

R2bn cut in trade surplus

Daily Dispatch Correspondent

JOHANNESBURG — As the economic recovery got underway last year the demand for imports increased, causing South Africa's trade surplus to shrink to R13,98 billion in 1987 from R15,31bn in 1986.

In December, the trade surplus dropped sharply to R779,2 million for the month, after a significant increase to R1,45bn in November.

"The trend in the surplus is definitely down — November's sharp hike was an upward aberration aided by diamond exports," the Standard Bank chief economist, Mr Nico Czypionka, said.

He said December's surplus is the lowest since March 1986, and could lead to concern that the current account surplus would come

under greater pressure.

"But one should not read too much in any one month's figures. November's surplus was too high and December's low can be seen as a downward correction."

The trade balance for 1987 indicates that the surplus on the current account of the balance of payments should be around R5,51bn for the year, which is in line with economists predictions. Most forecasts put the current account surplus for 1987 at R6bn.

The Reserve Bank deputy Governor, Mr Jan Lombard, said the shrinking trade surplus reflected the economic upswing, which had led to heightened demand for imports.

The trade surplus, and with it the surplus on the current account, was expected to continue narrowing this year, he said.

SCANNED

AFFILIATION

INDUSTRY

INDUSTRY

REGISTERED FOR

STAFF

STAFF

MEMBERSHIP

GEN. SEC.

POST

BRANCH - REGIONAL OFFICE

PAGE

HEAD OFFICE

FOUNDED

NAME

Spectrum

Privatisation bonanza

By DEREK TOMMEY, Finance Editor

THE Government should derive many important benefits from the proposed sale of state assets, announced by the State President, Mr P W Botha, on Friday.

Among them are a more efficient economy, sharply increased tax revenues, significant capital inflows into the state's coffers and, last but not least, an enhanced reputation for supporting the private sector.

Together these benefits should greatly help ease its financial situation, although possibly not to the extent that many people expect.

Lack of investment funds is expected to limit the scope for share issues in the short term and make the privatisation of the Government sector an essentially long-term operation.

The benefits from privatisation become clearer the deeper you look. Taking Eskom as a guide, the introduction of private sector management and the need to account to shareholders should do wonders for the efficiency and morale of the privatised Government sector.

At Eskom the result has been almost miraculous. Since Mr John Maree moved there from Barlows in mid-1985, it is estimated that he has been able to achieve savings of more than R2-billion in capital and operating costs while greatly slowing down electricity tariff increases.

In 1985 Eskom raised its tariffs by 20 per cent. It did the same thing in 1986. But by 1987 the new management's policies were starting to work and the increase was limited to 12 per cent. This year it is 10 per cent.

Privatisation should achieve similar efficiency in other state enterprises and greatly improve their profits.

This brings us to one of the major benefits of privatising Government enterprises. All these companies in future will have to pay company tax on their profits.

Sats, probably the country's biggest single enterprise, has never paid a cent in income tax — nor has Eskom. Treasury officials must be drooling at the thought of the huge sums in tax they will collect when these organisations and others in the same boat are privatised and run on profit-making lines, for half their profits will go to the state.

For the Government this means exchanging responsibility for more money.

The Government will also receive money

when it sells off shares of the privatised undertakings to the public. However, the sum is likely to be much less than some of the figures bandied about recently.

Stockbrokers say the financial institutions (life offices and pension funds) will probably have about R3-billion available for total investment in shares this year. Not all of this is likely to go into state enterprises.

The mining houses, the other large source of funds to the share market, are not expected to be greatly interested in state assets as they are heavily involved in new gold mining ventures.

As a result, the sale of shares in state enterprises this year could raise much less

than R2-billion for the Government.

Much will depend on the way the Government markets the shares, says the president of the Johannesburg Stock Exchange, Mr R A Norton.

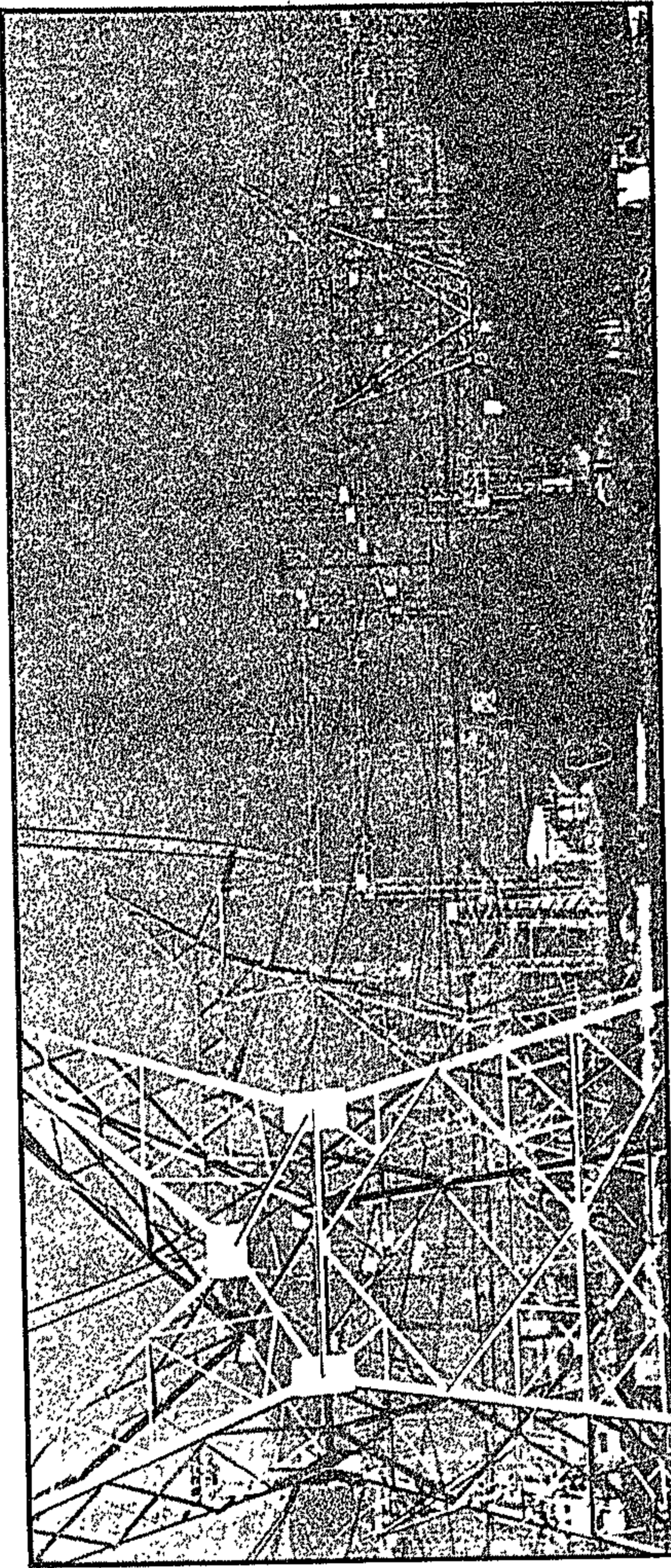
He believes the Government should get advice from experts. Instead of offering only shares it should also offer investments such as convertible debentures. He also believes that the Government must make a strong effort to stimulate interest by the man in the street in its share issues.

Some brokers say the Government will be able to sell its shares only in a bull market, which rules out any Government issues this year.

But Mr Norton disagreed. Much depended on the terms offered, he said. He believed it would be more suitable for the Government to come to the market at times like this than at the height of a bull market.

One worrying aspect of privatisation has been that the Government may sell a monopoly to a private company which charges more than it should.

But this fear seems groundless in the light of the statement by the Deputy Minister of Finance, Mr Kent Durr, that the Government will retain a majority shareholding. It indicates that control of any monopoly will remain with Parliament.



PW'S NEWS

■ Pay clamp on public servants ■ Call to curb pri

By TOS WENTZEL, Political Correspondent

A BOLD new economic package, including a freeze on general salary increases in the public service, the stepping-up of privatisation of State undertakings and further deregulation was announced by President Botha today.

Opening the new session of Parliament, Mr Botha made it clear the Government was aiming at renewing its economic and financial policy.

The measures also include a restructuring of the tax system and efforts to slash and control State spending.

Mr Botha appealed to the country to back him in his sweeping reforms, saying that policy renewal often demanded "courageous decisions and a willingness to make sacrifices."

He also appealed to the private sector to curtail salary and wage increases as well as prices.

He announced that the Government had decided not to grant any general salary increases to public servants this year, a step he described as being essential in the fight against inflation.

This coincided with other measures which included a drastic reduction in the creation of new posts and a revision of services and standards.

Mr Botha disclosed he had asked the private sector for its co-operation in the fight against inflation.

He referred to discussions he had yesterday with members of the Economic Advisory Council, representatives of organised commerce and industry, professional groups, consumer organisations, agriculture, women's organisations, employee organisations and staff associations.

Discipline

He said an appeal was made to employers and employees to apply discipline to higher personnel expenditure and price increases.

Other announcements included:

● The launching of a huge privatisation programme with proceeds to go to paying off the public debt, building basic infrastructure in developing areas and creating capital funds for the development of small enterprises;

● Large Government undertakings such as Escom, SA Transport Services and the Post Office were to be converted — either completely or after sub-division into profit-making business undertakings;

● The Government favoured privatising its shareholding in Foskor, structural adaptations were being considered to make the privatisation of Iscor possible and the listing of Eskom on the stock exchange was being investigated.

● The functions of the Atomic Energy Corporation involving advanced technology were to be privatised while the

● More pictures, colour stories — page 4; excerpts from the State President's speech — page 11.



Mr PW Botha

Industrial Development Corporation would sell some of its shareholdings in other companies;

● State finances would be thoroughly reviewed;

● The Government had decided to accept a recommendation by the Margo Commission on tax reform to replace general sales tax with an invoice-based value-added tax. Where possible the commission's proposals would be implemented in the fiscal year starting on March 1; and

● Some toll roads in the Transvaal and Natal would be privatised.

Referring to policy renewal, Mr Botha said the Government had shown it was serious in wishing to put the management of Government finances on a sound footing, using well-considered reform.

Investigation

The use of the country's current assets had to be thoroughly investigated and priorities had to be determined — hence a thorough investigation into privatisation

He said the Government had committed itself to a policy of deregulation but this could not be accomplished overnight

Some aspects being considered were "legal prescriptions" on trading rights and business premises which affected the activities of black businessmen in their own areas and the revision of food handling regulations and trading hours and licenses

He indicated State finances would be cut after a period of sluggish economic conditions during which the authorities had to stimulate recovery by means of increased Government spending.

The Government realised the economy could not bear the continuation of this stimulatory policy without inflation and interest rates being adversely affected.

Meanwhile there were welcome signs of recovery and moderate economic growth in the private sector which had reduced the need for stimulation by the authorities.

The Government thus intended to bring the Budget within "affordable limits and sound fiscal proportions" within a reasonable period.

President Botha said serious attention was given to current Government expenditure. All Ministers and their departments were examining their own internal priorities.

Capital expenditure in the broader Government sector would be subject to Cabinet approval after consideration by the national priorities committee.

32 percent

Personnel expenditure currently represented 32 percent of Government spending.

Should State expenditure increase drastically — especially as a result of a general salary increase to public servants — this would mean tax implications which would seriously impair economic recovery. This the country could not afford

This coincided with other measures, including a drastic reduction in the creation of new posts and the revision of services and standards.

He said there was no other option than to call for a "sustained and enthusiastic team effort between the public and the private sector" in the fight against inflation



Dr Andries Treurnicht and his wife Engela arrive at Parliament today. Mrs Treurnicht designed and made her own outfit, a pale grey suit in silk worn with a cerise hat.

Mr Harry Sc. nance, and his fit of a... topped by

The difference and how ne

By TOM HOOD, Business Editor

THE difference between the present GST and the proposed value-added tax (VAT) system is that in the latter the total tax contribution is made up from different levels, starting with the manufacturer, including the retailer and ending up with the consumer.

Under the GST system the total tax payment is borne mainly by the consumer.

The European-style, multilevel tax levied on all three layers of the economy, however, will amount to the same in terms of tax collected.

Advantages claimed for VAT are

that tax evasion is more difficult and that the authorities will collect more tax.

All business transactions can be made subject to VAT while the GST system is full of exemptions.

Disadvantages are that it is more costly and difficult to administer, that each business takes a mark-up on the tax paid, so that by a cascade effect a 12 percent VAT may end up costing more than a 12 percent GST.

In a recent review of VAT Mr David Clegg, tax director of Arthur Young, said one of the greatest ob-

PW proposes Southern African conference

By TOS WENTZEL Political Correspondent

PRESIDENT Botha today proposed a Southern African conference on health, food production and economic development.

Opening the new session of Parliament, he proposed the conference should also deal with measures to keep peace and order as well as "non-interference in each other's internal affairs".

He said the chaos and deterioration in other Southern African states was an extension of problems existing world-wide.

"If Africa is to survive the serious difficulties facing almost all its states these problems have to be resolved soon — and by Africans themselves

"In the Southern African region South Africa is willing to play its part.

"South Africa desires peace because we believe in cooperation and peaceful coexistence. We do not believe in war. We do not believe that war can solve any problems".

But Mr Botha said there must be any uncertainty over South Africa's stability and determination to defend against aggression aimed at its eighty and the safety of its citizens.

"Consequently we will not shrink duty to act against international terrorism."

The Government was determined to continue keeping internal order and stabilising forces undermining peace and stability

He paid tribute to those who had and gave their lives to promote peace and security in South Africa

"Conflict is not the course we seek for our region because it would worsen an already critical state of affairs.

"We wish to pursue friendship and cooperation. South Africans are also making a valuable contribution to finding solutions for Africa and our continent."

(Turn to page 4, col 1)



WEEKEND Argus tomorrow offers cricket enthusiasts a free and unique wall chart of the Giants of Cricket — the international and South African superstars with bat and ball whose performances have made them legends.

R150 000
Jackpot

Also in Weekend Argus tomorrow

● Felix Coetzee — what it takes to be a champion jockey.

● The CP-AWB connection — how one Terre Blanche speaks out.

NEW DEAL

servants ■ Call to curb price rises ■ GST to go



Dr Andries Treurnicht and his wife Engela arrive at Parliament today. Mrs Treurnicht designed and made her own outfit, a pale grey suit in silk worn with a cerise hat.



Mr Harry Schwarz, PFP spokesman on finance, and his wife Anette. Her casual outfit of a checked skirt and white blouse was topped by a bright red straw boater.

Package to boost the economic recovery

By DEREK TOMMEY, Finance Editor

THE Government today unveiled a major new financial policy aimed at keeping the economic recovery going full steam ahead by dampening down inflation, stopping interest rates from rising — and reducing the tax rate.

The keystone of the Government's policy is the decision not to give an inflation adjusted-pay rise to public servants.

This move will save the Government many billions of rands which can be used to cut taxes. And with the public servants, who make up a large proportion of the country's population, having little extra money to spend, it means that manufacturers, wholesalers and retailers will be forced to hold down prices or see their business fall away.

This should help shatter the idea, widely held by both producers and consumers, that they can bank on a 14-to-16 percent increase in prices a year.

PRIVATISATION

Another key part of the programme is the decision to go ahead with the privatisation of several state businesses, including Foscor, Iscor and the Mossel Bay Gas Project.

The proceeds of these sales will be used firstly to help finance the public debt, secondly for the provision of basic infrastructure and services in the black townships and the financing of small businesses.

The sale of state organisations, together with the funds saved by restricting public service pay rises, should sharply cut the Government's borrowings.

With the Government out of the loans market, there should be less pressure for interest rates to rise. And they could even drop fairly significantly if the inflation rate responds to the Government move.

The difference and how new tax works

By TOM HOOD, Business Editor

THE difference between the present GST and the proposed value-added tax (VAT) system is that in the latter the total tax contribution is made up from different levels, starting with the manufacturer, including the retailer, and ending up with the consumer.

Under the GST system the total tax payment is borne mainly by the consumer.

The European-style, multilevel tax levied on all three layers of the economy, however, will amount to the same in terms of tax collected.

Advantages claimed for VAT are

that tax evasion is more difficult and that the authorities will collect more tax.

All business transactions can be made subject to VAT while the GST system is full of exception.

Disadvantages are that it is more costly and difficult to administer, that each business takes a mark-up on the tax paid, so that by a cascade effect a 12 percent VAT may end up costing more than a 12 percent GST.

In a recent review of VAT Mr David Clegg, tax director of Arthur Young, said one of the greatest ob-

jections to VAT is that the overall cost to the final consumer of any particular goods or service will be greater than the sum of the taxes due at each stage.

"One of the greatest concerns in the possible abolition of GST is that South Africa cannot afford the investment in re-education and administration that the introduction of a new system will require."

Commerce and the Revenue Department had struggled to come to grips with the sales-tax law.

"I have no reason to think that the process will be any easier or faster with VAT," added Mr Clegg.

PW proposes Southern African conference

By TOS WENTZEL
Political Correspondent

PRESIDENT Botha today proposed a Southern African conference on health, food production and economic development.

Opening the new session of Parliament, he proposed the conference should also deal with measures to keep peace and order as well as "non-interference in each other's internal affairs".

He said the chaos and deterioration in other Southern African states was an extension of problems existing world-wide.

"If Africa is to survive the serious difficulties facing almost all its states these problems have to be resolved soon — and by Africans themselves.

"In the Southern African region South Africa is willing to play its part.

"South Africa desires peace because we believe in cooperation and peaceful coexistence. We do not believe in war. We do not believe that war can solve any problems".

But Mr Botha said there must not be any uncertainty over South Africa's ability and determination to defend itself against aggression aimed at its sovereignty and the safety of its citizens.

"Consequently we will not shirk our duty to act against international terrorism."

The Government was determined to continue keeping internal order and neutralising forces undermining authority and stability.

He paid tribute to those who served and gave their lives to promote peace and security in South Africa.

"Conflict is not the course we desire for our region because it would only worsen an already critical state of affairs.

"We wish to pursue friendship and cooperation. South Africans are already making a valuable contribution to finding solutions for Africa and our region.

(Turn to page 4, col 1)

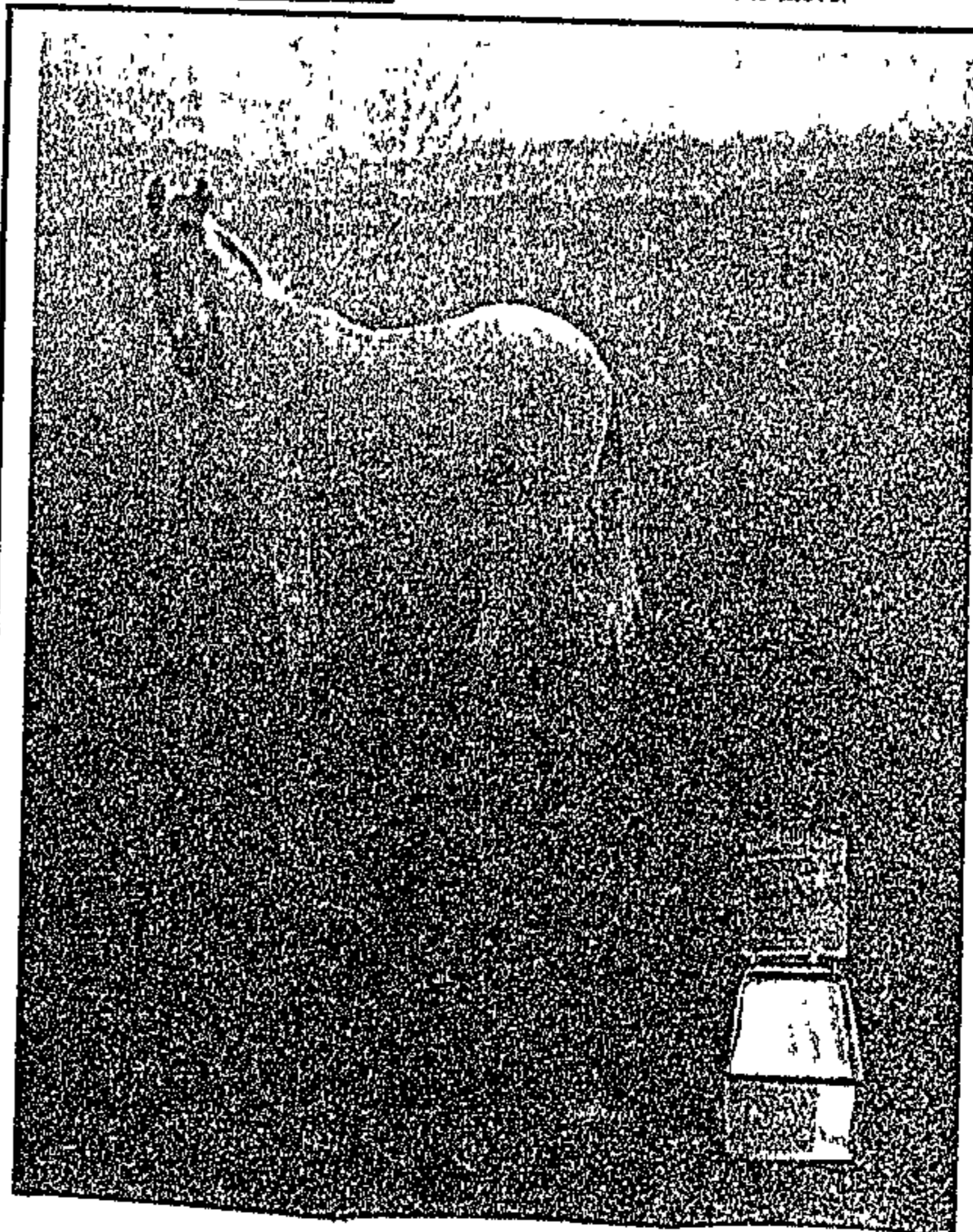
R150 000
Jackpot

Also in Weekend Argus tomorrow:

● Felix Coetzee — what it takes to be a champion jockey.

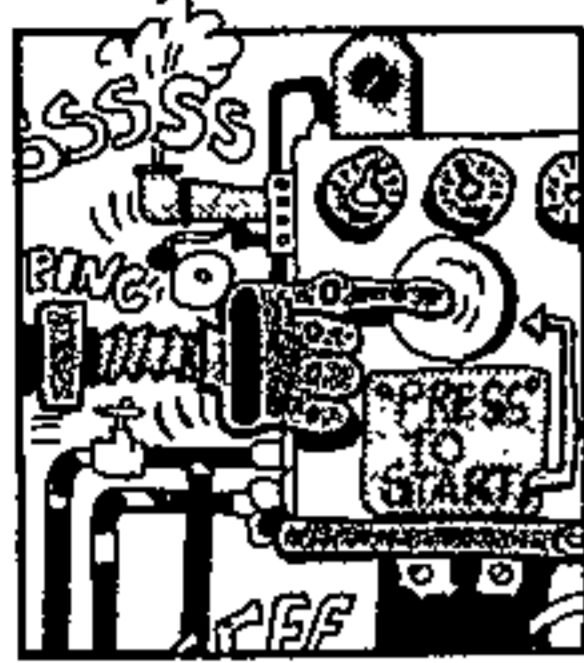
● The CP-AWB connection — Eugene Terre'Blanche speaks out.

that is



Sustaining the upswing

49



Suddenly, things are looking a whole lot brighter. The economy grew about 2,5% last year despite drought, expensive mine strikes, international pressures and the customary government follies — not a great performance, but better than moving backwards, as in 1985.

This year, economists predict even stronger growth of about 2,5%-4%.

“Nearly every important indicator has moved up a gear as we enter 1988,” says Southern Life economist Mike Daly. Among the good signs are:

- Better-than-expected Christmas sales, followed by a surprising 4,7% jump in retail sales in January;
- A surge in demand for consumer credit;
- Real growth in personal disposable incomes in 1987;
- A rise in job advertisements;
- Higher new car sales, which would be higher still but for stock shortages;
- An upswing in fixed investment and inventory building to meet higher consumer demand;
- A manufacturing revival that saw real output rise 2,6% in the first nine months of 1987 from the same period of 1986; and
- A sharply higher value of real estate transactions and increased housing plans.

Confidence, too, is improving. “Both businessmen and consumers have revealed a renewed sense of optimism,” says the Stellenbosch Bureau for Economic Research.

Some of the optimism reflects the good rains; there’s nothing like a full Vaal Dam and the end of a drought to boost the spirits.

Then there is the gold price. Though drifting, it’s still higher than last February’s US\$400 and the \$340 it was 12 months before that (though nerves will be frayed if the price falls further and performance in other currencies — including the rand — is less impressive — see **Fox**).

To top it off, we’ve seen that South Africans can take over disinvesting multinationals and keep them running. Says Assocom, whose Business Confidence Index is moving up (see **Economy**): “Although SA would do even better without disinvestment and sanctions, this phase of renewed economic growth is a tribute to the resilience of the economy in the face of international economic pressure.”

In a related vein, there has been a string of management buyouts in the past four years, some resulting from disinvestment and others from tough competition locally. Stuart Jones,

The numbers and the confidence polls are indicating the economic climate has taken a turn for the better. This can be both sustained and entrenched — with less government and less regulation. There is no alternative.

executive vice-president of FirstCorp, says nobody should applaud disinvestment because of the long-term damage. But he welcomes the success of MBOs: “You’ve got a much more entrepreneurial spirit into business. The success of MBOs must have contributed to business confidence.”

Though things are looking better for 1988, the economy still faces serious problems. The biggest is that the consumer-led boom could simply go bust. “The borrowing binge carries the seeds of its own destruction,” says Econometrix chief economist Azar Jammine.

He believes the Reserve Bank response is crucial. Last year it pumped liquidity into the money market to keep interest rates low and promote borrowing. Banks were falling over themselves to lend. At last perhaps

feeling more optimistic about the future, people took the banks up on offers of cheap credit — and consumer borrowing soared.

But economic upswing cannot be sustained if it depends on credit expansion from artificially low interest rates, Jammine warns. To accommodate the money market and keep rates down, the Bank would have to pump in a lot of new money. That could send money supply growth way over its 14%-18% target range and so guarantee high inflation.

Continuing to accommodate the money market like that might keep rates low for a while longer and encourage a spurt of short-term growth. But at some point rates would simply scream up and choke off economic growth — as happened after 1984.

Jammine says it’s better that the Bank stick to its target and let rates rise gradually to encourage more sustainable growth. “I’d rather see 3% growth this year and 3% next, than 5% this year and minus 1% next.”

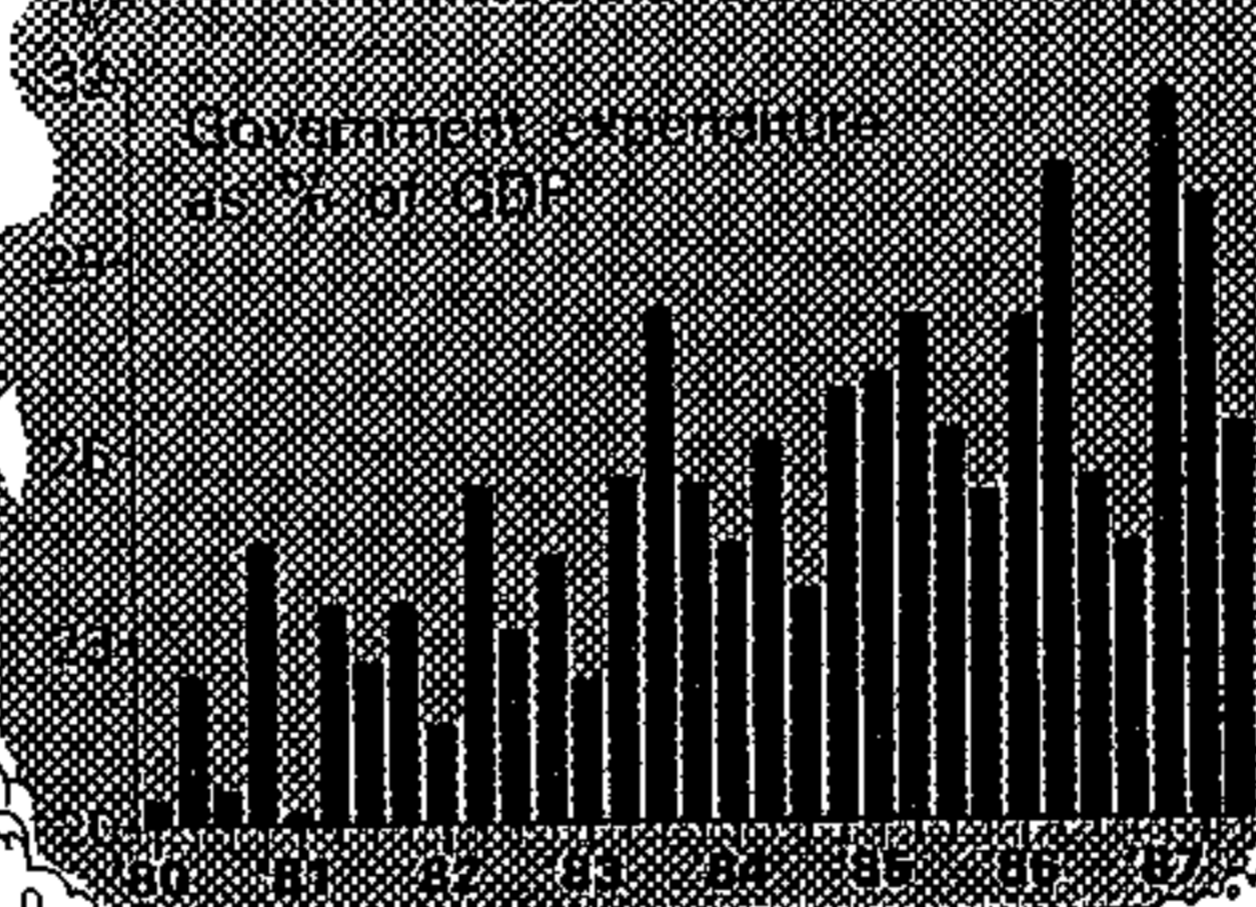
Controlling inflation and wild swings in interest rates solves only part of the problem. Several other troubling trends threaten to turn a 1988 boom into a bust and keep SA from enjoying long-term growth:

□ **Government spending** is out of control and damaging the economy. For the past 10 years, government spending has been rising inexorably as a percentage of GDP. We are witnessing Keynes run amok; Pretoria spends when the economy is growing slowly on the unconvincing grounds that this promotes growth. Then, each time the economy picks up, it continues to spend, saying the country can now afford government projects. It can’t. Every rand the government spends is a rand drained from the productive private sector. Pretoria is now some R54bn in debt — and has an overregulated, low-growth economy to show for it;

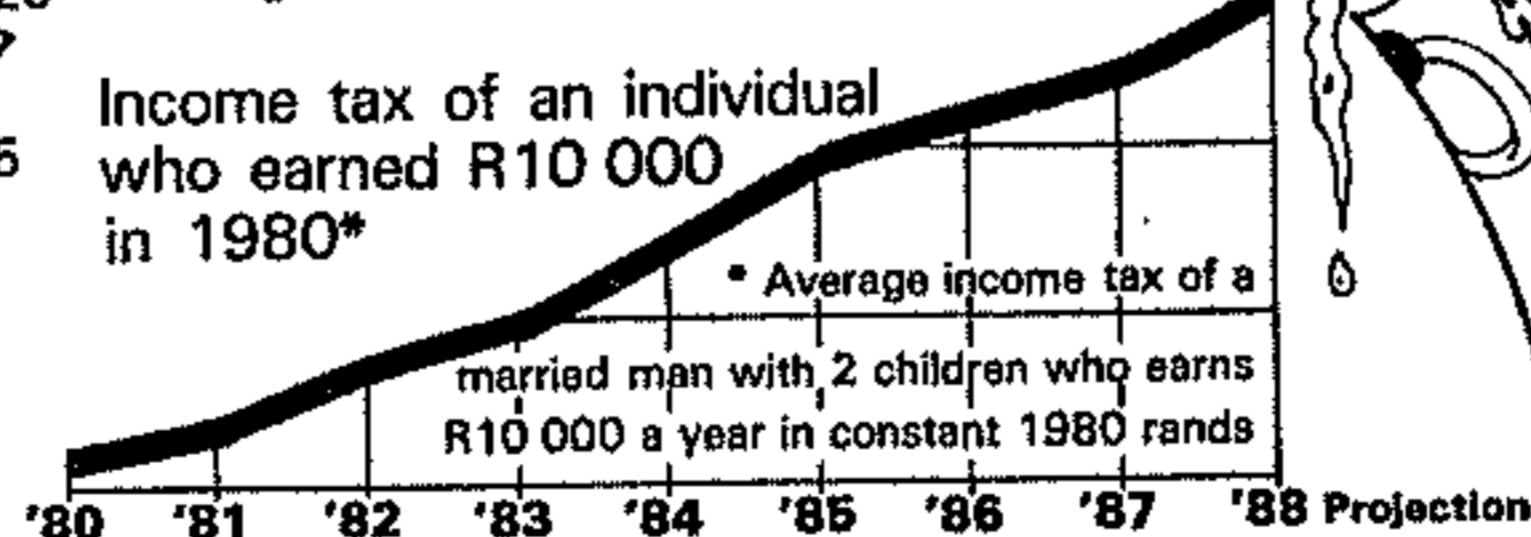
□ **Taxes** are soaring to fund government’s profligate ways. Jammine says an average married man with two children who earned R10 000 in 1980 paid 6% in income tax. If his salary simply kept up with inflation — rising to about R26 000 today — he’ll pay 20% this year. Pay rises in line with inflation push him into progressively higher tax brackets — the process called fiscal drag, or bracket creep — though he’s actually no better off.

It’s not just an economic problem. Jammine reckons that 300 000-400 000 more people a year — mostly blacks — are having to pay income tax as inflation raises their earnings above the tax-paying level.

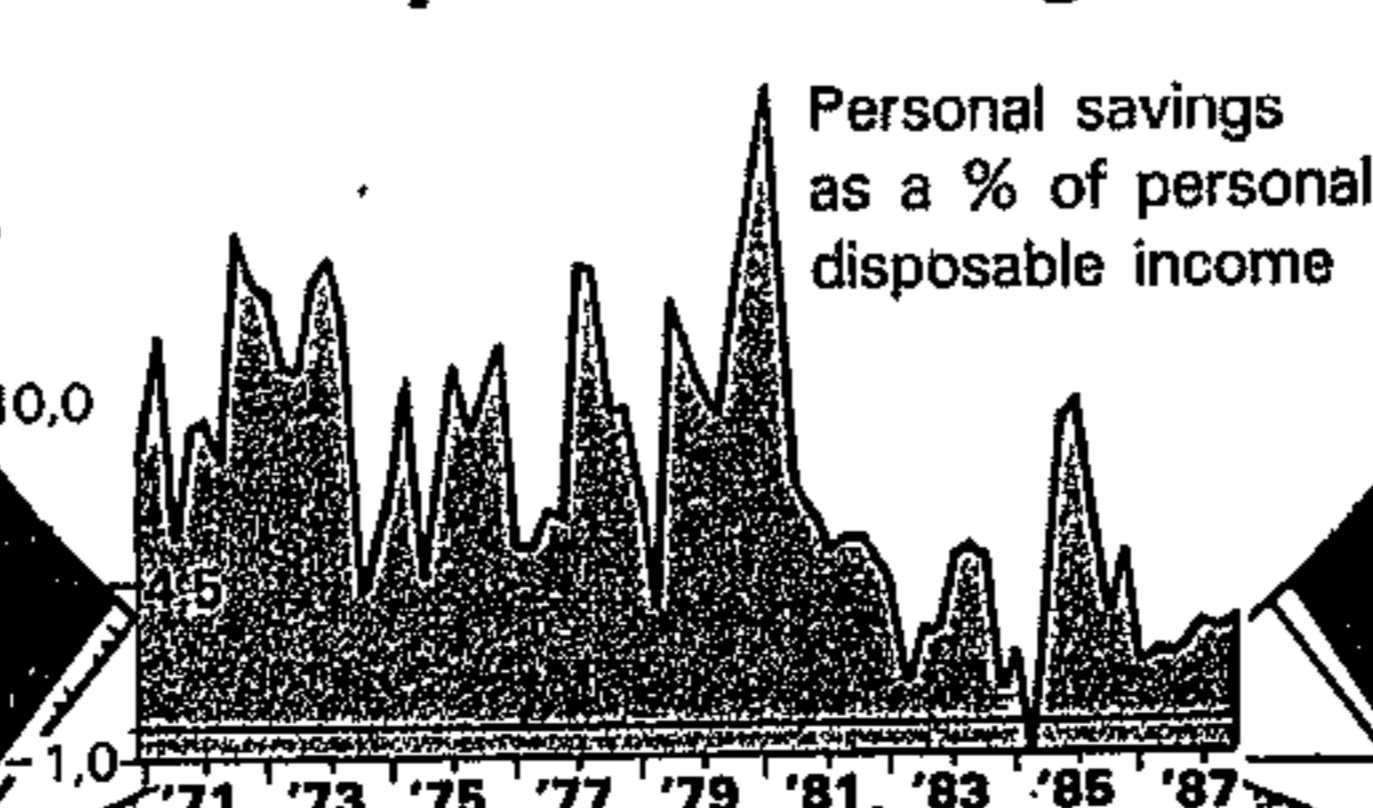
Cooking up trouble As government spends more



personal taxes rise ...



... and personal savings fall



Having to pay a 12% sales tax is bad enough; a direct income tax on top of that and no say on how government spends it, pushes taxation firmly into the political arena. "Taxation without representation" has been the cause of more than one revolution;

□ **Saving** is collapsing. Faced with higher tax burdens, high inflation and a slow-growing economy, individuals are running down savings to keep up standards of living. The ratio of personal saving has fallen from about 10% in the Seventies to 3% today. And why not? Interest earned at a bank is less than the inflation rate, so saving is like throwing money away. "It's not healthy," says Old Mutual economist David Mohr. "We need more savings and a more stable pattern of savings;" and

□ **Trade unions** are ready to fight. If profits pick up and we all keep chirping about economic upswing, expect unions to demand big pay increases this year. If they don't get them, expect strikes and lower production. And if government is seduced by some economically-ignorant proposal to freeze private-sector wages, expect even bigger battles. (Of course, Pretoria doesn't really care about the private sector, except that equity would make it extend a wage freeze, mandatory or notional, to the public sector too — and that's politically unacceptable.)

Steps to success

What's to be done to prolong the upswing? Standard Bank's *Economic Review* last month nicely summed up the bold steps Pretoria needs to take to reach the 5%-6% annual growth SA could easily achieve: "... more and far faster privatisation than is being considered, a significant reduction in the size of government and its claims on resources, less restrictions on the movement of people and where and how business operates, aggressive encouragement of informal sector activities, as well as a tax system conducive to capital accumulation and investment."

It's tiresome to have to keep on making the point that deregulation is crucial. But we'll persist as long as backyard businessmen and fledgling entrepreneurs are arrested for failing to buy permits or to fill out mindless government or city council forms.

It's hard to underestimate the growth potential that's being repressed. Some say official growth statistics would be two or three percentage points higher if the boom in informal activity — everything from shining shoes to paving driveways — were counted.

"The extensive shadow economy demonstrates a colossal entrepreneurial talent," says Job Creation MD Ian Hetherington, a management consultant who promotes small



Old Mutual's Mohr ... disturbed by the savings fall-off

business development and deregulation. "If we could only get the barriers out of the way and let that entrepreneurship flourish, we could solve a lot of problems."

Freeing the economy is clearly the way to sustain the upswing. But that will require Pretoria to take a broader view than usual. It shouldn't try artificially to ginger up another 1% increase in fixed investment, consumer borrowing or GDP. Rather, it should ignore the statistics and promote what country after country has shown is essential for high,

service to the free market."

Exactly so.

The economy is building a useful head of steam. Cheap credit has consumption heading upwards. Businessmen have responded and many, having bought out diffident foreign shareholders, are keen to show their mettle. The priority must be to turn this post-sanctions upswing into a sustained boom. There is no question that government has the ability; it needs to show it has the political will. ■

LET GROWTH FEED GROWTH

Are there limits to the level of economic growth SA can expect this year and — just maybe — next?

According to Assocom there are. In its Business Confidence Index, for example, it observes that "a real growth rate of about 3%-4% is probably the maximum which SA can afford at the moment."

But Assocom — like many other businessmen and economists — has fallen for a persistent myth: that the economy can grow too fast, overheat, and run into a balance of payments constraint. The concern is that if this were to occur, imports would rise significantly and exceed exports, and make it impossible for Pretoria to pay off its US\$10bn foreign debt.

"What does 'too fast' mean?" asks Wits business economist Richard Grant. "The economy doesn't have a tachometer. Using a word like 'overheating' suggests knowledge of what the correct growth rate *should* be. But obviously nobody can know that."

Even with a trade deficit, Pretoria could still make its debt payments. "If the government wants to pay off its debt, all it has to do is buy foreign exchange in the marketplace like everybody else," says Grant. If it can't finance this by reducing

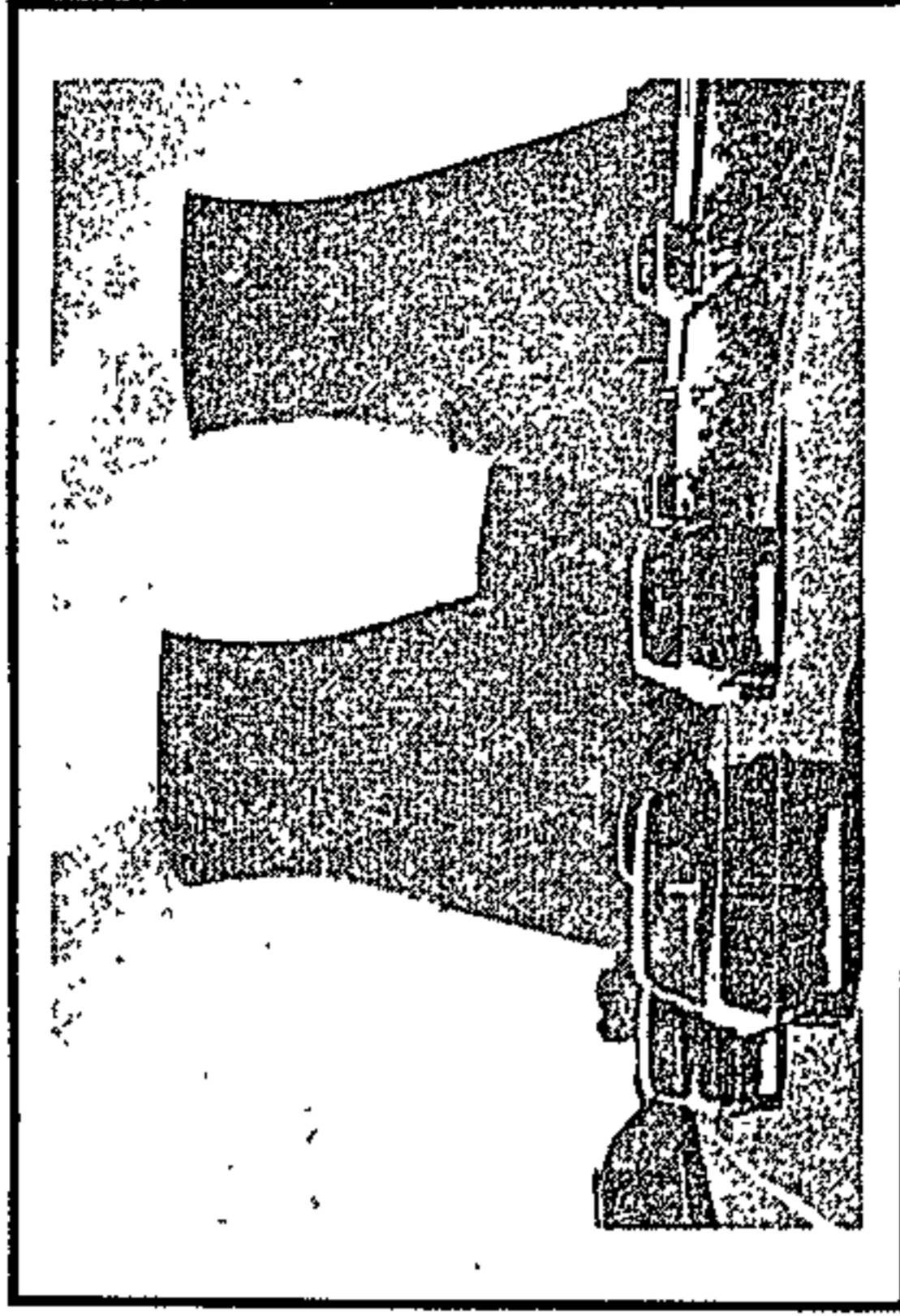
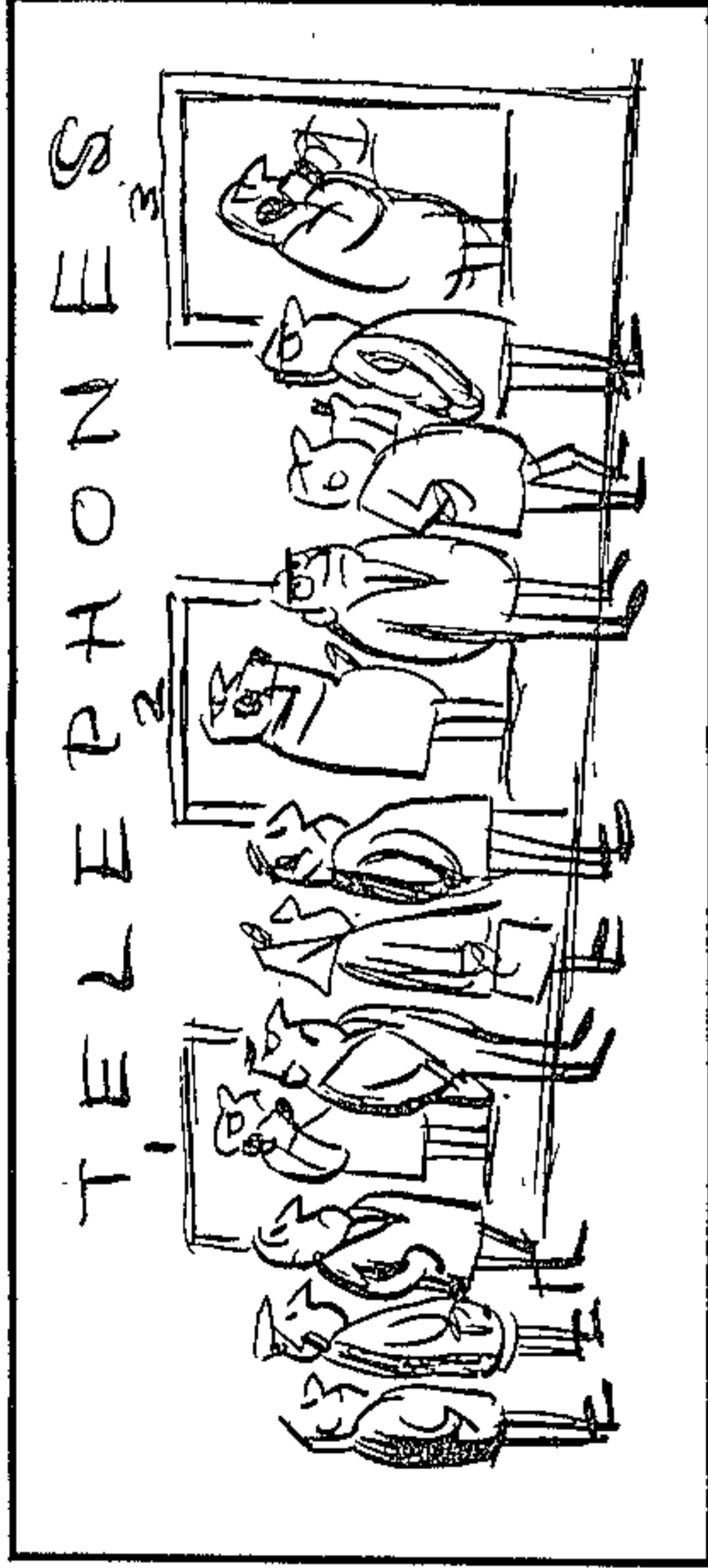
its own consumption, it would of course have to raise taxes — and face the political obloquy.

Rather than aim at some preconceived GDP growth target — which is a guess anyway and will most likely be wrong — government should deregulate and let consumers and producers determine how much growth is possible. It's best that Pretoria ignore preconceived balance of payments numbers and simply find the least disruptive way of financing its foreign debt. According to Grant: "They should keep their fingers out of the economy, because when they try to mistakenly encourage exports or restrict imports they hurt the economy, thereby reducing their own tax base. Since the funds to pay off the debt come from some form of taxation, this is clearly counter-productive."

Imagine if SA could set free its entrepreneurs and enjoy 10% annual growth — as Japan, Hong Kong and Taiwan have done. The country's wealth would double in just over seven years. Surely Pretoria would find it easier to pay off its foreign debt if the economic pie were twice as big as it is today? And, of course, we'd all be better off.

(479)

Spectrum



The State President says there are plans to convert South African Transport Services (Sats), Posts and Telecommunications and Eskom into tax-paying, profit-seeking enterprises, either in their entirety or after sub-division.

Botha pledge on inflation

These are extracts from the State President's speech at the opening of Parliament today.

THE chaos and general state of deterioration in other states of the Southern African region are largely an extension of problems existing worldwide.

The world is in a situation of turbulence and turmoil almost unprecedented in peace-time. The continent of Africa is increasingly being engulfed by almost insurmountable problems.

If Africa is to survive the serious difficulties facing almost all of its states, these problems have to be resolved soon, and by Africans themselves.

In the Southern African region, the Republic of South Africa is willing to play its part.

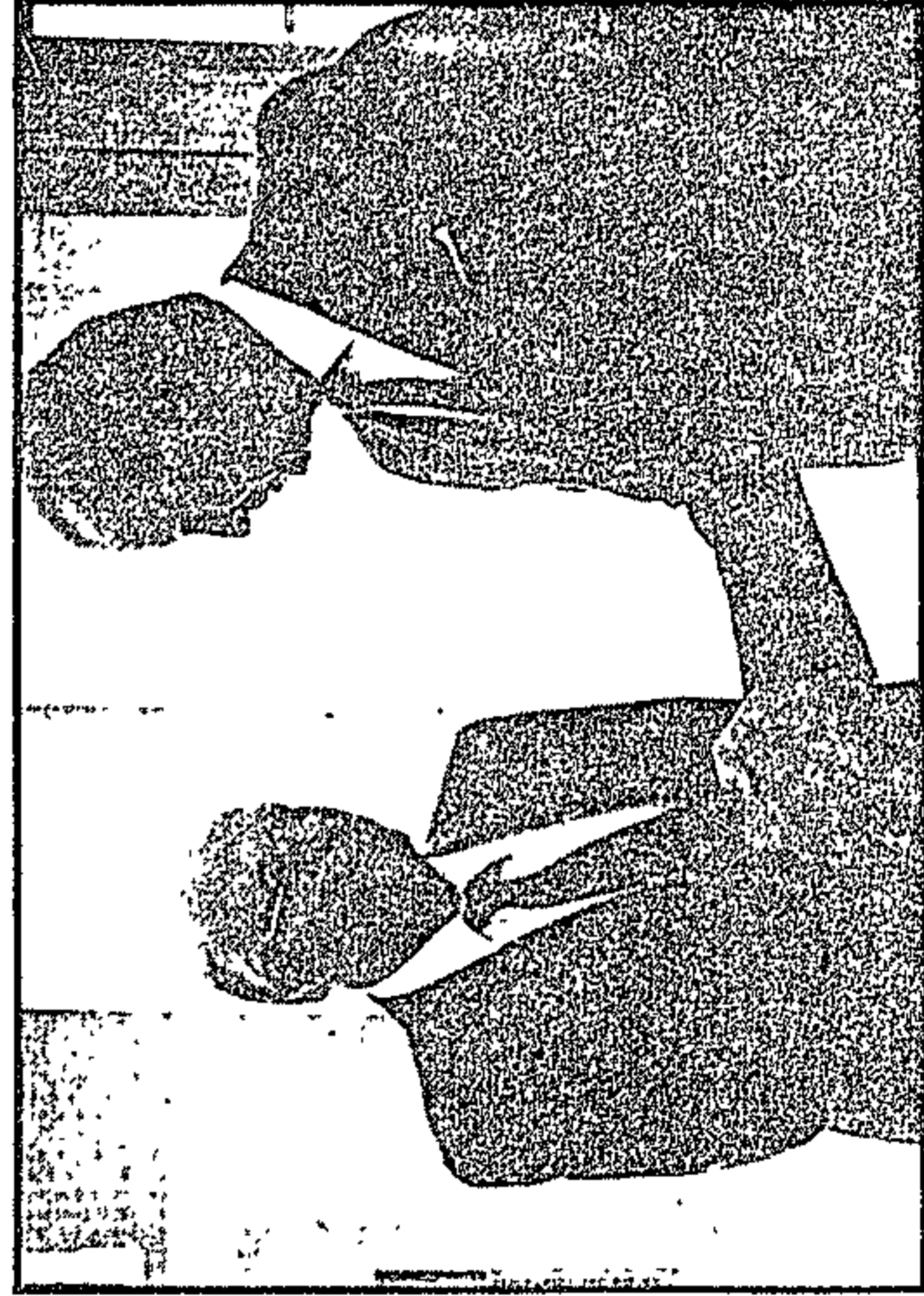
★ ★ ★ ★ ★

Africa cannot isolate itself from South Africa, just as we do not wish to isolate our-

A variety of steps which the Government has taken over the past few years, clearly indicate its seriousness in wishing to place the management of government finances on a sound footing by means of well considered reform.

An authoritative investigation was necessary to make changes to the system of taxation which would bring about a fairer distribution of the tax burden and which, in particular, would mean a better dispensation for the individual — hence the Margo Commission.

Affordable limits for Government expenditure are determined by the contribution taxpayers are able to make plus the amount that can be borrowed. Since every need cannot be met, a determination of priorities has to be undertaken — hence the creation of specific mechanisms, such as the National Priorities Committee and the five-



TALKING ECONOMICS: President Botha being greeted by Finance Minister Barend du Plessis before the meeting with business leaders in Cape Town yesterday.

to some R2 150-million at 1987 money values.

This should give a welcome additional impetus to the eco-

ment of the Mossel Bay Gas Project should in the main be a private sector development.

In the meantime, good pro-

conditions experienced in 1985, 1986 and until early 1987, a heavy responsibility rested on the authorities to-

what the economy could afford.

It is therefore essential, on the basis of a thorough system of priority determination, to

- Reconsider the necessity of existing services;
- Review the standards of services anew in the light of what is affordable
- Bring tariffs and prices more into line with real costs; and
- Provide assistance and support, where it is justified, increasingly on the basis of individual needs instead of by means of generally applicable measures.

The Margo Report, which aroused great interest, has made several recommendations for far-reaching changes to the South African tax structure.

Extensive discussions have been held in this connection with representatives of the private sector, for example at the President's Conference in November last year.

The most important element in the Margo Commission's recommendations is the

penditure has begun to constitute a growing part of Government expenditure. In its efforts to keep the growth in Government expenditure within affordable limits, the Government must therefore give serious attention to current expenditure.

All Ministers and their departments are at present thoroughly examining their own internal priorities.

With the emphasis very strongly on the restriction of current expenditure, it would appear to be necessary to expand further the activities of the National Priorities Committee.

As far as capital expenditure is concerned, a mechanism with the necessary technical expertise, is at present being created through which all capital expenditure in the broader government sector will henceforth be subject to Cabinet approval after consideration by the National Priorities Committee.

With a view to reducing Government expenditure where at all possible, all of the State's functions and services are at present being

Southern African region are largely an extension of problems existing worldwide.

The world is in a situation of turbulence and turmoil almost unprecedented in peace-time. The continent of Africa is increasingly being engulfed by almost insurmountable problems.

If Africa is to survive the serious difficulties facing almost all of its states, these problems have to be resolved soon, and by Africans themselves.

In the Southern African region, the Republic of South Africa is willing to play its part.

★ ★ ★ ★ ★

Africa cannot isolate itself from South Africa, just as we do not wish to isolate ourselves from the rest of the continent.

I consequently wish to propose again that a Southern African conference be held on matters of health, food production, economic development and measures to maintain peace and order, as well as non-interference in each other's internal affairs.

Progress is a prerequisite in the Republic of South Africa. It goes without saying that constitutional development and renewal in South Africa have to take place in an evolutionary manner.

During this session and thereafter we shall accordingly proceed with the measures which have already been announced and which are under consideration.

However, reform also has economic and social facets which, equally, have to be given attention.

In the economic field, the recent improvement in the general situation in South Africa is to be welcomed.

During the past few years, South Africa has had to make difficult adjustments in its economy to adapt to changing world conditions and unfavourable developments at home.

★ ★ ★ ★ ★

Although these adjustment processes have not yet been completely finalised, it is encouraging that so many successes have already been achieved that there is now once again a better climate for economic growth. The pri-

clearly indicate its seriousness in wishing to place the management of government finances on a sound footing by means of well considered reform.

An authoritative investigation was necessary to make changes to the system of taxation which would bring about a fairer distribution of the tax burden and which, in particular, would mean a better dispensation for the individual — hence the Margo Commission.

Affordable limits for Government expenditure are determined by the contribution taxpayers are able to make plus the amount that can be borrowed. Since every need cannot be met, a determination of priorities has to be undertaken — hence the creation of specific mechanisms, such as the National Priorities Committee and the five-year expenditure guidelines.

The process of priority determination entails renewed consideration by the state of the nature and extent of the services which it renders.

In certain cases, those who use these services will have to make a larger contribution themselves because of the lower priority allotted to them, otherwise the costs would have to be recouped by means of general increases in taxation. Naturally, humanitarian services for the less privileged will enjoy a high degree of preference in the determination of priorities.

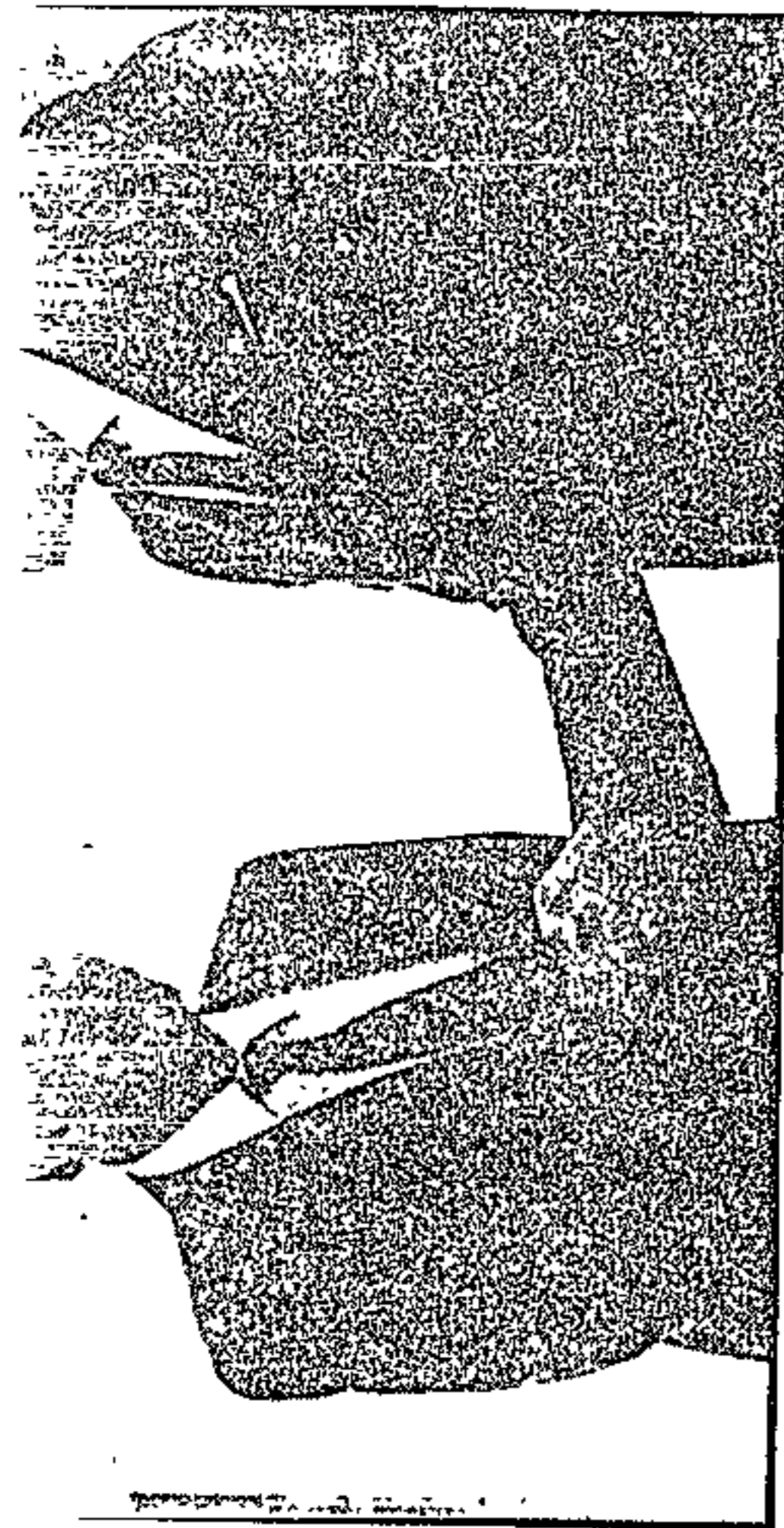
Nonetheless, the utilisation of the maximum affordable resources still leaves certain important capital requirements unsatisfied.

Consequently, the utilisation of the country's current assets also has to be subjected to thorough investigation and priority determination — hence the intensive investigations into privatisation.

★ ★ ★ ★ ★

Privatisation in its various forms is taking place today in almost every Western country and holds the promise of numerous advantages. Every country's circumstances are however unique — also those in South Africa.

In contrast with the socialism and nationalisation which are accepted as policy in some other countries, the Republic is committed, in terms of the Preamble to the Constitution, to the promotion of private initiative and effective



TALKING ECONOMICS: President Botha being greeted by Finance Minister Barend du Plessis before the meeting with business leaders in Cape Town yesterday.

to some R2 150-million at 1987 money values.

This should give a welcome additional impetus to the economic recovery. At the same time, I would like to emphasise that alternative routes will also continue in existence.

The creation of infrastructure by Escom, the South African Transport Services and Posts and Telecommunications has amounted to more than 30 percent of the total net fixed investment in the Republic over the past five years. Tariff increases for these basic services to pay for the increased capital expenditure have also, of necessity, contributed to inflation.

Following a thorough inquiry which was completed in 1984, the control structure, strategy and investment pattern of Escom were drastically adjusted. This has already borne fruit in the form of a lower rate in electricity tariff increases. This should have a favourable effect on the downward trend in the rate of inflation.

Similar investigations have been undertaken in co-operation with the SA Transport Services and with Posts and Telecommunications and are nearing completion.

The Government has already decided in principle to table the necessary legislative amendments in Parliament for the conversion of Escom, the South African Transport Services and Posts and Telecommunications into tax-paying profit-seeking enterprises, either in their entirety or after sub-division into appropriate business undertakings.

The recommendations and

for capital expenditure in

period.

Review the standards of services anew in the light of what is affordable

Bring tariffs and prices more into line with real costs; and

Provide assistance and support, where it is justified, increasingly on the basis of individual needs instead of by means of generally applicable measures.

The Margo Report, which aroused great interest, has made several recommendations for far-reaching changes to the South African tax structure.

Extensive discussions have been held in this connection with representatives of the private sector, for example at the President's Conference in November last year.

The most important element in the Margo Commission's recommendations is the replacement of GST by value-added tax. As far as the type of value-added tax is concerned, the commission has made two recommendations, namely a comprehensive business tax, which is its first choice; and an invoice-based value-added tax as the alternative.

In view of the Republic's position regarding exports, the Government has decided to accept the working group's recommendation that GST be replaced by an invoice-based value-added tax. This is the same system of taxation that has been applied successfully in various countries for many years.

A few days ago, the Minister of Finance and I called together and consulted them on this recommendation. Having regard to the problem of exports the commission supported the decision.

Further discussions on its practical implications are to be held soon with organised commerce and industry and other interest groups.

A White Paper setting out the complete reaction of the Government will, in the near future, be tabled in Parliament by the Minister of Finance.

Where possible and practicable, the accepted proposals will already be implemented in the fiscal year which begins on March 1 this year.

Because of practical considerations, further investigations and consultations and

give serious attention to current expenditure.

All Ministers and their departments are at present thoroughly examining their own internal priorities.

With the emphasis very strongly on the restriction of current expenditure, it would appear to be necessary to expand further the activities of the National Priorities Committee.

As far as capital expenditure is concerned, a mechanism with the necessary technical expertise, is at present being created through which all capital expenditure in the broader government sector will henceforth be subject to Cabinet approval after consideration by the National Priorities Committee.

With a view to reducing Government expenditure where at all possible, all of the State's functions and services are at present being evaluated by means of a function evaluation programme under the auspices of the Commission for Administration.

Personnel expenditure currently represents 32 percent of government spending. It is Government policy that public service personnel should receive a fair remuneration for their work. Nonetheless, restriction of the growth in current expenditure inevitably has implications in respect of salaries.

The consumer price index is showing an encouraging downward trend. The rate of increase in the consumer price index over a 12-month period declined from 20,8 percent in January, 1986, to 14,7 percent in December, 1987.

Even so, the increase in prices remains higher than the average in the Western industrial countries with which South Africa primarily trades.

The Government is thoroughly aware of the disadvantages a high rate of inflation entails, not only in respect of the country's competitiveness in international trade, but particularly for many undertakings and individuals as well.

The Government is accordingly giving urgent attention at present to the proposed plan of action for combating inflation which was recently drawn up by the Economic Advisory Council.

During the discussion, an appeal was made to employers and employees for

ment and renewal in South Africa have to take place in an evolutionary manner.

During this session and thereafter we shall accordingly proceed with the measures which have already been announced and which are under consideration.

However, reform also has economic and social facets which, equally, have to be given attention.

In the economic field, the recent improvement in the general situation in South Africa is to be welcomed.

During the past few years, South Africa has had to make difficult adjustments in its economy to adapt to changing world conditions and unfavourable developments at home.

★ ★ ★ ★ ★

Although these adjustment processes have not yet been completely finalised, it is encouraging that so many successes have already been achieved that there is now once again a better climate for economic growth. The private sector, in particular, has in recent times reacted favourably to these developments.

In 1988, economic policy will still be geared to further increasing the economic growth rate without aggravating balance of payments and inflationary problems.

At the same time, the implementation of the necessary structural adjustments to the economy will have to be continued. The management of state finances will play an important role in this process.

It is generally known that the growth rate of the gross domestic product amounted to less than one percent in 1986 and that it, in all likelihood, exceeded the two percent mark in 1987.

The recovery is currently extending to more and more sectors of the economy.

In the meantime, international financial conditions remain uncertain, as is apparent from the sharp movements on foreign stock exchanges and on the foreign exchange markets. South Africa cannot isolate itself completely from these events and this is another factor which makes a cautious and sound domestic economic policy essential.

These basic services to pay for the increased capital expenditure have also, of necessity, contributed to inflation.

Following a thorough inquiry which was completed in 1984, the control structure, strategy and investment pattern of Eskom were drastically adjusted. This has already borne fruit in the form of a lower rate in electricity tariff increases. This should have a favourable effect on the downward trend in the rate of inflation.

Similar investigations have been undertaken in co-operation with the SA Transport Services and with Posts and Telecommunications and are nearing completion.

The Government has already decided in principle to table the necessary legislative amendments in Parliament for the conversion of Eskom, the South African Transport Services and Posts and Telecommunications into tax-paying profit-seeking enterprises, either in their entirety or after sub-division into appropriate business undertakings.

The recommendations and intended action emanating from the investigations into the South African Transport Services and Posts and Telecommunications will be dealt with by the responsible Ministers in their budget speeches.

Given the successful re-organisation achieved in respect of Eskom, the necessary investigations aimed at listing on the stock exchange will be undertaken first in its case.

However, the Government's well-known approach to privatisation should be emphasised, namely that the Government will not privatise simply for the sake of privatisation, but will give precedence throughout to the broader national interest. At the same time, satisfactory arrangements will have to be found to deal with the interests of the personnel of these institutions.

In principle, the Government is in favour of the privatisation of its shareholding in Foskor. Various options to overcome certain difficulties are at present being urgently investigated.

As far as Iscor is concerned, structural adaptations are at present being considered to make privatisation possible.

Similarly, it is the Government's view that the develop-

ment for the kind of assistance the IDC is able to render has developed among industries operating in the area falling between the fields of endeavour covered by the IDC and the Small Business Development Corporation (SBDC).

It would therefore appear to be the appropriate time to adapt the functions of the IDC to this need so that the original aim of industrial development may continue to be pursued, but with the accent increasingly on the development of small and medium-sized undertakings.

To be able to execute and finance this additional task properly, the IDC will sell off its present shareholdings in other companies as far as this is desirable.

The proceeds of privatisation will be allocated to the State's capital revenue fund and will not be used to finance current expenditure. They will be utilised, as a first choice, for the redemption of public debt.

In view of the urgent need for capital expenditure in numerous fields, this capital income will also be utilised for:

- Basic infrastructure and services in developing areas; and

- The creation of capital funds for the development of small industries and small business enterprise by the IDC and the SBDC.

In July, 1986, the Government committed itself to a policy of deregulation. Because vested interests are affected and systems frequently have to be redesigned, it is an illusion to believe the meaningful deregulation is possible overnight. Nevertheless, certain outstanding successes have been achieved, such as those in respect of Close Corporations, the tax industry and industrial hives. Other such developments are being considered, for example in respect of the legal prescriptions on trading rights and business premises which affect the activities of black businessmen in their own areas; the revision of food-handling regulations; and trading hours and licences.

State finances, as with the rest of the economy, were naturally unable to escape the influences of a variety of internal and external occurrences during the past few years.

In the sluggish economic

While, on the one hand, the State's own sources of revenue came under pressure during this period, further expenditure was unavoidable, on the other, because of a variety of factors. These included the drought, the Natal flood disaster, necessary actions in the interest of national security and the maintenance of law and order.

The Government is thoroughly aware that, however necessary it may be in the short term, the economy cannot bear the indefinite continuation of this stimulatory policy, without adversely affecting the rate of inflation and interest rates.

In the meantime, there have been welcome signs of recovery and moderate economic growth in the private sector, which have reduced the need for stimulation on the part of the authorities. The Government accordingly intends to bring the extent and composition of the Budget back within affordable limits and sound fiscal proportions within a reasonable period.

Against this background, renewed consideration had to be given to the extent of total Government expenditure, while taking into account

recommendation that GST be replaced by an invoice-based value-added tax. This is the same system of taxation that has been applied successfully in various countries for many years.

A few days ago, the Minister of Finance and I called the Margo Commission together and consulted them on this recommendation. Having regard to the problem of exports the commission supported the decision.

Further discussions on its practical implications are to be held soon with organised commerce and industry and other interest groups.

A White Paper setting out the complete reaction of the Government will, in the near future, be tabled in Parliament by the Minister of Finance.

Where possible and practicable, the accepted proposals will already be implemented in the fiscal year which begins on March 1 this year.

Because of practical considerations, further investigations and consultations and the implementation of legislative amendments, the remainder of the recommendations will be instituted from March 1 next year at the earliest.

In recent years, current ex-

penditures and increases in respect of salaries.

The consumer price index is showing an encouraging downward trend. The rate of increase in the consumer price index over a 12-month period declined from 20.8 percent in January, 1986, to 14.7 percent in December, 1987.

Even so, the increase in prices remains higher than the average in the Western industrial countries with which South Africa primarily trades.

The Government is thoroughly aware of the disadvantages a high rate of inflation entails, not only in respect of the country's competitiveness in international trade, but particularly for many undertakings and individuals as well.

The Government is accordingly giving urgent attention at present to the proposed plan of action for combating inflation which was recently drawn up by the Economic Advisory Council.

During the discussion, an appeal was made to employers and employees for their full co-operation in combating inflation and to apply similar discipline in respect of the growth in personnel expenditure and increases in prices.

★ LIQUIDATION AUCTION ★

OVER 120 CARS, BARRIES, S/WAGONS, VANS

- ★ REPOSESSIONS ★
- ★ LIQUIDATIONS ★
- ★ PRIVATE ENTRIES ★

Duly instructed by Financial Institutions, Attorneys, Companies and Private Vendors concerned, Mr. Kenny Finberg will supplement and sell to the highest bidder.



ON FRIDAY 5 FEBRUARY AT 7:30 PM
AT THE REPOSESSION STORE (THE BLUE AND WHITE BUILDING)
14 CARLISLE STREET, PAARDEN EILAND

- Highlights include:
- 1984 Toyota Corolla 1.6 GL
 - 1987 Ford Consul LDV + canopy
 - 1987 Toyota Corolla 1.6 GL
 - 1987 Nissan Skyline GL
 - 1986 Ford Laser 1.3 Sport
 - 1986 VW Golf GTI 5-sp
 - 1983 Ford Sierra 2.0 GL i/w
 - 1983 Nissan Pulsar S
 - 1983 Nissan Pulsar 5
 - 1983 Nissan Hilux 4x4 D/cab
 - 1984 Alfa Romeo 2.5 V6 Scorpion
 - 1984 Mercedes-Benz 280 SE 1/hoose
 - 1984 Mazda 323 1.3
 - 1984 Nissan Skyline GL 5-sp
 - 1984 Opel Kadett 1.6 GL
 - 1981 Ford Corolla 1.6 GL
 - 1982 Audi 100 GLS SE
 - 1982 Chev Rekord
 - 1982 Datsun Pulsar 1400 GX 5-sp
 - 1982 Ford Escort 1300L
 - 1981 Ford Corolla 1.6 GL
 - 1981 Alfa Giulietta 1.8
 - 1981 Datsun Pulsar 1400 GX
 - 1979 Austin Met
 - 1979 Datsun 120Y
 - 1979 BAW 518
 - 1978 VW Golf GL
 - 1978 BAW 730 a/i, a/c
 - 1978 Chev 2.5 i/w, a/i
 - 1978 Ford Granada 2.0 GL
 - 1975 Fiat 128 Rally
 - 1981 Ford Corolla 1.6 i/w
 - 1980 Datsun 120Y
 - 1980 BAW 518
 - 1980 Datsun 1400 LDV
 - 1980 Audi 100 LS
 - 1980 BAW 528 a/i
 - 1980 Chev Gallant 2.0 a/i
 - 1979 Ford Corolla 1.6 i/w
 - 1981 Ford Corolla 2R6
 - 1981 Mazda 323 1.3

VIEWING: ON DAY OF SALE FROM 2 PM

Sea Point Auction Mart

AUCTIONEERS: KENNY FINBERG AVRON GREENBERG JOHN MARCUS

BUYING OR SELLING? PH 517157/8/9

No general public service salary hikes

Stev 5/2/88

By David Braun, Political Correspondent

Parliament

President Botha today swung a heavy axe on Government spending in a major policy speech on economic reform.

Opening the sixth session of the Eighth Parliament this morning, Mr Botha said:

● There would be no general increases in salaries for public servants this year, coinciding with a "drastic reduction" in the creation of new civil service jobs and a revision of standards and services.

In certain cases, those who used these services would have to make a larger contribution themselves, otherwise the costs would have to be recouped by means of general increases in taxation.

● Large Government undertakings such as Eskom, the SA Transport Services and the Post Office were to be converted either in their entirety or after sub-division into profit-making business undertakings.

● A massive privatisation programme was being launched, with the proceeds to go to paying off the public debt, building basic infrastructure in developing areas, and to creating capital funds for the development of small industries and small enterprise.

The Government was in favour of privatising its shareholding in Foskor, structural adaptations were being considered to make the privatisation of Iscor possible, while investigations were underway to get Eskom listed on the stock exchange.

Certain sections of the national road network were to be sold to private consortiums which would finance, build, maintain and run them as toll roads for a period of 25 years.

IDC to sell certain shares

Functions of the Atomic Energy Corporation involving advanced technology were to be privatised, while the Industrial Development Corporation would sell certain of its shareholdings in other companies.

President Botha further announced that the Government would adopt the Margo Commission recommendation to scrap general sales tax and replace it with an invoice-based value-added tax, rather than a comprehensive business tax (CBT).

Where possible and practicable, the accepted proposals would already be implemented in the fiscal year starting on March 1.

The objective which the Government was pursuing with all of these actions, he said, amounted to the authorities taking the smallest possible, but nevertheless fair and legitimate, contribution from every taxpayer and using these contributions for the best possible benefit of the country as a whole.

"Policy renewal often demands courageous decisions and a willingness to make sacrifices on the part of all concerned. Let us do it together," he said.

Mr Botha said the Government was aware that, however necessary it may have been in the short term, the economy could not bear the indefinite continuation of its stimulatory policy without adversely affecting the rate of inflation and interest rates.

Welcome signs of recovery and moderate economic growth in the private sector had reduced the need for stimulation on the part of the authorities.

He added: "The Government accordingly intends to bring the extent and composition of the Budget back within affordable limits and sound fiscal proportions within a reasonable period."

Growth within limits

Mr Botha said in its efforts to keep growth in Government expenditure within affordable limits, the Government must give serious attention to current expenditure.

All capital expenditure in the broader Government sector would from now on be subject to Cabinet approval after consideration by the National Priorities Committee.

The President said personnel expenditure currently represented 32 percent of Government spending, and restriction of the growth in current expenditure had implications in respect of salaries and wages.

Should Government expenditure increase drastically, especially as a result of the granting of a general salary increase to employees of the State, this would certainly entail tax implications which would impair seriously the economic recovery.

"Consequently, the Government has decided to take the essential step this year of not granting any general increases in salaries and wages. Provision will be made only for the normal incremental adjustments and specific professional adjustments.

"This coincides with other measures, including a drastic reduction in the creation of new posts."

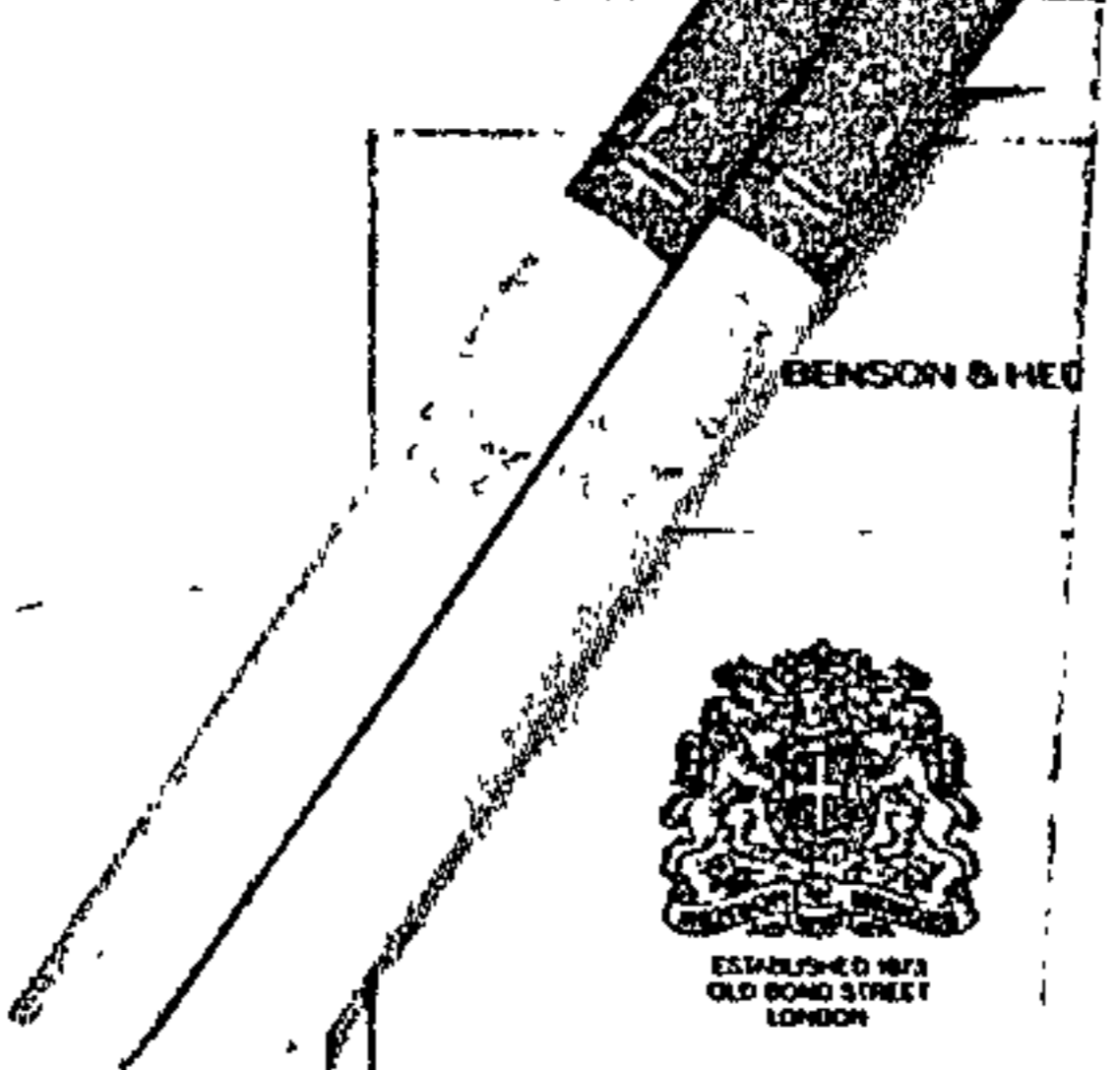
Graduate wage gap widens

Self-employed stockbrokers with university degrees earn far more than other graduates — R210 000 a year — while farmers earn the least, according to research into the earnings of white male graduates carried out by the HSRC's Institute for Manpower Research.

The survey of a group among South Africa and Namibia's 180 000 white male graduates shows that just 20 percent earn the highest wage in the public service, R101 500.

In the past 15 years the annual percentage increase in the private and public sectors was the same, 12,3 percent, but since 1984 the wage gap between the two sectors has widened, it says. — Pretoria Bureau.

MOVE MILDLY



I
S
g
w
ic
h

A
C
A
U
f
ig
ev
m

W
h
e
s
t
a
r
t
h
e
v
e
l
d
a
n
d
t
h
e
c

T
h
e
l
d
u
c
t
i
v
e
t
h
e
l
l
t
h
e
o
p
r
o
d
u
c
t
v
e
n
u
e
w
i
t
h

W
o
r
l
d
O
p
i
n
B
a
c
k
O
p
t
i
R
e
a
S
t
o
e
F
i
n
P
r
i
n
t
R
a
q
S
p
q

similarities with the economic policies of British Prime Minister Margaret Thatcher, which have transformed her country's economy into one of the fastest growing in Europe within only years.

Spokesmen for organised commerce and industry were overwhelmingly positive, describing the initiatives as "extremely important ... which all South Africans should welcome".

Meanwhile, amid the euphoria other economists are warning that tough times lie ahead for salary and wage earners following President Botha's economic measures.

Frans Esterhuyse, writing from Cape Town, says that some economists are saying that the immediate effect of the Government's new restrictive policy, if implemented by business and industry as well, will be that ordinary people will have to tighten their belts still more.

Dr Ockie Stuart, director of Stellenbosch University's Bureau for Economic Research, said he had no doubt that consumers generally would be worse off under the present inflation rate of about 15 percent.

Even if the inflation rate were to be brought down, the restricted salaries and wages were still likely to fall short as real incomes would decrease.

Indications were, therefore, that if the private sector heeded the call for restraint, more difficult times lay ahead for salaried people. This could also affect the country's economic growth rate, which would decrease.

But Dr Stuart said he did not think such a decline in the economic growth rate would be big enough to affect job creation.

Commenting on the proposed new VAT system of taxation, Dr Stuart said it was likely that consumers would pay a little less in direct taxation than under the present GST system, but then prices of commodities might increase to accommodate tax paid at different points between manufacturer and retailer.

In the end, it was likely that the consumer would pay about the same in direct and indirect tax as he now paid under the GST system.

Mr Tony Norton, chief executive of the Johannesburg Stock Exchange, said the President's speech indicated a willingness by the Government to put economics at the centre of priorities.

"The courage required to bring

● To Page 2.

Stage is set for new economic order

Star (49) ● From Page 1.

such reforms into play indicates commitment in itself," he said, referring to the political gamble taken by Mr Botha to deny the public service a general wage increase barely weeks before three crucial by-elections in the heartland of the National Party's opposition.

Some commentators consider this a "worst-case scenario" which will enable the NP to determine truly the depth of the conservative opposition.

An economist at the stockbroking firm of Simpson McKie Inc said: "The timing of the announcements couldn't have come at a better time. For the first time in nearly four years the economy has gained a momentum of its own which now enables the Government to execute its oft-stated policy of privatisation and deregulation."

The Associated Chambers of Commerce (Assocom), while expressing some reservations about the proposed replacement of general sales tax (GST) with the Value Added Tax (VAT) system, says the stage is now set for a reduction of the Government's role in the economy, which ultimately may avoid further tax increases.

"The goal now must be to make a reduction in the overall tax burden possible," it says.

Mr Leon Steenkamp, economist at the stockbroking firm of Senekal, Mouton and Kitshoff, ex-



MR STEENKAMP

pressed the opinion that GST is being replaced by VAT because of the vast growth of the informal sector of the economy, which largely escapes the GST net.

Other spokesmen were heartened by the announcement that large Government undertakings such as Eskom, SA Transport Services and the Department of Post and Telecommunications are to be converted into tax-paying profit-seeking enterprises.

They say that not only will this increase revenue for the State, but will lead also to greater efficiency and less distortion in the market-place.

The privatisation of several State-owned enterprises such as Yskor and Foskor, with the intended flotation of Eskom, will free "billions of rands" for use in the establishment of infrastructure in under-developed areas.

But Mr Botha's task won't be easy. Large-scale privatisation and deregulation will undoubtedly encounter vehement opposition from some public servants, special interest groups, and lobbyists — as has happened elsewhere in the world.



Casper Uys

Harry Schwarz

Govt 'selling assets for debt'

CAP 7124 6/2/88

Political Staff

49 (circled) (circled)

THE two main opposition finance spokesmen in the House of Assembly took opposite stands on the economic measures announced yesterday by Mr P W Botha in his opening speech to Parliament.

Mr Casper Uys of the Conservative Party was totally opposed, saying "the government is selling its assets to pay its debts".

"This speech indicates that the government is in serious financial difficulties," he said.

However, the Progressive Federal Party's Mr Harry Schwarz said any moves to economic progress and justice should be supported and moves to restrain government welcomed.

"One hopes they will be carried out to the full and that any appeal for salary and wage restrictions will be accompanied by a restraint on prices. The government should set the example by restraining administered prices, such as on food and tariffs," he said.

Mr Uys said the country was not involved in a privatization scheme but with a government which was trying to settle its debts.

"The switch to a VAT system is not going to mean lower prices for the taxpayer. Pressure on the man in the street is not going to decrease," said Mr Uys.

"The government's decision that levies should be pumped into the exchequer just amounts to another form of taxation which is totally unacceptable.

"Pegging civil service salaries means, in real terms, that they will have to take a cut in salary."

The authorities face up to their toughest economic test

Star. 6/2/88
49

At an influential investment conference last year, Reserve Bank Governor, Gerhard de Kock, forecast a 2,5% growth rate for the economy in 1988. As part of a realistic scenario, he further predicted that the expected a decline in the current account surplus would not create problems for the overall balance of payments (BoP), forex reserves or foreign debt commitments, since it was reasonable to assume that foreign trade-related and suppliers' credits would be forthcoming when the need for such funds arose.

IMPROVEMENT

Or to put it another way, that an improvement in the capital account would compensate adequately for the expected decline in the current account.

This, of course, would work well in theory. But take away the critical 'assumption' and add a range of measures to protect the current account surplus, and South Africa's growth prospects for 1988 look far less rosy.

The origins of South Africa's Bop crisis can be tracked back to the credit squeeze and subsequent unilateral standstill on the repayment of foreign debt in September 1985. Prior to this, South Africa had invariably run a current account deficit and capital account surplus, a feature which characterises the Bop of most developing and less-developed economies.

A reliance on foreign capital, of course, is not necessarily a bad thing for a developing country. In South Africa's case, for example, a relatively low level of per capita domestic savings literally forced the country to make use of foreign capital to finance both public and private investment. The alternative would have been a

DAVID RICARDO

significantly lower growth rate.

The problems emerge, however, and they currently exist for South Africa, when the credit tap suddenly gets turned off and the economy is forced to generate real savings.

This is not unlike asking the country quickly to evolve into a capital exporter, an uphill task for a developing economy which ordinarily would find its comparative advantage elsewhere.

In the first two years of the standstill, generating a current account surplus was not a problem for the authorities. Consumer and investor confidence were at extremely low levels, and well down on 1981 highs. For the first time, in fact, the current account surplus had little to do with prosperity, and everything to do with fundamental domestic weakness.

At the same time, though, the climate was right for the repayment of debt. Over the period September 1985 to the end of 1987, South Africa paid off \$4,8bn in foreign debt, while at the same time managing to double gold and forex reserves through sustained depreciation of the rand. Admittedly, a higher gold price gave the authorities much needed room to manoeuvre.

This year, however, is likely to be a very different one from 1986 and 1987. Domestic growth, fuelled largely by consumer spending has begun to take-off in a big way, and can be expected to continue throughout the rest of the year. This in turn is likely to translate into higher demand for imports such as oil, manufacturing components and capital goods, essential ingredients for a recovery.

Export earnings, on the other hand, particularly

gold earnings, look set to stabilise, and could in fact fall sharply if the present trend in the gold price and gold volumes continues a downward trend. The current account could easily decline to around \$2 to R3 billion by the end of the year.

Faced with the prospect of a dwindling current account surplus and foreign debt commitments, the authorities have basically two strategies they can follow.

One would comprise a process of growth accommodation — slightly higher interest rates to induce some overseas borrowing, and the financing of the balance through gold sales and/or borrowing. Politically, this would be by far the more appealing strategy and also one which would enable the country to achieve a growth rate around 2,5 to 3 percent. Unfortunately, it is also an unlikely scenario, given the current attitude towards South Africa, sanctions and pressure on overseas banks which continue to deal with us.

A second strategy would be one in which the authorities basically induce a recession in order to gen-

erate a surplus on the current account. Undoubtedly, such a strategy would follow on from an absence of overseas credit and/or a rapid decline in the gold price. Active depreciation of the rand would almost certainly be part of this scenario, as would higher domestic interest rates and taxes.

Other disincentives such as tariffs and quotas could also follow if the situation really started to get out of control.

CREDITS

The non-availability of foreign trade-related and suppliers' credits would in a sense force the authorities to constrain growth to enable debt repayment, and much lower growth rate around 1% would not be out of the question.

With \$1 to \$2 billion outstanding this year, overseas credit hard to find, the gold price looking very vulnerable, imports set to climb, the outlook for the economy is far from secure. At the same time though, it will be an interesting year and one in which the authorities' management of the economy will face its toughest test.

Proposals 'a quantum leap forward'

Financial Editor

THE Government's decision to privatize Eskom and other parastatals will be "a quantum leap forward" if it is implemented, Standard Bank economist Nico Czypionka said yesterday.

He said proposals put forward in the State President's speech yesterday were positive.

But he thought it would be better to reduce the size of the public service rather than merely contain the wage bill in terms of increases. The wage freeze would be a major sacrifice, but it would be better to have "a lean and well paid civil service."

He also thought it a mistake not to have consulted the trade unions over the campaign to keep down wages and prices.

Similar views were put forward by the Southern Life Association's chief economist, Mike Daly, who pointed out that public servants would "still get their notch and merit increases. This will probably add 5% to the Government's wage bill, which will not be inflationary."

Daly thought it a mistake not to have invited trade union leaders to the State President's meeting with leading businessmen on Thursday.

"It is no good in SA today just to bring the Government and the white captains of industry together because the unions see it as a plot to stop them from reaping their reward."

Benefit

It was now up to industrialists to convince the unions that keeping salaries and prices down would be to the eventual benefit of their members.

The President of the Cape Chamber of Industries, Mike Getz, praised the State President's courage in taking such strong action.

But "We have to recognize that our workforce are involved in our economy and our society now."

Getz and the director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, also pointed out that the public servants' wage freeze would dampen the economic upturn.

"Obviously it is going to tighten up some areas of consumer spending. Many consumers are State employees and they will not be compensated for inflation this year," said Getz.

Stuart, who said earlier this week that businessmen were "brimming with confidence" yesterday said this confidence would now be "somewhat dented."

But he thought a growth rate of 3% would be possible this year.

The director of the UCT Graduate School of Business, Paul Sulcas, said public servants, particularly teachers, were being called on to make a big sacrifice.

Sulcas said the idea of privatizing Eskom and other parastatals was excellent in principle. But they would not necessarily become more efficient unless the public servants running them were replaced by people from the private sector.

Sulcas also thought deregulation was a more effective way to encourage small businesses than to pump money into them through the Small Business Development Corporation.

COMMENT

The right stuff

BOTHANOMICS — the State President's bold economic U-turn — deserves unqualified praise. All that remains now is for him to display as much daring in its execution as he did in its announcement.

Make no mistake, the plan to privatise South Africa's giant parastatals and to dramatically reduce an improvident Government's share in the economy, is nothing short of revolutionary.

President Botha has now elevated the progressive removal of restrictions on economic activity to a national priority. There can be no backsliding now — he and his Government will be held to the promises that were made in an address that can fairly be described as an "economic Upington".

This is, of course, a reference to the famous early speech in which he urged his countrymen to adapt or die. And what goes for constitutional politics goes for economics too. Unless we adapt, deregulate and widen the area of liberty, we shall perish.

Reality

No matter that this Government has been late in coming to its conversion to true capitalism, or even that it was the belated discovery of reality which brought this about. When profligate, regulation-loving sinners repent, all must rejoice.

Scores of questions remain unanswered (see the leading article on Page 24), but the importance of the immediate psychological impact is undeniable.

In his own words, Mr Botha has decided to stick out his neck. He has promised to give the economy a sharp Thatcherian shove — and those with faith in capitalism and the curative magic of the marketplace can scarce forbear to cheer.

Those twin thieves that impoverish us all — inflation, begat of mismanagement, and taxation, begat of profligacy — are in the gunsight now. Mr Botha's performance will be measured by his courage to pull the trigger.

Hasty

Those who are rightly critical of the dangerous paralysis that has stalled political reform have been somewhat hasty in condemning the absence of reference to it in Mr Botha's speech this week. They should remember that no serious reform is possible in an enfeebled economy.

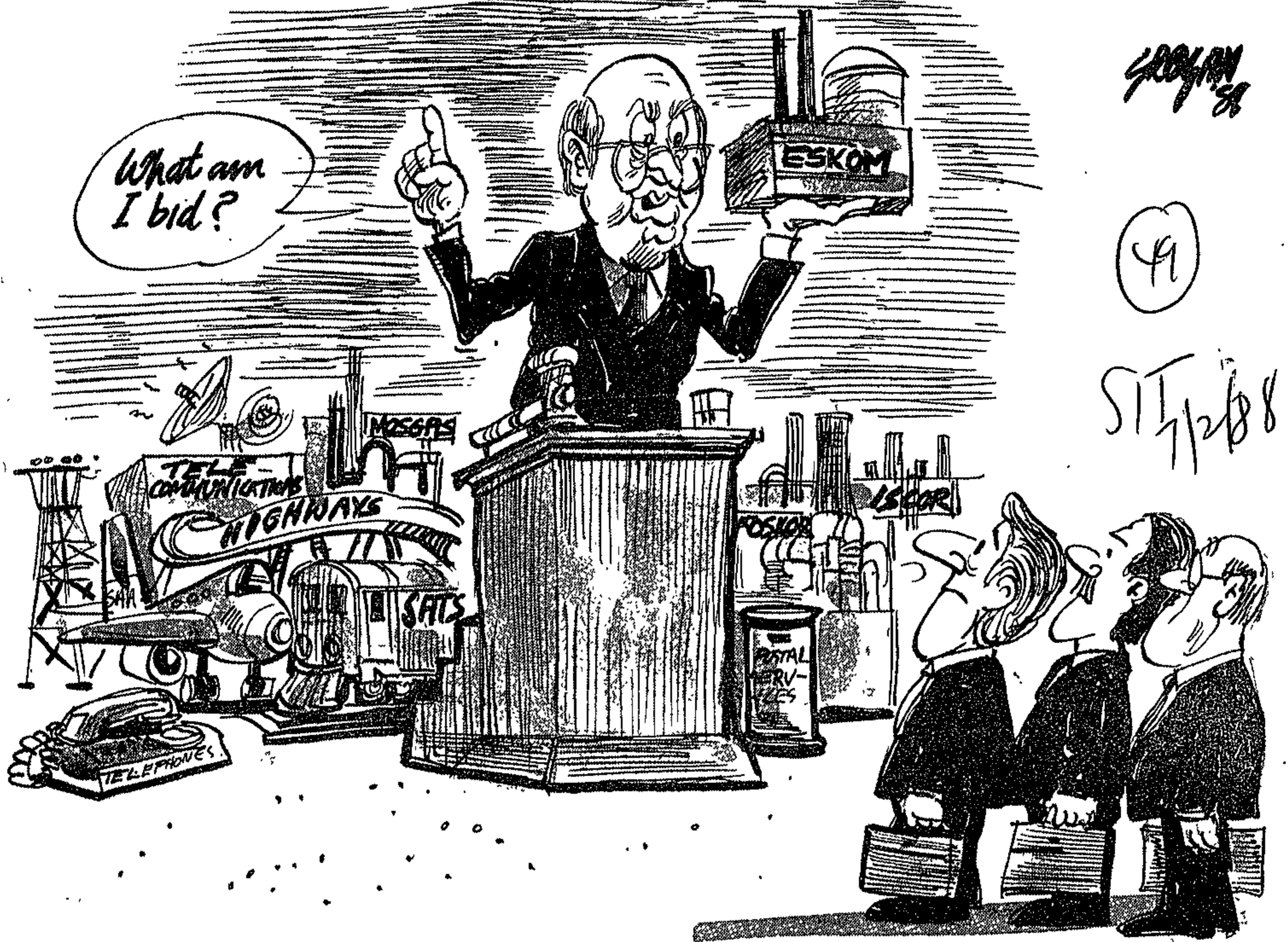
We must, first, follow the example of the free European and Asian economies before we can properly contemplate entry into the political kingdom. For 40 years a prodigal State has over-taxed and over-regulated the business affairs of this nation.

However, if Mr Botha's passage down a new road is swift and purposeful, the attainment of lasting political solutions becomes a more realistic possibility.

The creation of greater wealth for all in a free economy must bring its own reform.

Let's get on with it.

— The Editor



The Botha dilemma: Unlimited demands on limited resources

PRESIDENT P W Botha lifted another tip of the veil covering government's long-term economic strategy last Thursday at a meeting with business leaders, and again in his opening speech to Parliament the next day.

However, it remained only the tip of the veil which was lifted, allowing a fugitive peek at key facets of government policy regarding its longer-term spending intentions and its financing.

It fell short of a thorough airing of the visionary framework of which these key policy changes are only small fragments.

In essence, Mr Botha announced the replacement of GST with value-added tax (VAT), a real pay cut for the public sector and a broad hint at coming privatisation deals to raise capital for new public-sector investment.

He acknowledged the affordable limits for government expenditure were determined by the contribution taxpayers were able to make, plus the amount which could be borrowed.

By CEES BRUGGEMANS

Sunday Times economics commentator

Significantly, these three have never been defined together as targets: Not the maximum level of government spending, not the eventual level of taxation, nor the fullest extent of government borrowing. All are treated as flexible concepts whose *maxima* will be determined by a future reality.

Priorities

Government has recognised, though, that it cannot meet all potential demands which could theoretically be levied upon it. This requires a determination of priorities, as seen by the state.

But even when the priorities have been allocated (and this is apparently not always understood), government finds it still wants to spend more than the means at its disposal.

This is the true inheritance of continuing apartheid under a different name, as the duplication of state services between various population groups has an unlimited potential for absorbing scarce resources.

This dilemma of unlimited demands on limited resources is now being partially addressed by securing the tax base and enlarging it by way of a VAT, a real

public-sector pay cut and the mobilisation of even more private-sector funding without incurring impossible obligations for future generations of taxpayers.

The economic reform of 1988 appears to have precious little to do with an anti-inflation campaign. The emphasis is, instead, to be on the funding of government spending in the years ahead and, indeed, to make more room for "essential" spending.

The hottest favourite remains privatisation, which will have two dimensions. The one will be to convert Eskom, SATS and the Post Office into taxpaying, profit-seeking enterprises.

Essentially, these organisations are to be cast off by the state, removing them from the central feeding trough, forcing them to become more self-reliant and fully priced to the private sector.

Yet, they are likely to retain much of their semi-public nature, with many of the same people and business practices remaining in place, although there are bound to be isolated exceptions.

The actual privatisation attempt will be nothing more than an attempt to obtain a part of the cash flow of the

country's largest institutions by different means.

In addition to incurring debt, future servicing and repayment obligations, the state gets even more resources in return for handing over certain of its existing assets.

Even more transparent are the intentions regarding the use of the proceeds of privatisation. These are to go into the capital-revenue fund and are not to be used to finance current expenditure.

While, as a first choice, they are to be utilised for the redemption of public debt, this will put these monies back into the hands of private sector institutions which may decide not to actively use any of the funds for the economic development of the country, particularly its "Third World" component.

Cluttered

The second option for using the funds, therefore, has far more meaning — namely the development of black homelands, urban areas, small industries and small businesses, all of which are old hobby horses of government.

Government's current spending agenda is so cluttered with social priorities it does not see its way clear to pay sufficient attention to investment priorities as well.

In this way, privatisation is likely to become a revolving door, in which state assets accumulated in the past are swapped for current cash

with which new state assets, with a rather different nature, are to be built up anew, utilising private resources which would otherwise not dream of developing these things themselves. At least not in the manner or the scale apparently being contemplated by government.

It is a form of state capitalism which remains poorly understood in a private sector which tends to fix its eyes on the imagined pleasant features of privatisation, such as higher productivity and efficiency.

When it comes to understanding the introduction of VAT and the imposition of a public sector pay cut in real terms, there is some problem in not having the intended spending, taxing and borrowing capacities of government and the country delineated more specifically.

Then, on the spending side, the focus falls on the 32% which is paid in salaries and wages, where no general increase (potentially worth some R2-billion) is to be granted this year.

Conspicuous by its absence is any remark about the intentions regarding the other 68% of state spending, or to set specific believable targets for such future spending.

As a priority, state salaries have apparently gone down in the rankings. Besides, there just might conceivably be some rub-off on the private sector. Perhaps, who knows?

Watershed economic switch to a new era

PROGRESS is a prerequisite in the Republic of South Africa. It goes without saying that constitutional development and renewal in SA have to take place in an evolutionary manner.

During this session and thereafter we shall proceed with the measures which have been announced and which are under consideration.

Economic review

In the economic field, the recent improvement in the general situation in SA is to be welcomed.

In the past few years, SA has had to make difficult adjustments in the economy, adapt to changing conditions and unfavourable developments at home.

In 1988, economic policy will still be geared to further increasing the economic growth rate without aggravating balance of payments and inflationary problems.

At the same time, the implementation of the necessary structural adjustments to the economy will have to be continued. The management of State finances will play an important role in this process.

It is generally known that the growth rate of the gross domestic product amounted to less than 1% in 1986 and that it, in all likelihood, exceeded 2% in 1987.

The recovery is extending to more and more sectors of the economy. In the meantime, international financial conditions remain uncertain, as is apparent from the sharp movements on foreign stock exchanges and on the foreign exchange markets. SA cannot isolate itself completely from these events and this is another factor which makes a cautious and sound domestic economic policy essential.

Policy renewal

ECONOMIC and financial policy is designed to serve the interests of a country in the best possible manner within a particular set of national and international circumstances.

Economic and financial conditions are continually subjected to local and foreign influences. Although policy and policy measures are continuously adapted to changing circumstances, it is necessary from time to time to analyse matters thoroughly and, as required, even to make drastic adjustments to one's course.

Steps the Government has taken over the past few years indicate its seriousness in wishing to place the management of Government finances on a sound footing by means of well-considered reform.

An authoritative investigation was necessary to make changes to the system of taxation which would bring about a fairer distribution of the tax burden and which, in particular, would mean a better dispensation for the individual — hence the Margot Commission.

Affordable limits for Government expenditure are determined by the contribution taxpayers are able to make

plus the amount that can be borrowed. Since every need cannot be met, a determination of priorities has to be undertaken — hence the creation of specific mechanisms, such as the National Priorities Committee and the five-year expenditure guidelines.

The process of priority determination entails renewed consideration by the State of the nature and extent of the services which it renders.

In certain cases, those who use these services will have to make a larger contribution because of the lower priority allotted to them, otherwise the costs would have to be increased by means of general increases in taxation. Naturally, humanitarian services for the less privileged will enjoy a high degree of preference in the determination of priorities.

Nonetheless, the utilisation of the maximum affordable resources still leaves certain important capital requirements unsatisfied. Consequently, the utilisation of the country's current assets also has to be subjected to thorough investigation and priority determination — hence the intensive investigations into privatisation.

Privatisation
PRIVATISATION in its various forms is taking place in almost every Western country and holds the promise of numerous advantages. Every country's circumstances are however unique also those in SA.

In contrast with the socialism and nationalisation which are accepted as policy in some other countries, the Republic is committed, in terms of the preamble to the constitution, to the promotion of private initiative and effective competition as well as to the protection of the ownership of property.

Thus, privatisation is also less necessary than in countries where enterprises have

the most pressing socio-economic needs, such as in housing, basic infrastructure, temporary creation of employment and education and training.

While, on the one hand, the State's sources of revenue came under pressure during this period, further expenditure was unavoidable, on the other, because of a variety of factors. These included the drought, the Natal flood disaster, necessary actions in the interest of national security and the maintenance of law and order.

The Government is thoroughly aware that however necessary it may be in the short term, the economy can-

PRESIDENT Botes turned from the political to the economic in a watershed opening address to Parliament on Friday.
He dealt with the four crucial questions confronting the economy — State spending, inflation, deregulation and privatisation. And in so doing he largely bid farewell to the remnants of State socialism.
His speech is summarised on this page.

Kroonstad and Johannesburg and a section of the national route between Pietermaritzburg and Alberton.

The eventual investment in this connection will amount to R2 150-million at 1987 money values.

This would give a welcome additional impetus to the economic recovery. At the same time, I would like to emphasise that alternative routes will also continue in existence.

Large undertakings
THE creation of infrastructure by Ekcom, SA Transport Services and by Posts and Telecommunications has amounted to more than 30% of the total net fixed investment in the Republic over the past five years. Tariff increases for these basic services to pay for the increased

the same time, satisfactory arrangements will have to be found to deal with the interests of the personnel of these institutions.

State corporations
IN principle, the Government is in favour of the privatisation of its shareholding in Foskor. Various options to overcome certain difficulties are being urgently investigated.

As far as Iscor is concerned, structural adaptations are being considered to make privatisation possible. Similarly, it is the Government's view that the development of the Mossel Bay gas project should in the main be a private sector development.

Good progress has also been made with the privatisation of several functions of the

not bear the indefinite continuation of this stimulatory policy without adversely affecting the rate of inflation and interest rates.

In the meantime, there have been welcome signs of recovery and moderate economic growth in the private sector which have reduced the need for stimulation on the part of the authorities.

The Government accordingly intends to bring the extent and composition of the Budget back within affordable limits and sound fiscal proportions within a reasonable period.

Against this background, renewed consideration had to be given to the extent of total Government expenditure, while taking into account what the economy could afford.

It is therefore essential on the basis of a thorough

further the activities of the National Priorities Committee.

As far as capital expenditure is concerned, a mechanism with the necessary technical expertise is being created through which all capital expenditure in the broader Government sector will henceforth be subject to Cabinet approval after consideration by the National Priorities Committee.

With a view to reducing Government expenditure where possible, all of the State's functions and services are being evaluated by a function evaluation programme under the auspices of the Commission for Administration.

Personnel expenditure currently represents 32% of Government spending. It is Government policy that public service personnel should receive a fair remuneration for their work. Nonetheless, restriction of the growth in current expenditure inevitably has implications in respect of salaries and wages.

Inflation
THE consumer price index is showing an encouraging downward trend. The rate of increase in the consumer price index in 12 months declined from 20,8% in Johannesburg in 1986 to 14,7% in December 1987.

Even so, the increase in prices remains higher than the average in the Western Industrial countries with which SA primarily trades.

AGENT DISTRIBUTOR
Required for



ism and nationalisation which are accepted as policy in some other countries, the Republic is committed, in terms of the preamble to the constitution, to the promotion of private initiative and effective competition as well as to the protection of the ownership of property.

Thus, privatisation is also less necessary than in countries where enterprises have been nationalised on a large scale.

In pursuance of the White Paper which was tabled during the previous session, significant progress has been made with investigations into privatisation.

Large undertakings

THE creation of infrastructure by Ekcom, SA Transport Services and by Posts and Telecommunications has amounted to more than 30% of the total net fixed investment in the Republic over the past five years. Tariff increases for these basic services to pay for the increased capital expenditure have also, of necessity, contributed to inflation.

The Government has decided in principle to table legislative amendments in Parliament for the conversion of Eskom, SA Transport

As far as Iscor is concerned, structural adaptations are being considered to make privatisation possible.

Similarly, it is the Government's view that the development of the Mossel Bay gas project should in the main be a private sector development.

Good progress has also been made with the privatisation of several functions of the Atomic Energy Corporation in which advanced technology is involved.

The IDC

OVER many years, the Industrial Development Corporation has made an outstanding contribution to industrial development and has at its disposal a highly capable personnel corps.

In recent times, a growing need for the kind of assistance the IDC is able to render has developed among industries operating in the area falling between the fields of endeavour covered by it and the Small Business Development Corporation.

It would, therefore, appear to be the appropriate time to adapt the functions of the IDC to this need so that the original aim of industrial development may continue to be pursued, but with the accent increasingly on the development of small and medium undertakings.

To be able to execute and finance this additional task properly, the IDC will sell off its present shareholdings in other companies in as far as this is desirable.

Privatisation proceeds

THE proceeds of privatisation will be allocated to the State's capital revenue fund and will not be used to finance current expenditure. They will be utilised, as a first choice, for the redemption of public debt.

In view of the urgent need for capital expenditure in numerous fields, this capital income will also be utilised for:

- basis infrastructure and services in developing areas
- the creation of capital funds for the development of small industries and small business enterprise by the IDC and the SBDC.

Deregulation

IN July 1986, the Government committed itself to a policy of deregulation. Because vested interests are affected and systems frequently have to be redesigned it is an illusion to believe that meaningful deregulation is possible overnight. Nevertheless, certain outstanding successes have been achieved, such as those in respect of Close Corporations, the tax industry and industrial hives. Other such developments are being considered — for example, the legal prescriptions on trading rights and business premises which affect the activities of black businessmen in their own areas, the revision of food-handling regulations, and trading hours and licences.

State finances

STATE finances, as with the rest of the economy, were naturally unable to escape the influences of a variety of internal and external occurrences in the past few years.

In the sluggish economic conditions experienced in 1985, 1986 and until early in 1987, a heavy responsibility rested on the authorities to stimulate the economy towards recovery in a responsible manner by means of increased Government spending. At the same time, the Government endeavoured to adapt the nature of this additional expenditure to

content and composition of the Budget back within affordable limits and sound fiscal proportions within a reasonable period.

Against this background, renewed consideration had to be given to the extent of total Government expenditure, while taking into account what the economy could afford.

It is therefore essential, on the basis of a thorough system of priority determination, to

- reconsider the necessity of existing services
- review the standards of services anew in the light of what is affordable
- bring tariffs and prices more into line with real costs
- provide assistance and support, where it is justified, increasingly on the basis of individual needs instead of by means of generally applicable measures.

Margo report

THE most important element in the Margo Commission's recommendations is the replacement of GST by value-added tax. As far as the type of value-added tax is concerned, the commission has made two recommendations — a comprehensive business tax, which is its first choice, and an invoice-based value-added tax as the alternative.

In view of the Republic's position regarding exports, the Government has decided to accept the working group's recommendation that GST be replaced by an invoice-based value-added tax. This is the same system of taxation that has been applied successfully in various countries for many years.

Further discussions on its practical implications are to be held soon with organised commerce and industry and other interest groups.

A White Paper setting out the complete reaction of the Government will, in the near future, be tabled in Parliament by the Minister of Finance.

Where possible and practicable, the accepted proposals will be implemented in the fiscal year which begins on March 1 this year.

Because of practical considerations, further investigations and consultations and the implementation of legislative amendments, the remainder of the recommendations will be instituted from March 1 next year at the earliest.

Levy funds

LEVIES by the central Government which at present flow directly to special funds outside the Budget will henceforth be channelled unearmarked to the Exchequer and their application will be subjected to the process of priority determination together with all other revenue.

This includes the fuel levies which at present flow directly to energy-related funds and the National Road Fund. In the process, the levy will be the subject of periodic review.

Limitation of current expenditure

IN recent years, current expenditure has begun to constitute a growing part of Government expenditure. In its efforts to keep the growth in Government expenditure within affordable limits, the Government must therefore give serious attention to current expenditure.

All ministers and their departments are at present thoroughly examining their own internal priorities.

With the emphasis strongly on the restriction of current expenditure, it would appear to be necessary to expand

budgets a high rate of inflation entails, not only in respect of the country's competitiveness in international trade, but particularly for many undertakings and individuals as well.

Almost every consumer has in recent years had to experience a reduction in the purchasing power of his after-tax income.

Inflation impoverishes the farmer, the housewife, the worker, the salary earner, the small businessman and the pensioner. The Government is concerned about this.

The Government is accordingly giving urgent attention to the proposed plan of action for combating inflation which was drawn up by the Economic Advisory Council.

As indicated in the report, inflation is a complex problem caused by a variety of factors. The maintenance of discipline in Government finances is a key element in the fight against inflation.

The persistent increases in salaries and wages in every sector of the economy clearly contribute to the problem of inflation.

A disciplined approach which would be applicable throughout the economy is essential in this regard if we seriously wish to tackle the problem in respect of this aspect of inflation.

It also has to be borne in mind that the current economic upswing is in an early phase. Should Government expenditure increase drastically, especially as a result of the granting of a general salary increase to employees of the State, this would certainly entail tax implications which would seriously impair the economic recovery. This the country cannot afford.

Consequently, the Government has decided to take the essential step this year of not granting any general increases in salaries and wages. Provision will be made only for the normal incremental adjustments and specific professional adjustments.

This coincides with other measures, including a drastic reduction in the creation of new posts and revision of services and standards.

To be able to advance at all in combating inflation, a sustained and enthusiastic team effort between the public and the private sectors is required. We have no other option.

In view of this, I held discussions yesterday (Thursday) with members of the Economic Advisory Council, representatives of organised commerce and industry, professional groups, consumer organisation, agriculture, women's organisations, employees' organisations, staff associations and the media.

During the discussion, an appeal was made to employers and employees for their full co-operation in combating inflation and to apply similar discipline in respect of the growth in personnel expenditure and increase in prices.

If the positive trends in the economy continue, the State's tax revenue will eventually benefit as well, but the full advantages of the expected growth will not yet be available to the Treasury in the coming financial year.

To sum up: the objective which the Government is pursuing with all of the reactions amounts to the authorities taking the smallest possible but fair and legitimate contribution from every taxpayer and using these for the best possible benefit of the country as a whole.

Policy renewal often demands courageous decisions and a willingness to make sacrifices on the part of all concerned. Come, let us do this together.

REQUIRED

Programme Cycle Centre Wholesalers service the Orange Free State/Lesotho

bicycles, spares and accessories, equipment and a number of other

can contact the Sales and Box 2712, Port Elizabeth 6056.

WHOLESALE



TRIO ADVERTISING 3976

85

200 Plus
1 among
and portfolios.

Botha's billion rand auction

By IAN SMITH

MANY thousands of people who are now State employees will find themselves working in the more competitive world of private enterprise when the Government's dramatic economic reforms get under way.

In addition, billions of rands will be freed for more productive use in the economy — making it possible for the Government to arrest, or even reverse, the tax spiral.

More than 400 000 people are at present employed in the undertakings that have been targeted for privatisation — Eskom, Sats, Posts, Iscor and Foskor.

In theory, all can expect a change of status as these giant ventures are converted to commercial undertakings.

Total assets of the organisations to be sold off to private enterprise exceed R80 000-million.

However, the process will not take place overnight. Privatisation will be gradual and neither all the State employees nor all the assets will ultimately end up in private hands.

If, however, Mrs Margaret Thatcher's privatisation programme in Britain is taken as a model, vast sums will be liberated for deployment throughout the economy and the numbers

WHAT BOTHA SAID See Business Times Page 4

of people employed in more efficient privatised industries will be much reduced — freeing others for more productive work in the larger economy.

Far-reaching reforms in Government economic policy were announced by President Botha when he opened Parliament this week (full text on Page 4, Business Times).

While bodies representing public servants have protested against the salary curbs that form part of the package, most business leaders and economists have welcomed the State President's bold scheme to deregulate the economy and to sell off the biggest State undertakings.

Preparation for the mammoth sale of assets will take some time and the sale itself will be a complex operation.

Meanwhile, therefore, experts believe that "creeping privatisation" will take place as more services to State organisations are progressively allocated to private companies.

In addition, it will never be possible to privatise all of the operations of State enterprises because many of them — such as suburban and other train services — are uneconomic and are maintained to fulfil various socio-economic needs. Yesterday, spokesmen for the private sector said they were greatly encouraged by President Botha's promise that the proceeds of privatisation would not be used to finance current expenditure.

The money would be used, first for the redemption of public debt and then for infrastructural development and the encouragement of small business.

Giant

The first major move will come from the State's biggest enterprise, Eskom, where Electricity Council chairman Dr John Maree will set up a steering committee this week.

"They have a big job ahead of them," said Dr Maree.

"We will push ahead with our programme to privatise ancillary operations, but to bring our mainline activity into the risk capital field is a giant task."

Eskom's total assets stand at R28 000-million after a change in accounting meth-

To Page 2



Botha's billion-rand auction: Tax spin-off?

Sats, with assets believed to total about R18 000-million, and the R8 000-million Post Office have areas which the private sector would like to take over.

But the moves are courageous," said Mr Roger Keyte, national director of Pim Goldby management consultants, yesterday.

But certain essential operations will probably have to remain in State hands.

One of the bigger risks fac-

scheme has gone to the private sector and much of the construction of power stations and transmission lines has been farmed out.

Iscor, which has assets of about R4 000-million, has also started moving in this direction and has carried out major modernisation projects.

counting for about half the total, would have first claim on the proceeds.

Eskom's recent restructuring has already taken it well down the road towards becoming a private sector-type operation.

The work force has been cut by 10 000, to just over 56 000, the home ownership

□ From Page 1
ods to provide for depreciation.
But not all this money will go to the Government after the sale.
Total borrowings stand at about R20 000-million, and repayment of local and foreign loans, as well as locally-registered stock ac-

PW's 'new deal' could give boost to much-needed political reform

PRESIDENT P.W. Botha's new economic package will give a meaningful boost to political reform, said Dr Stoffel van der Merwe, Deputy Minister of Constitutional Development and Planning.

Economic prosperity was an important prerequisite for political reform, Dr van der Merwe said.

"Many intended political reforms on third-tier level have been shipwrecked because there was insufficient economic support," he said.

President Botha indicated that increased availability of funds — particularly from the privatisation of major para-statal corporations — would be used for development purposes with a distinct socio-political face.

Enormous amounts of capital can be expected to become available when corporations such as Eskom, Iscor and sections of SATS and the GPO are privatised.

Mr Botha said the first priority for this money would be the redemption of public debt.

He said it would also be used for basic infrastructure and services in developing areas and the creation of small businesses.

Objections

The long-term effect should be a broadening of a black middle class.

The Official Opposition's spokesman on finance, Conservative MP Cas Uys, objected to this aspect of Mr Botha's package, saying it amounted to a transference of wealth from the white industrial sector to black areas.

Mr Uys said the package revealed a Government forced into liquidating its assets in order to acquire cash it did not have.

He said he was "anxious" about the privatisation of

services such as roads, railways and telephones.

He objected also to the abandonment of earmarked levies. These now became simply methods of collecting tax revenue, he said.

While Progressive Federal Party leader Colin Eglin referred to the economic plans only as "interesting" and castigated Mr Botha for ignoring political reforms, PFP finance spokesman Harry Schwarz praised the proposals.

He said: "Moves toward economic progress and economic justice should be supported."

Restraint

The overall package, Mr Schwarz said, should lead to greater employment and greater private fixed investment through entrepreneurship.

He said the appeal for restraint in price and wage increases should be backed with restraint on Government-administered prices.

He said it was wrong to privatise roads while users were paying for them through the fuel levy.

Using the money simply to pay off the national debt was "not going to help anyone", Mr Schwarz said.

Labour Party leader Allan Hendrickse largely ignored the economic proposals in his reaction and, like Mr Eglin, criticised Mr Botha for failing to address vital political reform.

By LESTER VENTER
Political Correspondent

A FRAMED text hangs on the waiting room wall outside Finance Minister Barend du Plessis's Cape Town office. It reads:

"The State's budget must be balanced"

"The public debt must be reduced."

"the bureaucracy's arrogance must be moderated and controlled."

"Payments to foreign states must be reduced"

"if the State should not go bankrupt."

"The people should learn to work again,

"instead of thriving on public handouts."

The words were written in 55BC by Cicero, Rome's greatest orator. The significance has obviously not escaped Du Plessis — and if Friday's opening of Parliament speech by the State President delivers all P W Botha promised, it will not escape anyone else either.

The Finance Minister has been pleading for fiscal discipline and tax reform since his first day in office. But as a junior minister, he lacked the political clout to enforce that discipline. Now, that has all changed.

P W Botha himself has flung his very considerable weight behind a major economic reform plan. More than that — has publicly committed government to a series of fundamental actions.



□ **BEADY EYE**... P W Botha has publicly committed government to fundamental reform actions

Into battle with Bothanomics

Has government finally heeded the calls for far-reaching reform of the SA economy? If P W Botha keeps to the promises made in his opening of Parliament speech on Friday, this would seem to be the case, although the road chosen by Botha will not be an easy one. Deputy Editor NEIL JACOBSON reports from Cape Town

It is this last factor that is causing flutters in even the most sceptical of breasts. Years of broken promises and budget overruns mean that credibility is the Nationalist government's greatest public relations problem. Few people would have believed promises — but few can fail to be shaken by the action he has taken.

Make no mistake — what Botha has proposed is a radical departure from the socialist-leaning economic strategy the National Party has followed since 1948.

This approaches Thatcherism — with pay restraints on public servants, privatisation of State monopolies, deregulation of trade and fiscal discipline — if government delivers.

There was a certain irony in the sight of Botha announcing a new era of discipline in government spending in a spanking new R31m Parliamentary chamber that will probably be used no more than half a dozen times this year, which nicely illustrates the point that no one should minimise the difficulties that lie ahead before the economy is in the clear — such as untangling the web of State subsidies and support schemes that so severely skew the market, and

such as that Damoclean sword of the State's pension fund.

But that does not alter the fact that Botha has taken some far-sighted and bold steps, both politically and economically.

To deal with the latter first, there is little in the announcement than can be criticised, with the possible exception of the privatisation of sections of the national roads network.

It's one thing to privatise a new road, from the planning stage upwards, but quite another to sell off an existing road, already paid for by the taxpayer. Even Margaret Thatcher left the roads network untouched in her privatisation drive.

For the rest, few free market supporters can quibble with the plans to privatise the State monopolies. In particular, government's intention to use funds raised through privatisation to redeem national debt is a sound move.

If, as has been suggested, the target is to reduce the deficit before borrowing to the generally-acceptable norm of 3% of GDP, privatisation is the only way to go.

More importantly, the commitment to privatisation now seems irreversible and could well spread right down the line to grass-roots institutions, such as schools.

Obviously, the State must play a role in the provision of such services for the less affluent sector of the population, but Du Plessis told Business Day that government had already adopted a more supportive role in private school education, and that he expected this process to accelerate.

So, too, the freeze on public sector pay increases, while politically risky, is economically the right action to combat inflation. Du Plessis admits "there is a correlation" between inflation and the State's staff expenditure.

With government's wage bill running to 32% of the budget, that's putting it mildly.

But, he warns, the downside of this equation is that the public must accept a decline in the standard of service from government, and that fees and tariffs charged

by government departments will become more "realistic".

The latter premise can be partially accepted. The former should be rejected.

Realistic tariffs and fees are part of a free market, although government must understand that another key move in controlling inflation is to keep a firm hand on administered prices, which include tariffs set by departments such as Sats and the Post Office.

But less government need not mean poor government. Privatisation should result in increased efficiencies, and there is no reason why this should not rub off on those functions remaining in the State's hands.

The replacement of GST by VAT, too, has been generally welcomed as a more equitable system. GST has in many ways failed. Evasion has become a national pastime. In many sectors, particularly the black informal sector, it has proven impossible to collect.

VAT should change that. Being a multi-stage tax, collection is more efficient and evasion more difficult.

But there are tough decisions to be made.

Will capital goods be taxed? And what of food, which, in a pure invoice-based VAT system, should be included? Will government face the possible social repercussions of a new tax on food?

If both capital goods and food are exempted, other problems arise. VAT has a narrower tax base than GST, which means that the rate would have to be much higher than GST (possibly as much as 17%) to maintain the same revenue.

Much discussion lies ahead, in which — government has pledged — the private sector will be deeply involved.

What then of the political implications of Botha's package?

In the short-term, Botha's boldness is likely to damage the National Party's chances in the Randfontein by-election, because of that constituency's strong public-service electorate. Schweizer Reineke and Standerton will be less affected, even though the CP has wasted no time in crying "skande".

The CP is right to be shocked, for what Botha has embarked upon is, in effect, a fundamental swing away from national socialism. This is hardly likely to make him the most popular figure in hundreds of dreary government offices from Pretoria to Pofadder.

Already the Sats unions have howled their rage, threatening court interdicts, work stoppages and other action.

It therefore follows that Botha has also obviously decided against a snap general election this year — and that he may well have in mind a deal with the Labour Party to postpone next year's poll.

He would be politically wise to do so. When launching her reform programme, Thatcher warned that things would have to get worse before they got better. The same applies here, and in the short-term it is only Botha who is strong enough to stand up against the collective rage of the public sector.

And after Botha? His speech refocuses the spotlight interestingly on Barend du Plessis, who, make no mistake, is an ambitious politician. Botha has handed Du Plessis an immense political weapon, and one that he can use most effectively against his own profligate Cabinet rivals.

If 1988 truly becomes the Year of the Economy, Du Plessis will emerge down the line as an economic saviour — and as the party's strong man at the very moment a new leader will be needed. F W de Klerk must be feeling as sick as a dog.

- MAJOR economic reforms announced by President Botha are:**
- Salaries for all public servants, from policemen to teachers, from Cabinet Ministers to postmen, have been frozen for the next year, apart from normal notch increases and specific professional adjustments. This has been matched with an appeal to the private sector for similar restraint;
 - Privatisation is on the road, with Du Plessis talking confidently about Eskom going for a listing within 12 months. Legislation to convert Eskom, Sats and Posts and Telecom-

The main reforms

- The system of earmarking of funds, which in the past has effectively put them out of the Treasury's reach, is to be ended;
- New deregulation steps are being planned, including a revision of regulations controlling food-handling and trading hours and licences, and legal prescriptions on trading rights and business premises for black businessmen (but only in their "own areas"); and
- Agreement has been reached with two consortiums for the establishment of toll roads between Springs and Krugersdorp, and for sections of the Kroonstad-Johannesburg and Maritzburg-Alberton national routes.

Why government had finally to about-face to save the economy

WITH ECONOMISTS churning out ever more alarming projections for the general spending levels and deficit before borrowing, government finally had no choice.

State President P W Botha's intention of controlling the extent of the Budget back to within affordable limits contained an implicit admission.

Things had gone too far.

It also has broader philosophical implications for the size of govern-

The party is over. It was fears of lagging tax revenues, an aborted economic recovery and the balance of payments constraint that finally drove government to commit itself to last week's volte-face, writes Financial Editor GERALD PROSALENDIS

...thorities seem confident these esti- If, on the other hand, the central Budget was split into two sections:

wages and salaries and for servicing debt.

Last year's interest on government debt (R5,2bn) ate up 13% of the total Budget.

This is where government's intention of using the proceeds from privatisation to repatriate public debt is extremely important. It will help ease the deficit before borrowing.

Government will give investors,

road chosen by Botha will not be an easy one. Deputy Editor NEIL JACOBSON reports from Cape Town

It is this last factor that is causing flutters in even the most sceptical of breasts. Years of broken promises and budget overruns mean that credibility is the Nationalist government's greatest public relations problem. Few people would have believed promises — but few can fail to be shaken by the action he has taken.

Make no mistake — what Botha has proposed is a radical departure from the socialist-leaning economic strategy the National Party has followed since 1948.

This approaches Thatcherism — with pay restraints on public servants, privatisation of State monopolies, deregulation of trade and fiscal discipline — if government delivers.

There was a certain irony in the sight of Botha announcing a new era of discipline in government spending in a spanking new R31m Parliamentary chamber that will probably be used no more than half a dozen times this year, which nicely illustrates the point that no one should minimise the difficulties that lie ahead before the economy is in the clear — such as untangling the web of State subsidies and support schemes that so severely skew the market, and

such as that Damoclean sword of the State's pension fund.

But that does not alter the fact that Botha has taken some far-sighted and bold steps, both politically and economically.

To deal with the latter first, there is little in the announcement than can be criticised, with the possible exception of the privatisation of sections of the national roads network.

It's one thing to privatise a new road, from the planning stage upwards, but quite another to sell off an existing road, already paid for by the taxpayer. Even Margaret Thatcher left the roads network untouched in her privatisation drive.

For the rest, few free market supporters can quibble with the plans to privatise the State monopolies. In particular, government's intention to use funds raised through privatisation to redeem national debt is a sound move.

If, as has been suggested, the target is to reduce the deficit before borrowing to the generally-acceptable norm of 3% of GDP, privatisation is the only way to go.

More importantly, the commitment to privatisation now seems irreversible and could well spread right down the line to grass-roots institutions, such as schools.

Obviously, the State must play a role in the provision of such services for the less affluent sector of the population, but Du Plessis told Business Day that government had already adopted a more supportive role in private school education, and that he expected this process to accelerate.

So, too, the freeze on public sector pay increases, while politically risky, is economically the right action to combat inflation. Du Plessis admits "there is a correlation" between inflation and the State's staff expenditure.

With government's wage bill running to 32% of the budget, that's putting it mildly.

But, he warns, the downside of this equation is that the public must accept a decline in the standard of service from government, and that fees and tariffs charged

by government departments will become more "realistic".

The latter premise can be partially accepted. The former should be rejected.

Realistic tariffs and fees are part of a free market, although government must understand that another key move in controlling inflation is to keep a firm hand on administered prices, which include tariffs set by departments such as Sats and the Post Office.

But less government need not mean poor government. Privatisation should result in increased efficiencies, and there is no reason why this should not rub off on those functions remaining in the State's hands.

The replacement of GST by VAT, too, has been generally welcomed as a more equitable system. GST has in many ways failed. Evasion has become a national pastime. In many sectors, particularly the black informal sector, it has proven impossible to collect.

VAT should change that. Being a multi-stage tax, collection is more efficient and evasion more difficult.

Already the Sats unions have howled their rage, threatening court interdicts, work stoppages and other action.

It therefore follows that Botha has also obviously decided against a snap general election this year — and that he may well have in mind a deal with the Labour Party to postpone next year's poll.

He would be politically wise to do so. When launching her reform programme, Thatcher warned that things would have to get worse before they got better. The same applies here, and in the short-term it is only Botha who is strong enough to stand up against the collective rage of the public sector.

And after Botha? His speech refocuses the spotlight interestingly on Barend du Plessis, who, make no mistake, is an ambitious politician. Botha has handed Du Plessis an immense political weapon, and one that he can use most effectively against his own profligate Cabinet rivals.

If 1988 truly becomes the Year of the Economy, Du Plessis will emerge down the line as an economic saviour — and as the party's strong man at the very moment a new leader will be needed. F W de Klerk must be feeling as sick as a dog.

MAJOR economic reforms announced by President Botha are:

- Salaries for all public servants, from policemen to teachers, from Cabinet Ministers to postmen, have been frozen for the next year, apart from normal notch increases and specific professional adjustments. This has been matched with an appeal to the private sector for similar restraint;
- Privatisation is on the road, with Du Plessis talking confidently about Eskom going for a listing within 12 months. Legislation to convert Eskom, Sats and Posts and Telecom-

The main reforms

- communications into "tax-paying, profit-seeking enterprises" is to be tabled, and Iscor, Foskor and the Mossel Bay gas project are identified as next targets for privatisation;
- GST is to be replaced by an invoice-based Value Added Tax. Experts agree that VAT is a simpler and far more effective way of collecting sales tax. But there are difficult

- choices to be made before this can be implemented;
- Control over government spending is to be tightened through a beefed-up priorities committee and a secretariat to control capital expenditure. Significantly, Du Plessis intends to involve the private sector on a consultative basis;

- The system of earmarking of funds, which in the past has effectively put them out of the Treasury's reach, is to be ended;
- New deregulation steps are being planned, including a revision of regulations controlling food-handling and trading hours and licences, and legal prescriptions on trading rights and business premises for black businessmen (but only in their "own areas"); and
- Agreement has been reached with two consortiums for the establishment of toll roads between Springs and Krugersdorp, and for sections of the Kroonstad-Johannesburg and Maritzburg-Alberton national routes.

Why government had finally to about-face to save the economy

WITH ECONOMISTS churning out ever more alarming projections for the general spending levels and deficit before borrowing, government finally had no choice.

State President P W Botha's intention of controlling the extent of the Budget back to within affordable limits contained an implicit admission.

Things had gone too far. It also has broader philosophical implications for the size of government, and the broad patterns of the use of this country's resources.

But two separate things are at issue here.

The first is the rising level of government spending and, second, the growing deficit before borrowing.

It is the second that has immediate implications for financial markets.

Hidden tax

Some argue that they are merely different sides of the same coin. At some point, as the level of spending continues to rise, government is unable to increase taxes. Spending has outrun the ability to collect revenue, and hence the need to borrow.

From this it can be further argued that the deficit before borrowing merely amounts to a form of hidden tax that inflicts its cost either by way of higher inflation, rising interest rates or both — given that raising taxes, the last resort of desperate men, is now impossible.

If sharply higher interest rates are to be avoided, it is the deficit before borrowing that must be controlled in the medium-term.

While some economists have been punting for a deficit R11bn for the current fiscal year, the au-

The party is over. It was fears of lagging tax revenues, an aborted economic recovery and the balance of payments constraint that finally drove government to commit itself to last week's volte-face, writes Financial Editor GERALD PROSALENDIS

thorities seem confident these estimates will prove to be inaccurate, even unduly alarmist.

Certainly, it will be larger the R8,4bn, or 4.7% of GDP, projected in last year's Budget speech, and probably closer to R10bn.

In private, government officials are talking of a long-term goal of a deficit of around 3% of GDP, the internationally accepted standard.

They argue that the present 5% is a spinoff of rising unemployment, surplus capacity and the low level of private sector investment.

In present circumstances, this no longer holds water.

With growth rising and excess capacity shrinking, an expanded demand by government for goods and services will crowd out private sector consumption and investment by pre-empting the use of labour and capital.

The greatest danger, in the face of government's failure to control spending, is that the pressure on the central bank to create money will become almost irresistible.

If the bank yields, brace yourself for another round of demand-driven inflation.

Also, rising inflationary expectations will force up long-term interest rates, making it all but impossible for government to fund rising spending by way of loans and without further money creation. And so the circle begins again.

If, on the other hand, the central bank resists the temptation to resort to the printing press, interest rates will rise sharply as government and the private sector compete for scarce funds.

It was this realisation — and all the dire consequences it holds for the real economy — that finally put pressure on government to act.

But Botha also paid attention to the composition of government spending. Since 1979, consumption spending — current spending on salaries and wages and services of a non-capital nature — had risen 37.1% in real terms.

Disturbing

This is not the full picture. Investment spending, expressed as a percentage of consumption spending, had dropped to 14.3% in 1986 from 25.5% in 1979.

Going even further back, the long-term trend that emerges is more disturbing — investment as a percentage of consumption spending stood at 35% in 1970.

Investment spending generates its own returns in the form of a sustainable cycle of more jobs, rising incomes and, ultimately, higher tax revenues. Consumption spending does not.

At one stage the South African

Budget was split into two sections:

- A revenue account, which detailed current spending; and,
- A loan account, which was the equivalent of capital spending.

At the time, the country often had a surplus on the revenue account which was then transferred to the loan account, amounting to a form of government saving.

Now, if the same system was still in force, it would reveal a different picture, with a deficit on the loan account, amounting to dissaving by government.

Put another way, current spending is consistently exceeding current revenue, and money has had to be borrowed to finance the deficit.

While rising current spending is funded by current revenue, the situation remains stable. But when it is funded by borrowings, things can turn ugly.

It was the City of New York which discovered the end result of this particular folly, and it took some tricky financial tinkering to extricate itself. SA does not have access to this sort of parachute.

Returning to the deficit before borrowing, it is one thing for government to use the deficit before borrowing to spending on capital projects in times of recession, which generate jobs and income. It is another to use borrowed money for current spending, mainly on

wages and salaries and for servicing debt.

Last year's interest on government debt (R5,2bn) ate up 13% of the total Budget.

This is where government's intention of using the proceeds from privatisation to repatriate public debt is extremely important. It will help ease the deficit before borrowing.

Government will give investors, mainly large institutions, the opportunity to swap debt for assets. This involves no loss of capital and will bring about a large saving in current spending in future Budgets, easing the pressure on the tax base.

Commitment

Given government's commitment to a secular downturn in the deficit before borrowing, and the need not to put unnecessary strain on the economy during recessions, possibly it should commit itself to a stepped downward movement in its borrowing requirement.

This would see the deficit remain fairly stable during recessionary years and dropping sharply during times of expansion.

This has been the policy of the UK government, as embodied in its Medium-Term Financial Strategy announced in 1980, with visible success.

Should government fail to carry through its new found dedication to balancing the books, the results would be disastrous, and in the long-term could even threaten the stability of government itself.

Perhaps, it is government's own self-interest in the present policy being implemented that will guarantee its success.

Govt spending contributes largest share

Economic growth up 2,6% in '87

49
CMT 7/17/88 9/2/88

From GRETA STEYN

JOHANNESBURG. — Finance Minister Barend du Plessis surprised economists yesterday when he disclosed the SA economy had grown by 2,6% in real terms last year.

They had been betting on a rate of between 2% and 2,5% for 1987.

But the figure was still preliminary and could be revised downwards, Nedbank chief economist Edward Osborn said last night.

"It is too early to celebrate last year's growth — as much as 0,5% could be clipped off the figure after revision."

Though the possibility existed that the growth rate could be revised upwards, Osborn would be "mighty surprised" if that were to happen.

He noted the rate fell short of Du Plessis's assumption of 3% growth in 1987 when he drew up the last budget.

Osborn agreed with the minister that government spending had contributed the largest share to real growth in gross domestic product (GDP). Other growth factors, such as exports and fixed investment, had been disappointing.

Senbank chief economist Johann du Pisanie said his economic unit had expected no more than a 2,4% growth rate.

The higher rate had probably been the result of a surge in private consumption expenditure (PCE). PCE and

government spending, especially, had probably offset the weak performance of fixed investment.

Turning to government's share in the economy, Du Pisanie said in a recession increased government spending revived flagging growth.

"But in an upswing, as we are currently experiencing, it would be wrong for government to continue spending heavily, putting upward pressure on interest rates and leading to crowding out of the private sector."

On the subject of future growth, economists said government's public sector wage freeze would put a damper on domestic demand which could trim real growth this year.

But domestic demand, though underpinning the economic recovery, could not be allowed to surge ahead unchecked.

"It seems government is more or less satisfied with the growth situation, given the balance of payments constraint on the economy.

"Bear in mind that SA cannot afford booming domestic demand because it has to keep a surplus on the current account of the Balance of Payments (BoP)," Old Mutual's Dave Mohr said.

Southern Life's Mike Daly said he had based his optimistic view of growth in 1988 on rising personal disposable incomes — but that was before the wage freeze was announced.

"We will have problems retaining the current level of consumer spending," Daly said.

t
n

SA economy grew a real 2,6% in 1987

49

B/dag
9/2/88

HOUSE OF ASSEMBLY — The SA economy registered real growth of 2,6% last year, Finance Minister Barend du Plessis said during the no-confidence debate yesterday.



● DU PLESSIS

He also said the October production price index was about 9,2%.

Figures were generally positive with reserves having grown to R8bn last year, from R5,7bn at the start of 1986.

Du Plessis said government spending had been largely responsible for the economic improvement.

"If we had not stimulated the economy, I doubt that we would have seen that 2,6% rate today," he said.

Friday's opening speech by President P W. Botha was the product of widely-cavassed expertise which pointed to the need for a better distribution of the tax load on the revenue side, and to the need for better management of the country's assets, he said.

"There was a clear realisation that a scientific investigation was required to

find a broader tax base," he said.

The new measures would provide the broader base as well as more effective taxation.

"We also saw that our needs were far greater than our resources," he said.

For this reason privatisation was geared at feeding a central fund without earmarked priorities so that provision was made to tackle large priority projects.

"It was necessary to make a contribution (to the economy) by over-spending, but the time has now come to clear out to let the momentum develop — and now comes the pain.

"Personnel accounts for 32% of state expenditure and it's simply not possible to concentrate the cuts on the remaining 68%," Du Plessis said.

Most civil servants were on 'scales' which provided for annual increments and these would not be affected.

There was also a further R15m for profession-specific adjustments.

"But this is not the first time there has been no general wage and salary increase."

Government now had to look at the long term and ask the civil servants to hold out for a lower inflation rate and lower taxes, which would flow from the new economic package, he said. — Sapa.

1987 growth rate was 2,6 percent ⁴⁹ Barend

The first move in the no-confidence debate following President Botha's opening address, was when Finance Minister Mr Barend du Plessis took the opportunity to announce a 2,6 per cent real growth rate for the past year.

As the first National Party speaker in the debate in the House of Assembly yesterday, Mr du Plessis said the Government was encouraged by this figure and he announced a 9,2 percent production price index for October 1987 and the growth of reserves from R5 700 million in 1986 to R8 000 million last year.

The President's speech last week was one of the most important heard in the past few decades, especially on the economic front, said Mr du Plessis.

He said the steps announced would not necessarily be popular especially among "all the hard-working civil servants" but they were the responsible thing to do for South Africa.

Minister of the Budget and Welfare Dr Dawid de Villiers praised the courage of the new economic measures.

"The Government has chosen a difficult but courageous long-term path," he said.

Mr Albert Nothnagel, NP Innesdal said President Botha would go down in history for the "dramatic steps" he had taken in his latest address on privatisation.

He said the NP message to fellow black South Africans contained in these economic measures was a willingness to share the wealth of South Africa.

The Conservative Party had not reacted in the No Confidence Debate to the important economic measures announced by the State President on Friday, the Minister of the Budget and of Welfare, Dr Dawie de Villiers, said yesterday.

The reason was obviously that the measures announced by Mr P W Botha stood in sharp contrast to the economically unaffordable policy of partition and a reversal of black urbanisation propagated by the CP.

Economic development in south and southern Africa would be in the interests of all the inhabitants of the region and Mr Botha should, therefore, be sup-

Conservatives ster 9/12/88 keep mum on ~~2012~~ economics 49

ported from all sides.

President Botha wanted to reduce State control in the economy and to give free market forces the opportunity to have their beneficial effect.

In contrast, the CP wanted more state control over the economy so that it could implement its partition policy.

This would repress free market forces.

Wynand calls on Govt for bold political action

Leader of the National Democratic Movement Mr Wynand Malan said his party was "excited" about the new economic measures, pending the announcement of greater detail.

But he warned that the final responsibility for the provision of collective services was that of the State, especially in respect of the poor.

He said it was a matter of urgency to reveal how the monies realised through privatisation would be spent. He then departed from economics to address political problems.

"What we need as much, if not more, than a new economic

deal, is a new security management deal. We need to "privatise" security. Translated that means individual responsibility and, therefore, individual opportunity in political organisation, should be made possible again."

Mr Malan called on the Government to create the necessary space within which political and constitutional negotiation could take place.

He criticised the right to detain people indefinitely "when their only crime is that they happen to be strong political leaders with political views that oppose and confront those of the Government".

9/2/88
(49)
B/day

SA economy grew by 2,6%

FINANCE Minister Bar-end du Plessis surprised economists yesterday when he disclosed the SA economy had grown by 2,6% in real terms last year.

They had been betting on a rate of between 2% and 2,5% for 1987.

But the figure was still preliminary and could be revised downwards, Ned-bank chief economist Edward Osborn said last night. "It is too early to celebrate last year's growth — as much as 0,5% could be clipped off the figure after revision."

Though the possibility existed that the

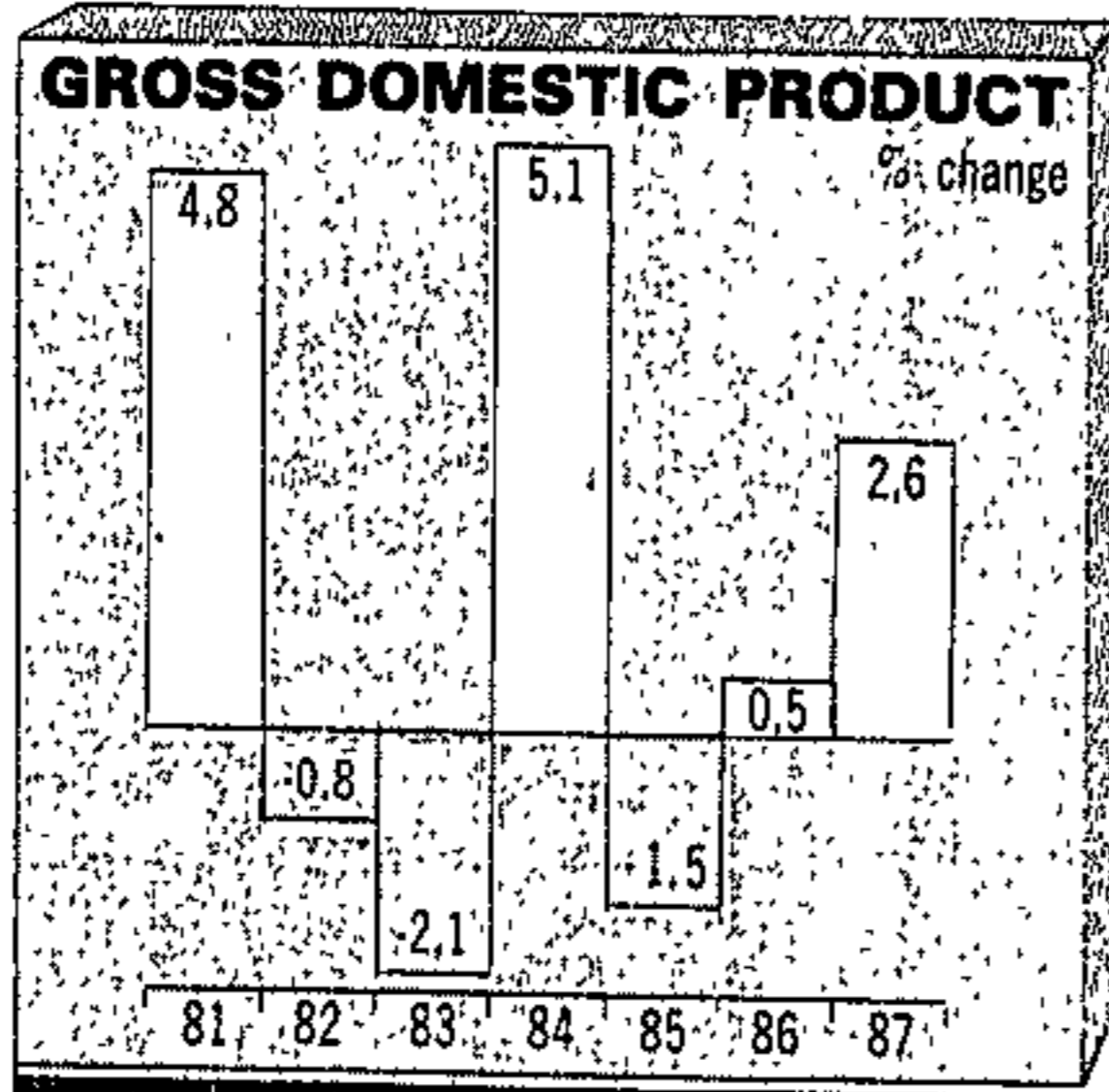
GRETA STEYN

growth rate could be revised upwards, Osborn would be "mighty surprised" if that were to happen.

He noted the rate fell short of Du Plessis's assumption of 3% growth in 1987 when he drew up the last budget.

Osborn agreed with the Minister government spending had contributed the largest share to real growth in gross domestic product (GDP). Other growth factors, such as exports and fixed investment, had been disappointing. Senbank chief economist Johann du Pisanie said his economic unit had expected no more than a 2,4% growth rate. The higher rate had probably been the result of a surge in private consumption expenditure (PCE). PCE and government spending, especially, had probably offset the weak performance of fixed investment.

Turning to government's share in the economy, Du Pisanie said in a recession increased government spending revived



Source: SA RESERVE BANK Graphic: JOHN McCANN

● To Page 2 →

Growth figure preliminary, says economist

flagging growth.

"But in an upswing, as we are currently experiencing, it would be wrong for government to continue spending heavily, putting upward pressure on interest rates and leading to crowding out of the private sector."

On the subject of future growth, economists said government's public sector wage freeze would put a damper on domestic demand which could trim real growth this year.

But domestic demand, though underpinning the economic recovery, could

blay 9/2/88 ← ● From Page 1 (49)
not be allowed to surge ahead unchecked.

"It seems government is more or less satisfied with the growth situation, given the balance of payments constraint on the economy. Bear in mind that SA cannot afford booming domestic demand because it has to keep a surplus on the current account of the Balance of Payments (BoP)," Old Mutual's Dave Mohr said.

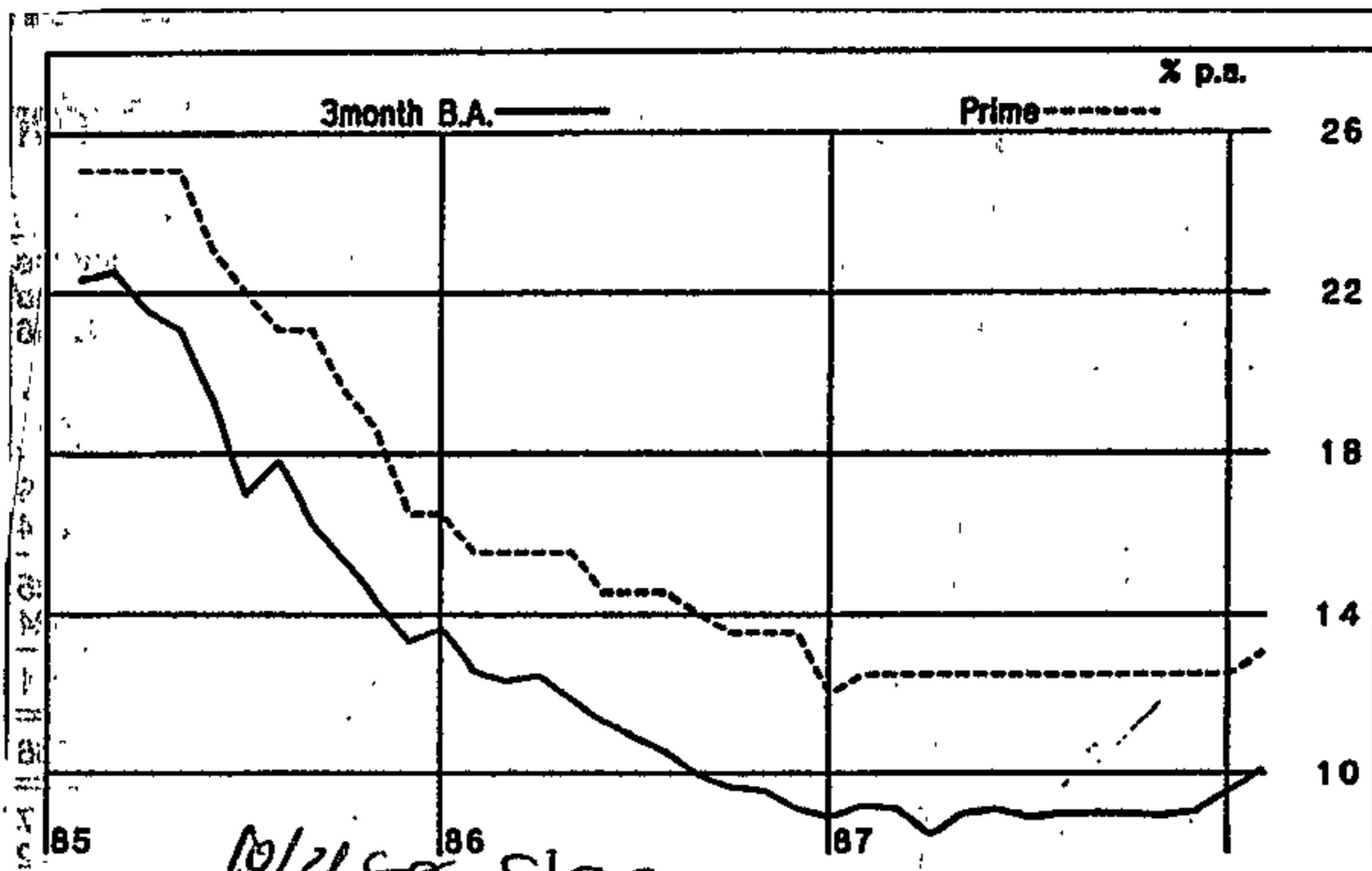
● See Page 5

2,6 percent ^{stay} growth rate ^{1/4} ⁸

Strong growth in all sectors of the economy in the fourth quarter of last year pushed up the official growth rate to 2,6 percent for the year, according to figures released by Central Statistical Services yesterday.

This is higher than the rate forecast by economists — and could prelude a higher rate this year.

(49)



Standard sees rates rise

By Sven Lünschē

Interest rates could well rise by two to three percent over the year as a result of a progressive tightening of monetary policy, Standard Bank writes in its latest *Economic Review*.

The bank says that in the light of future debt repayments, South Africa needs to maintain a trade surplus on the current account of the balance of payments.

"A combination of rapidly rising imports and soft exports makes a significant shift in official policy unavoidable... and the consequence will be a changed approach to managing the rand and interest rates," Standard writes.

"To forestall undue balance of payment and inflationary pressures, or at least minimize them, the Reserve Bank

will probably choose the prudent path of progressively tightening monetary policy.

"The low level and steadiness of interest rates last year represented an unusual 'special offer' by the Bank in order to stimulate the economy, but further increases in the general pattern of interest rates can be expected soon," Standard predicts.

It expects the Reserve Bank to let the rand fall this year because the shrinking surplus on the current account and declining reserves will put downward pressure on it.

This will boost export growth and dampen import volumes. "Because of the forces impacting on it, the rand could this year fall by some five percent against the dollar and even more against the harder currencies," Standard says.

De Kock: economy may enter new era D/P 10/2/88

JOHANNESBURG

There has been a fundamental and positive change in the state of the South African economy over the past year, the Governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

He said the watershed economic initiatives announced by the State President, Mr P. W. Botha, last week, could herald a new economic era for the Republic.

49 Speaking at the Frankel, Kruger conference here, he said the most important domestic economic change was that additional momentum had been imparted to the upswing.

Looking ahead to 1988 and assuming the gold price showed some recovery, South Africa could expect a higher growth rate of about three per cent.

Dr De Kock also pre-

dicted a lower average inflation rate of about 14 per cent.

He welcomed the fact that positive economic developments had been accompanied by accelerated increases in bank credit and in the money supply and by some upward pressure on interest rates.

"All of this tells us loud and clear that our short-term economic objectives are being

achieved.

"Of course, it would be naive to believe that we have now solved our intertwined economic and political problems or that we are on the verge of a quick fix.

"But it would be equally wrong — and, from the point of view of determining policy, also quite dangerous — to fail to recognise the significant changes that have occurred." — DDC

Du Plessis all set for boost

JOHANNESBURG — The stage was set for a boost in investment expenditure, making it possible to achieve a growth rate of three per cent this year, the Minister of Finance, Mr Barend du Plessis, told the Frankel Kruger investment conference here yesterday.

Delivering the keynote address, Mr Du Plessis said the decline in recent months in the premium on the domestic Krugerrand coin in the secondary market and the increase in the financial rand exchange rate denoted "a significant improvement in business and political confidence".

"Against this back-

ground, scepticism about any material recovery in real investment spending could well prove to be unjustified. There has been a noticeable improvement in the environment for fixed investment in recent months," he said.

"In short, there are grounds for arguing that the economy could experience a significant boost from investment expenditures, which could impart their first material contribution to growth in the economy since 1981."

Mr Du Plessis said that in view of the anticipated trends internationally, South Africa's export sector was not expected to provide

investment picks up and equity finance is shunned in favour of loan capital. This process is already well under way, and in recent months the pressures on loanable funds have greatly intensified, resulting in some upward movement in interest rates."

In view of the stage of the business cycle which had been reached, it was now appropriate to reduce the expansionary impact of fiscal policy on aggregate demand in the economy.

"Greater fiscal rectitude is now desirable in the interests of promoting economic stability and avoiding the re-emergence of demand inflation pressures," Mr Du Plessis said.

Fiscal policy would now be attuned to allow the private sector a bigger role in the economy.

The government was determined to avoid overheating of the economy "at this early stage in the upswing".

The disciplines now being applied on public sector expenditure, in particular on wages and salaries in the public sector, could only benefit the country in the longer term.

ward momentum could well be helped by gain in real personal disposable incomes. Total employment in the economy is beginning to benefit from the improved level of economic activity," he said.

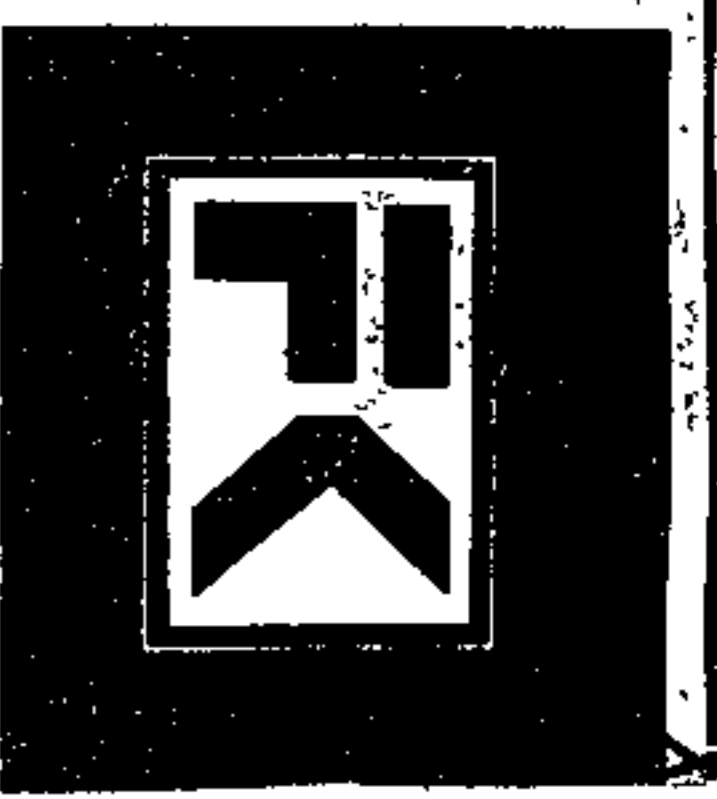
As the growth rate of the economy accelerated, the demand for bank credit from the private sector could be expected to become more buoyant.

"Corporate demand for bank credit in particular should revive as

Mistakes of past won't be repeated, pledges De Kock

Ster 10/2188

49



Magnus Heystek,
Finance Editor

The monetary authorities will not allow a situation similar to that of the boom-period of 1983/84, which eventually necessitated Draconian measures in the form of sharply higher interest rates, to develop again, says Dr Gerhard de Kock, Governor of the Reserve Bank.

He told the Frankel Kruger investment conference in Johannesburg yesterday: "If the upswing continues to gain momentum and the growth rate rises further in the months ahead, the demand for bank credit and other loanable funds will continue to increase."

This, in turn, would lead to increased pressure on the Reserve Bank to supply additional cash reserves to the banks to enable them to continue expanding their loans and advances.

"If the Reserve Bank is too accommodative and pumps too much newly created central bank cash into the system at low rates of interest, there is a clear danger that the money supply might rise excessively and fuel new demand inflation.

"Moreover, if allowed to continue unchecked, this process will in due course



Dr Gerhard de Kock

reduce the current account surplus and exert downward pressure on the exchange rate of the rand," he said.

Dr De Kock added: "Present indications are that private and government consumption, fixed and inventory investment, output, employment, trade and economic activity in general will all continue to rise quite strongly throughout

1988."

Assuming the gold price showed some recovery and agricultural conditions did not deteriorate further, Dr De Kock sketched the following scenario for the year, emphasising it was not a prediction: a growth rate of 3 percent; average inflation of 14 percent; a surplus on current account of R3 billion to R4 billion; increased use by South African importers and exporters of foreign trade credits; maintenance of official gold and foreign exchange reserves at current levels; and a commercial rand of between 45 to 50 US cents.

Dr De Kock emphasised that the authorities were conscious of the dangers of overheating the economy and were monitoring the situation carefully.

"Past experience suggests that in South Africa the tendency is always to do too little, too late to curb monetary expansion. This time around, it will rather be a case of a stitch in time saves nine," he said.

Dr De Kock warned that further increases in the interest rate pattern were unavoidable, should the demand for bank credit and other loanable funds show a marked increase.

Other factors that would contribute to upward pressure on interest rates included an "inordinately large rise in government spending and in the deficit before borrowing in the Budget, a further substitution of domestic bank credit for foreign trade credits and enhanced inflationary expectations, he said.

Dr De Kock called the economic initiatives announced by State President PW Botha last Friday as "nothing less than a watershed switch to a new economic era for South Africa.

"To characterise these measures as anti-inflationary would be to do them an injustice. They are much more than that. They are basic steps to make the economy healthier and stronger and to improve the productivity and welfare of the people.

"It is important therefore to recognise that the implementation of the new policy approach will do much more than make a contribution to the fight against inflation.

"It will improve the growth rate and the standard of living, protect the balance of payments and greatly enhance South Africa's ability to meet the challenges confronting it," he said.

UBS: surplus will shrink ^{P/D} ^{11/02/88} ⁽⁴⁹⁾

JOHANNESBURG — Although South Africa's trade surplus will shrink to about R3,5 billion by the end of the year, this should easily accommodate outflows on the capital account, says the United Building Society (UBS) in its latest Economic Monitor.

It predicts that the economy will grow by about two per cent this year.

Higher private consumption expenditure will be responsible for most of the gain in domestic output, supported by factors such as moderate real salary increases, more employment opportunities, and possible tax relief to individuals, it says.

Government consumption expenditure, and to

a lesser extent its investment spending, should also contribute positively to economic growth.

The most important drag on economic growth will come from foreign trade, as adverse international conditions are expected to impact negatively on South Africa's exports, while imports should pick up in the wake of higher domestic demand. As a result, the surplus on the current account of the balance of payments is expected to fall from its present level of over R6 billion to some R3,5 billion in 1988.

The UBS is confident, however, that this surplus should easily accommodate anticipated outflows on the capital

account, and therefore foresees no material balance of payments pressures arising over the next 12 months.

The rand/dollar exchange rate is predicted to fluctuate in a \$0,47 to \$0,52 range during this period. Inflation is in turn expected to average 16 per cent in 1988.

The UBS believes that the anticipated improvement in domestic economic activity will exert renewed upward pressure on interest rates towards the end of the first quarter. It expects the prime overdraft rate to rise to 15,5 per cent and the 20-year RSA stock rate to 17 per cent by the end of 1988. — Sapa

I & T

'Uncertainty a major drawback'

CAPE TOWN 11/2/88

Privatization gets cold shoulder

By LAWRENCE TOTHILL
Investment Editor

REMARKS such as "take it with a truckload of salt" and "the only thing that is certain is that it is more uncertain" are just two remarks made by investment advisers regarding the privatization of certain of the parastatals such as Eskom, Iscor, Railways, Harbours etc, now that the first euphoria has worn off and the possibility exists of investing in these bodies.

One of the major drawbacks is the lack of clarity on whether the government will, or will not, continue to exercise control with investors holding a minority position and no chance of getting voting and management control.

Very cautious

A director of Personal Trust, John le Roux, said he would be very cautious if the State kept control, and would not advise investing outright in one of the enterprises until it was clear what was happening.

"State control might not be a good thing if the making of profit is a major motive — as is the case in business. The State has to bear in mind the needs of the workers, who also happen to be voters," said Le Roux.

The lack of follow-through since the original announcement has not helped credibility and Le Roux reckons he would need a lot more information before he would recommend an investment in a parastatal.

For the time being he wants his clients in non-State-controlled investments.

Two of the directors of Fisc Investment Management, Kate Brown and Robin Richards, held similar views.

Brown was cautious — "wait and see some figures first; its impossible to give a sensible view at this stage; we are just guessing."

Richards shrugged his shoulders adding he thought the policy was "politically unacceptable with the potential laying off of staff and the possible

loss of State pension rights."

He pointed out that the only way the parastatals could become profitable would be through the reduction in staff — that is the story in the UK.

Richards was also disappointed that there was not a word about privatizing the control boards or the co-ops who enjoy immense power through special privileges, which put them at an advantage to private enterprise.

Leon Campher, director Syfrets Managed Assets, also raised the questions of "how will they privatize; which way; which portions?"

"Until we know something we are lost. Some parts of SATS might never be viable, but perhaps the harbours, roads and airports might be in private hands."

He also fears the redundancy problem since all State departments and enterprises are over-staffed.

Ultimate benefit

To cut back on staff would be good, reckons Campher, because that is to the ultimate benefit of the taxpayer, but there might have to be some allowance for redundancy and the freezing of posts.

Looking at the Eskom position, Campher called to mind the fact that Eskom has loan stock of more billions of rands than most people can imagine. Large amounts of these stocks are held by institutions as part of their official requirements.

To sell off Eskom by offering ordinary shares to institutions or investors who already have a massive stake through their loan stock holdings hardly seems logical.

"There is a possibility, however, that Eskom stock could be converted into debentures which also carried the right to convert into ordinary shares (equity) at some stage in the future — that would be more logical," said Campher.

"Right now the government must lay it on the table, stop the feet dragging and state their position clearly."

ster 11/2/88 (49)

UBS confident about growth

Finance Staff

Although South Africa's trade surplus will shrink to about R3,5 billion by the end of the year, this should easily accommodate outflows on the capital account, says the United Building Society (UBS) in its latest *Economic Monitor*.

The UBS predicts the economy will improve on its current growth rate of about two percent this year, falling in line with recent government claims that a growth rate of three percent is possible.

Higher private consumption

expenditure will be responsible for most of the gain in domestic output, supported by factors such as moderate real salary increases, more employment opportunities and possible tax relief to individuals, the UBS writes.

Government consumption expenditure, and to a lesser extent its investment spending, should also contribute positively to economic growth.

The most important drag on economic growth will come from foreign trade, as adverse international conditions are ex-

pected to impact negatively on South Africa's exports, while imports should pick up in the wake of higher domestic demand.

As a result, the surplus on the current account of the balance of payments is expected to fall from its present level of over R6 billion to R3,5 billion in 1988.

The UBS is confident, however, that this surplus should easily accommodate anticipated outflows on the capital account, and therefore foresees no material balance of payments pressures arising over the next 12 months.

THE PROGRAMME IN A NUTSHELL

Economic policy will still be geared to further increasing the growth rate without aggravating balance of payments and inflation problems. Structural adjustment will continue, in which the management of State finances will play a major part. The process of priority determination entails renewed consideration of the nature and extent of services the State renders. In some cases, where there is a low priority, users will have to make a larger contribution to covering costs, but humanitarian services for the less privileged will enjoy high preference.

However, maximum use of affordable resources will leave some important capital requirements unsatisfied. So the use of existing assets must be thoroughly probed — hence the intensive investigations into privatisation.

□ Privatisation

In pursuance of the White Paper tabled last year, significant progress has been made. Sections of the national road network are to be privatised, involving an eventual investment of R2,15bn at current values. Alternative routes will remain in existence.

Large public undertakings like Sats, Eskom and Posts & Telecommunications have been responsible for more than 30% of total capital formation in the past five years. It has been decided in principle to convert these into tax-paying profit-seeking enterprises, either in entirety or after sub-division. However, privatisation will take due heed of the national interest and the interests of personnel.

Eskom will be the first to consider a stock exchange listing. Difficulties in the way of selling government's shares in Foskor are being examined and structural adaptations to Iscor are being considered to make privatisation possible.

Development of the Mossel Bay gas project should, in the main, be private.

□ Industrial Development Corp

There is a growing need to help the development of industries of a scale falling between the traditional scope of the IDC and the Small Business Development Corp. The IDC is to sell off as many of its present shareholdings as possible so that it may adapt to this.

□ Proceeds of privatisation

These will be allocated to the State's capital revenue fund, not to finance current expenditure. The first choice will be to redeem public debt. They will also be used for basic infrastructure and services in developing areas, and to help the development of small businesses.

□ Deregulation

Further steps are being considered.

□ Margo report

Government has plumped for an invoice-based Value Added Tax (VAT) rather than a Comprehensive Business Tax (CBT), largely because of the needs of exporters. A White Paper will be tabled soon. Where possible, accepted proposals will be implemented in the fiscal year which starts on March 1.

□ State finances

A stimulatory government spending policy cannot be continued indefinitely without harming inflation and interest rates. Signs of recovery have reduced the need for this. It is thus intended to bring the extent and composition of the Budget back within affordable limits and sound fiscal proportions within a reasonable period. To limit government spending, it is necessary to reconsider the necessity of existing services, review the standards of services, bring prices into line with costs and provide assistance, where justified, more on the basis of individual need than generally applicable measures.

All the State's functions and services are being examined under the auspices of the Commission for Administration.

Levies that now flow direct to special funds will in future be channelled to the Exchequer and subjected to general priority determination. The activities and resources of the National Priorities Committee will be expanded. It will in future review all capital spending proposals, subject to Cabinet approval.

Personnel expenditure represents 32% of government spending. Restricting the growth in current expenditure inevitably has implications for public-sector wages and salaries.

□ Inflation

While CPI is showing an encouraging downward trend, it is still growing faster than in SA's trading partners. Inflation has eroded almost everybody's real disposable income. Government is concerned at this and is giving urgent attention to the EAC's proposed anti-inflation campaign (FM November 27).

A disciplined approach throughout the economy is necessary to tackle inflation. Persistent increases in wages and salaries are clearly a major cause of inflation. To curb government spending, there will be no general increase in public-sector wages and salaries this year. Provision will be made only for normal incremental and specific professional adjustments. Accompanying measures include a drastic cut in the creation of new posts and revisions of services and standards.

The private sector is urged to co-operate fully in combating inflation and apply similar discipline.

□ Summary

Government's objective is to take the smallest possible, but fair contribution from each taxpayer and use it for the best possible benefit of SA as a whole.

All the right noises

49



After State President P W Botha unveiled his new and brave onslaught on inflation to an exclusive audience of businessmen in Cape Town last week, there was hardly a dry eye in the house. It was a masterful example of the art of rhetoric. Whatever else PW lacks, he certainly has charisma.

There could have been no more confident Saint George closing in on an inflationary dragon that is horrifying in its insidious destruction of wealth and, indeed, the very fabric of society.

Both to the businessmen and later at the opening of parliament, he masterfully summed up the causes of inflation in a speech devoted almost entirely to economics. He admitted government's own culpability and spelled out a decisive plan to contain inflation, including selling off State enterprises and trading functions (see box). It was a watershed speech.

The nub of the plan — that government should live within its means, privatise and deregulate — equates in broad terms with what has been tried and tested abroad, especially in Britain, as applied with vigour by Margaret Thatcher. It is also the sort of policy the *FM* has been advocating for years.

It is courageous, because, in reasserting financial discipline, the National Party may pay a substantial political price. Holding the line against the hard Right will not be easy.

The State President deserves the support of the business community for the policies he has outlined to their fullest extent and with the greatest vigour. Businessmen should seek to guide and encourage government along this enlightened path. For, in economic matters, the Nats have always been hesitant — excessively cautious, almost to a fetish.

Botha spoke last week with great conviction. But, in a long career, he is a late convert both to the importance of economic policy and to economic orthodoxy to which, while it has been declared policy for about 10 years, he has given new urgency. His conversion, however, is unaccompanied by zealotry.

There are important similarities in the package to Thatcher's celebrated spending disciplines and privatisation. These should not be underestimated, even if our government lacks her vigour and reach.

The benefits of an even partial return to spending disciplines and, in due course, of even limited privatisation, will be profound. The allocation of resources will be improved and the economy become more efficient. Let us hope that, as benefits flow, the diffidence of government will decline.

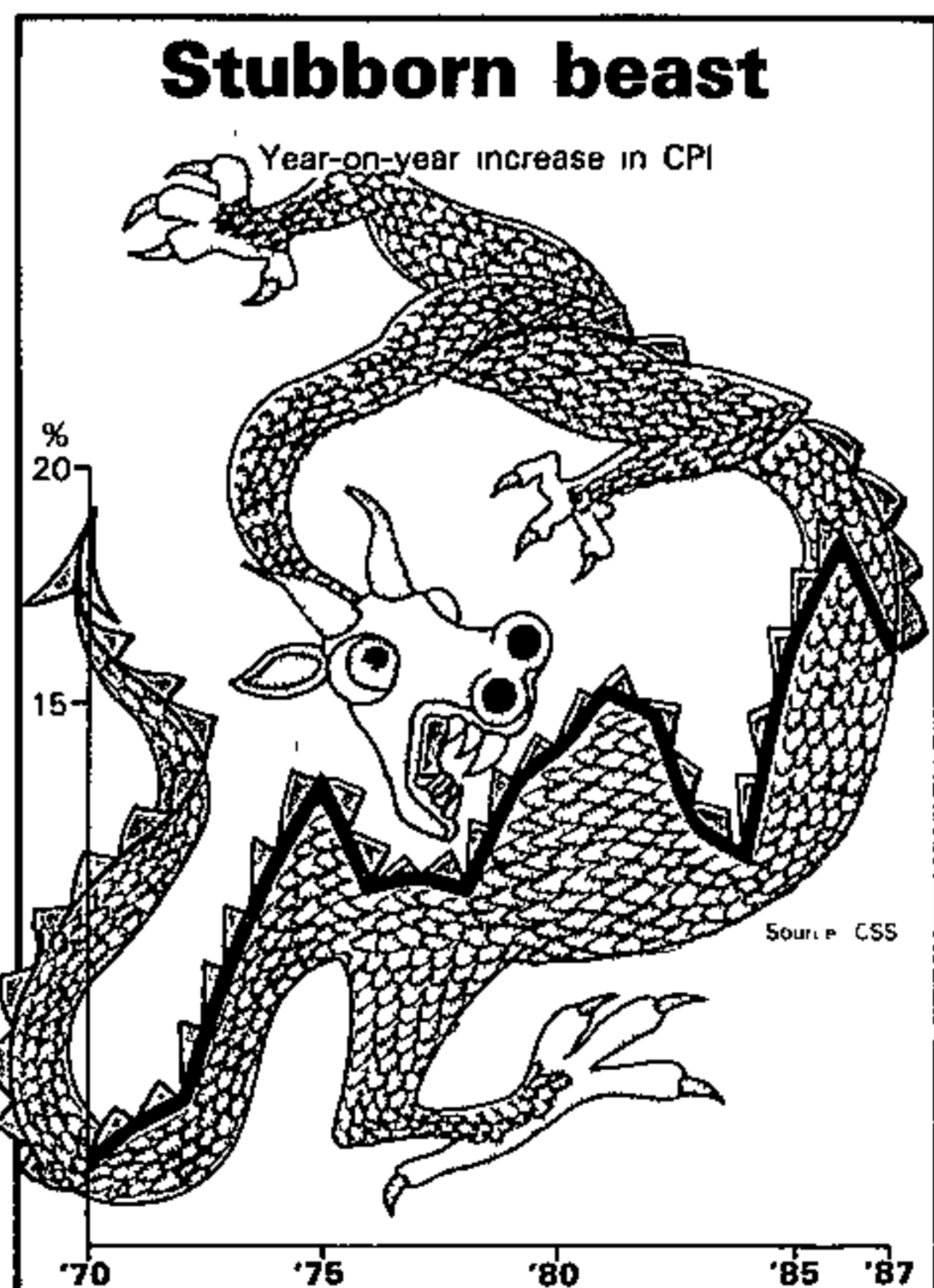
Thatcher came to office committed to reducing government and transferring assets to

The programme of economic action outlined by President Botha last week goes some way towards an acceptance of the need to put SA's house in order as a prerequisite for sustained growth. But it is how that programme is implemented that is all-important; government does not have a good record in this sphere.

the more productive private sector. She has largely accomplished this against enormous odds — and relatively swiftly. Creating a share-owning democracy was her objective from the start. That is not true of P W Botha.

Within days of his speech, ministers began to backtrack. Two glaring examples:

□ Privatisation of public corporations will not mean government surrendering control. Less than 50% of loan-type public capital will be replaced by private risk or equity capital, enabling Pretoria to share in and to



tax utilities' profits; and

□ Contrary to what Botha implied, the demise of the Industrial Development Corporation is not being considered. Thatcher had no hesitation in abolishing the UK equivalent.

In these circumstances, the private sector must supply the fire that Botha and his Cabinet may lack and seek to impose an interpretation of government's broad policy objectives that is both convincing and salutary.

Some points should be made clear. First, inflation is never eradicated, or even reduced, without cost and, in the short run, much economic and social pain. SA will have to face a lower than otherwise growth rate

this year and more unemployment.

Second, a radical change in policy inevitably means that current trends worsen before they improve — what economists call the J-curve. So there could be substantial price rises in the years immediately ahead, especially if privatisation is mishandled.

The most important and most urgent part of the package, however, is not privatisation, but the reimposition of discipline on government spending. This is extremely difficult for any government, for Cabinet reputations are made on spending.

Finance Minister Barend du Plessis has already warned that it will mean reducing the quality of services and raising their prices closer to the cost of provision.

In principle, government is accepting severe restrictions on its spending, which it plans to keep within limits imposed by tax revenues (Du Plessis acknowledges taxes are already too high) and borrowings which ultimately should not exceed 3% of the value of annual total output (GDP), against 6% now.

Spending priorities are to be set with more circumspection. Treasury is clearly attempting to wrest back authority by taking control of all revenues and their disbursements. In the last years of Owen Horwood's tenure, it was clear that Treasury authority had been usurped by Cabinet cliques. In addition, the creation of special funds imposed predetermined priorities.

On the face of it, Treasury's resuming authority appears an advantage. But it need not be. For it amounts to greater centralisation of funding, which then becomes more vulnerable to special pleading, especially from Cabinet interests.

It can be argued that, in contrast, greater devolution of spending authority to lower layers of government brings more discipline, as voters have more direct influence over spending. But there are exceptions.

We have yet another misgiving: levies which flow into specific funds are identifiable. The public knows how and for what purpose its money is being spent. But if they flow into a central Treasury pool, who knows how they will be disbursed?

Fuel levies could be used, for example, to fund curious attempts at social engineering or to impose constitutional structures that have little public support.

Nor do we believe that government will really get to grips with escalating spending until it tackles the problem of education. Teachers are the largest component of the public service and, if rising black educational aspirations are to be met, this proportion must increase.

The answer lies in extending privatisation to education, even to a limited degree. This means facing ideological and political difficulties that are closely associated with the political reform process, which for the time

(49) FM 12/2/88

being is stalled.

Nor will half-baked privatisation on its own reduce inflationary pressures in the short- to medium-term. Indeed, these effects will take much longer if public assets are merely sold off to fund government capital projects. For while assets will flow to the private sector, unless competition and market disciplines are introduced where possible, greater emphasis on profitability and taxation will raise the cost to the public of whatever services these utilities provide.

And, if government retains control of partially privatised utilities and does not allow them to increase prices, the taxpayer may yet be faced with huge subsidies to keep eventual ailing enterprises afloat.

Details of privatisation, which Du Plessis

says are being left to the utilities, are vital for accurate assessment of the economic advantages and how swiftly they will accrue.

Privatisation need not be hesitant or protracted. Much depends on government's true intention. If it be to transfer assets — and their management — into a more competitive and, therefore, efficient private sector, there need be little concern. If government has hidden motives, it could be an inflationary minefield.

The timing of a privatisation initiative could not have been worse. Thatcher sold off industries into a rising share market. Eskom will have to be priced to take into account a bear market. That would not much matter if government's intention is the long-term economic advantage of shifting productive as-

sets to the more efficient private sector. If, on the other hand, government's immediate objective is to give the Exchequer a quick cash injection, a JSE listing this year would not be very productive.

So the timing of the Eskom issue will be enormously revealing of government's motives.

Important now — given government's record of sloth and diffidence — is swift action to bolster credibility. The March Budget, the first real opportunity, will be eagerly awaited by businessmen as an augury.

They will want to see some evidence of government's declared policy of fiscal discipline and lower taxes. Without that, Botha's brave speech last week will take its place alongside his Rubicon disappointment. ☑

Understating Botswana's

THE question I've been pondering for some time is whether South Africa has an economic policy. It was, therefore, a surprise to be on hand for State President PW Botha's statement which essentially re-affirmed the consistency of his government's commitment to perpetuating the social structure.

Botha argued that his various economic measures are designed to combat inflation, reduce the state's debt, encourage black enterprise and ensure that the direct tax base is broadened. Finally enough, and this may be why media approval has been almost universally euphoric (main exception I've read: Brugesman's in the *Sunday Times*), the measures he proposes will probably do just these things.

Why then carp at his dramatic gesture?

The main reason is that it is not economic policy: it's simply a basket of measures aimed at solving what is already an economic crisis — and geared towards underpinning separatism. While it sounds as if the shackles of state control are being broken, this is a smokescreen.

Let's begin with privatisation, which is certainly the most glamorous of the measures. Here government will call on the private sector to pay its debts — just as it has been doing for many years by forcing financial institutions, especially life insurance companies and pension funds, to

invest in prescribed stocks. In theory being an owner rather than a creditor offers the prospect of greater returns, but, if this is so, at whose cost? The example of other countries, such as Britain, is invoked to engender enthusiasm, but we are not, by any stretch of the imagination, a First World country. Our private sector resources are limited and, if we are to develop at any kind of reasonable and consistent rate, we should be opening doors to foreign investment. We can't do this as long as we have institutionalised apartheid. Bear in mind that foreign investment has

been a major factor in the success of British privatisation and that, even there, there are inefficiencies, including education and health facilities, potholes, including education and health facilities, potholes, including education and health facilities, potholes.

Who, in any case, will administer these new privatised corporations? The people most qualified to do so are those presently in control. Will they really do better when they are responsible to shareholders rather than to government? If so, at what cost to the people who buy their products and services?

In any case, the capital revenue (not income, Mr President) will simply be a means to pay off the mounting cost of triceratops, separate armaments, including education and health facilities, potholes, including education and health facilities, potholes.

Control of public sector incomes means that PW has good reason for postponing an election. After all, this measure will hardly endear him to these constituents. As for control of personnel growth in this sector, that's been more than in many times before that it's become more than indigestible.

The targeting of funds for black business development can only, as long as Group Areas persists, be seen as an expensive way to prove that apartheid works.

And so we come to VAT, a much more complex task than GST to administer, but a much more certain way of collecting revenues. VAT will mean that the after-tax incomes of those many small businessmen who pocket takings directly will fall. In theory, the larger indirect tax revenues should result in direct tax concessions, but as state spending policy in direct tax concessions, the statement, we can but hope.

In a country with a massive black majority, where whites have to be made up as blacks, where the Diaspora anachronistically sings "Ave Maria", apartheid privatisation is black, where services have to be duplicated and even triplicated to cater for racially divided, it is, of course, difficult to frame an economic policy. The best you can do is to use financial measures to prop up social and political fantasies. PW is doing his best.

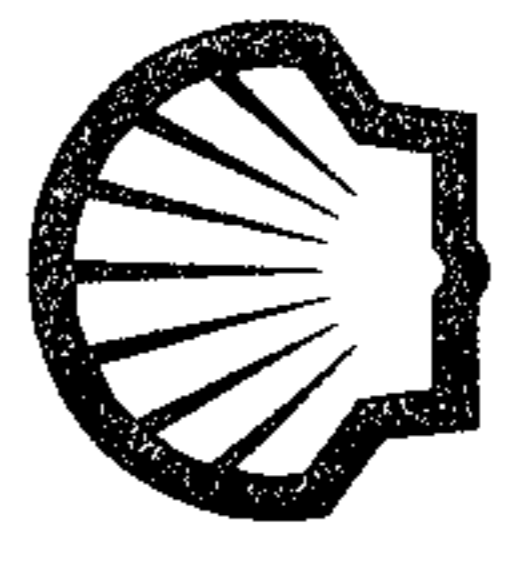
FOCUS: ON THE NEW ECONOMICS

There's so much euphoria, it seems churlish to carp

14 WEEKLY MAIL, February 12 to February 18 1988

Whole country
South Africa

Everyone has the right to vote for all law-making bodies.



| | |
|---|--|
| <p>● From PAGE 15</p> <p>reflection of this.</p> <p>At the same time, Botha emphasised more funds would be made available for the development of the small business sector. This is not only aimed at stimulating the private sector but also towards involving an increasing number of black people in entrepreneurial activity.</p> <p>In this way, government optimists hope that increasing funds will be devoted towards pressing social problems, particularly housing, because of its spin-off effects in the rest of the economy, and, at the same time, more black people will be directly involved in the free enterprise economy. Equally importantly, they hope the reforms will make a significant contribution in reducing the rate of unemployment.</p> <p>So by consolidating its current support in the white community and devoting resources towards improving living conditions in the black community, as well as stimulating economic growth, the Nationalist leadership hopes to create stability in the poorer areas and stimulate a boom which will keep the National Party in control of the House of Assembly and therefore of the government.</p> <p>The gamble may not work, but, from the government's point of view, it is certainly a more attractive option than other alternatives.</p> | <p>only R45. Seven days, 24 hour service. Ph (011) 724-0784</p> <p>FOR SALE</p> <p>EXOTIC PLANTS. Coco palms all sizes up to seven metres tall. At very competitive prices. Cycads and other indigenous plants. Big trees also available. Landscape gardening. Ph (011) 440 9151 or 894 3763</p> <p>STAINED GLASS WINDOWS and lampshades. Uniquely designed for your requirements. From local and imported glass. Phone Elsiebeth at 678-6508</p> <p>GOURMET PEKING DUCKS now available. Slaughtered or live. Ph: (011) 615-1024</p> <p>TO SWOP</p> <p>TEN green bottles (nice labels, as new) for one snowflake in good condition (must evoke Frost). PO Box 7937, Johannesburg</p> <p>WANTED</p> <p>CARRY COT and one pram. Any offers? Ph: Michael at (011) 331-3321</p> <p>For advertising in the Weekly Mail classifieds, phone CAROLINE CULLINAN or MARILYN KIRKWOOD at 331-3321/8</p> |
| <p>flat with a garden wanted from March or April. Ph = (031) 301-5663 (w) or 456-5774 (h)</p> <p>BIRTHS</p> <p>ISABELLA — to Anne Stanwix and William Kenridge, a daughter, and sister to Alice on February 7 in Johannesburg.</p> <p>ENGELFECHEIT-MALLER, Eric and Judy are excited at the arrival of Sarah on February 2 1988. Thanks to Dr Freidman at the Park Lane.</p> <p>PERSONAL</p> <p>JONNY keep on jiving Hermanus was grand. TO ME: Out on a limb? Sorry Jonny spoke so much. Could have easily wasted all my time on you. (Doesn't matter that you're just another UCT drama graduate!) — From A.</p> <p>CLASSES OFFERED</p> <p>BELLY DANCING CLASSES</p> <p>Run by Belly Dancing Association of South Africa at: Randburg, Rosebank, Rodepoort, Hillbrow and Melville. For further details contact Shalimar at 793-3484</p> | <p>will mean that the after-tax incomes of those many small businessmen who pocket takings directly will fall. In theory, the larger indirect tax revenues should result in direct tax concessions, but as state spending policy in direct tax concessions, the statement, we can but hope.</p> <p>In a country with a massive black majority, where whites have to be made up as blacks, where the Diaspora anachronistically sings "Ave Maria", apartheid privatisation is black, where services have to be duplicated and even triplicated to cater for racially divided, it is, of course, difficult to frame an economic policy. The best you can do is to use financial measures to prop up social and political fantasies. PW is doing his best.</p> |
| <p>ENTINE'S DAY INVITATION: The 14th of February is Valentine's day. Celebrate on the terrace having a picnic, champagne breakfast from noon followed by barbecue with music — the atmosphere will be one of love and love — so join us around the table. Phone 648 8611 to book.</p> <p>MZWAKHE</p> <p>Illustrations, Typesetting, Posters, Book covers, Book/cover design, Magazine design, Printing etc. etc at 724-0181</p> <p>EMPLOYMENT OFFERED</p> <p>SEARCHER: The Trade Union Research Agency in Durban, which provides a search service for the trade union sector, has a vacancy for a full time researcher.</p> <p>person who is committed to the movement, preferably with experience in working with trade unions. Work will involve short and long term projects for trade unions.</p> <p>persons must apply to: Non Research Project City of Natal George V Ave 14001</p> <p>details of previous experience and details of two referees. Closing date:</p> | <p>Who, in any case, will administer these new privatised corporations? The people most qualified to do so are those presently in control. Will they really do better when they are responsible to shareholders rather than to government? If so, at what cost to the people who buy their products and services?</p> <p>In any case, the capital revenue (not income, Mr President) will simply be a means to pay off the mounting cost of triceratops, separate armaments, including education and health facilities, potholes, including education and health facilities, potholes.</p> <p>Control of public sector incomes means that PW has good reason for postponing an election. After all, this measure will hardly endear him to these constituents. As for control of personnel growth in this sector, that's been more than in many times before that it's become more than indigestible.</p> <p>The targeting of funds for black business development can only, as long as Group Areas persists, be seen as an expensive way to prove that apartheid works.</p> <p>And so we come to VAT, a much more complex task than GST to administer, but a much more certain way of collecting revenues. VAT will mean that the after-tax incomes of those many small businessmen who pocket takings directly will fall. In theory, the larger indirect tax revenues should result in direct tax concessions, but as state spending policy in direct tax concessions, the statement, we can but hope.</p> <p>In a country with a massive black majority, where whites have to be made up as blacks, where the Diaspora anachronistically sings "Ave Maria", apartheid privatisation is black, where services have to be duplicated and even triplicated to cater for racially divided, it is, of course, difficult to frame an economic policy. The best you can do is to use financial measures to prop up social and political fantasies. PW is doing his best.</p> |

WEEKLY MAIL, February 12 to February 18 1988

THE new economic policies announced last week by President PW Botha more clearly signal the government's political priorities than they do impending economic solutions.

The government faces a fiscal crisis and underlying it are fundamental economic and political problems. In its attempts to address these it has chosen strategies which it hopes will gain it the support and co-operation of private sector business, large and small.

The government hopes, too, that it can find a way of having it all: of paying for both reform and repression, without sinking further into debt or exacerbating inflation.

The price it's prepared to pay is the further alienation of white bureaucrats and white workers, on one hand, and, on the other, the risk of increased militancy by increasingly organised black workers, particularly those in the public sector.

The government is taking a gamble: if it can bring down inflation, increase spending on reform, hold down the size of the budget deficit, and stimulate business confidence, thereby promoting investment and economic growth, it may be able to ride out the political consequences. It is gambling against very high odds.

The measures Botha announced at the opening of parliament last Friday were a disparate bunch, rather than a "package". Chief of these were the freeze on public sector wages and salaries, the plans to privatise large government-owned corporations and the replacement of General Sales Tax by Value Added Tax.

In addition there were some more vague measures: Botha exhorted the private sector to hold down wages and salaries too, and said controls over government spending would be tightened. He also announced new deregulation plans.

There's no coherent economic theory behind this: privatisation, for example, opens things up to market forces while the pay freeze does just the opposite. But the politics behind it are fairly clear.

First, the burden of reducing government spending and curbing inflation is not to be evenly distributed across different groups: what is being implemented is a pay freeze, rather than an income policy or a wages and prices freeze. This may please business but trade unions across the spectrum have condemned it.

Second, there is no intention to change the composition and level of government spending even to keep the level of unemployment constant, for example, apartheid bureaucracy or "law and order". The government hopes to curb its

It's a mistake to seek a grand plan behind the new economics. The priority is political, not financial. That explains why the same package opens the economy to market forces (privatisation) while closing it elsewhere (wage freezes)

HILARY JOFFE reports

burgeoning budget deficit by cutting spending on "personnel" and it will be raising funds through the privatisation drive.

Again, many in business think privatisation is a good idea. The bureaucrats who manage the public corporations and the workers who work in them may face rationalisation and retrenchment, but they will be more resistant.

The government hopes also to curb tax evasion and broaden the tax base with the introduction of VAT. It's not clear yet whether this more "invisible" tax will mean higher or lower levels of taxation, but it could increase the burden on the poor since the exemption on GST for basic food will be removed. VAT will certainly gladden the hearts of industrialists in export industries, since it doesn't apply to them.

The central symptom of economic and political malaise to which the government is responding with its newly announced measures is its own fiscal crisis. The budget deficit has been growing each year. And the growth has been mainly in government consumption spending, rather than in investment spending.

There is nothing wrong with a budget deficit *per se*. But it can be inflationary. It can crowd out private investment (by putting upward pressure on interest rates). And of course interest payments keep rising.

The government is in effect running out of money, unless it wants to print more and exacerbate inflation.

Deficit financing has to come from South Africa's own resources — there is no new foreign capital flowing into the country — and these are limited given an economic growth rate which is forecast at no more than three percent for the coming year: better than last year but not enough to keep the level of unemployment constant. With the pay freeze, privatisation, and the intro-

duction of VAT the government plans to attack the problem on a series of different fronts. Privatisation offers it a way of raising funds which at the same time goes some way to meeting the calls which have been coming from business for economic reform.

The privatisation being mooted now is the selling off of the state's industrial assets in Escom, Iscor, the South African Transport Services and its shareholdings in enterprises such as Fokker held through the Industrial Development Corporation.

Also on the agenda is the privatisation of certain toll roads. These public corporations are to be turned into "tax-paying, profit-seeking enterprises".

Privatisation has in recent years become one of those slogans which mean different things to different people.

From the point of view of those in business who support privatisation, one major argument in favour is that the public corporations would be run more efficiently under private ownership. They would reduce costs and thus prices, and this would help to bring down inflation.

The other related argument for privatisation is that the government's share of the economy must be reduced, freeing up resources for private enterprise to exploit.

From the point of view of the government, the efficiency and cost arguments are a lot less important. The priority is to raise funds so that it can implement some of its political reform promises — building houses and educational infrastructure and allocating funds to small and medium sized business — without getting rid of the 21 departments of education and nine departments of health which go with tricornalism, for example, and without jeopardising its military excursions into southern Africa or its policing of the townships.

As Labour and Economic Research Centre economist Stephen Gelb argues: "It's a way to extract resources from big business to pay for reform. These are resources big business would not put into the economic aspects of reform such as sub-economic housing because they are a profitable area of investment."

If the government can get business to believe it is serious this time, it can in the process win the kind of support it needs from business and it no doubt hopes this will have the effect of enhancing business confidence.

JCI economist Ronnie Bethlehem puts the private sector case succinctly: "Privatisation is good because governments don't know how to manage an enterprise. We must open up the economy and get government out of the matter of managing scarce resources."

Market forces communicate information and thus allocate resources more effectively than do bureaucrats. Bethlehem argues: "There is merit in market economies even in socialist economies — the world is too uncertain a place for bureaucrats

BOTHALOGIC: ITS UNFAIR THAT WAGES CAN'T KEEP UP WITH INFLATION. THEREFORE, FREEZE WAGES

THE wage freeze outlined by PW Botha in his speech last week represents the most serious assault on South Africa's workers since 1984.

In that year the government forced up interest rates to ludicrously high levels, driving the economy into recession and throwing hundreds of thousands of workers out of employment. Since then wage increases have failed to keep pace with inflation, meaning that workers' living standards have fallen.

Now, just as workers were preparing to take advantage of the economic upswing to press for higher wages, the government arbitrarily freezes public sector wages and urges the private sector to follow suit.

"Inflation," says Botha, "impoverishes the farmer, the housewife, the worker, the salary earner, the small businessman and the pensioner."

So what does he propose? He proposes a wage freeze which will further impoverish the already impoverished worker and salary earner, thereby

also hitting the impoverished housewife.

If one finds the logic in this illustration of Bothanomics a little hard to follow, it is made considerably worse by the fact that there is no evidence that wages have played a major role in pushing up inflation. In fact, the reverse is the case. Since 1985 wage increases have consistently lagged behind inflation. Consequently, it is unlikely that a wage freeze will make any significant impact on the inflation rate.

It is also noteworthy that Botha's wage freeze runs completely counter to the advice offered him by his own Economic Advisory Council. In its recent report on inflation the Council pointed out that "it is an illusion to think that wage and price controls can serve as a substitute for monetary and fiscal discipline."

One need look no further than Britain for confirmation of this argument. When the then Labour prime minister, James Callaghan, imposed a prices and incomes policy, not only did it not bring down inflation, but it led to the "winter of

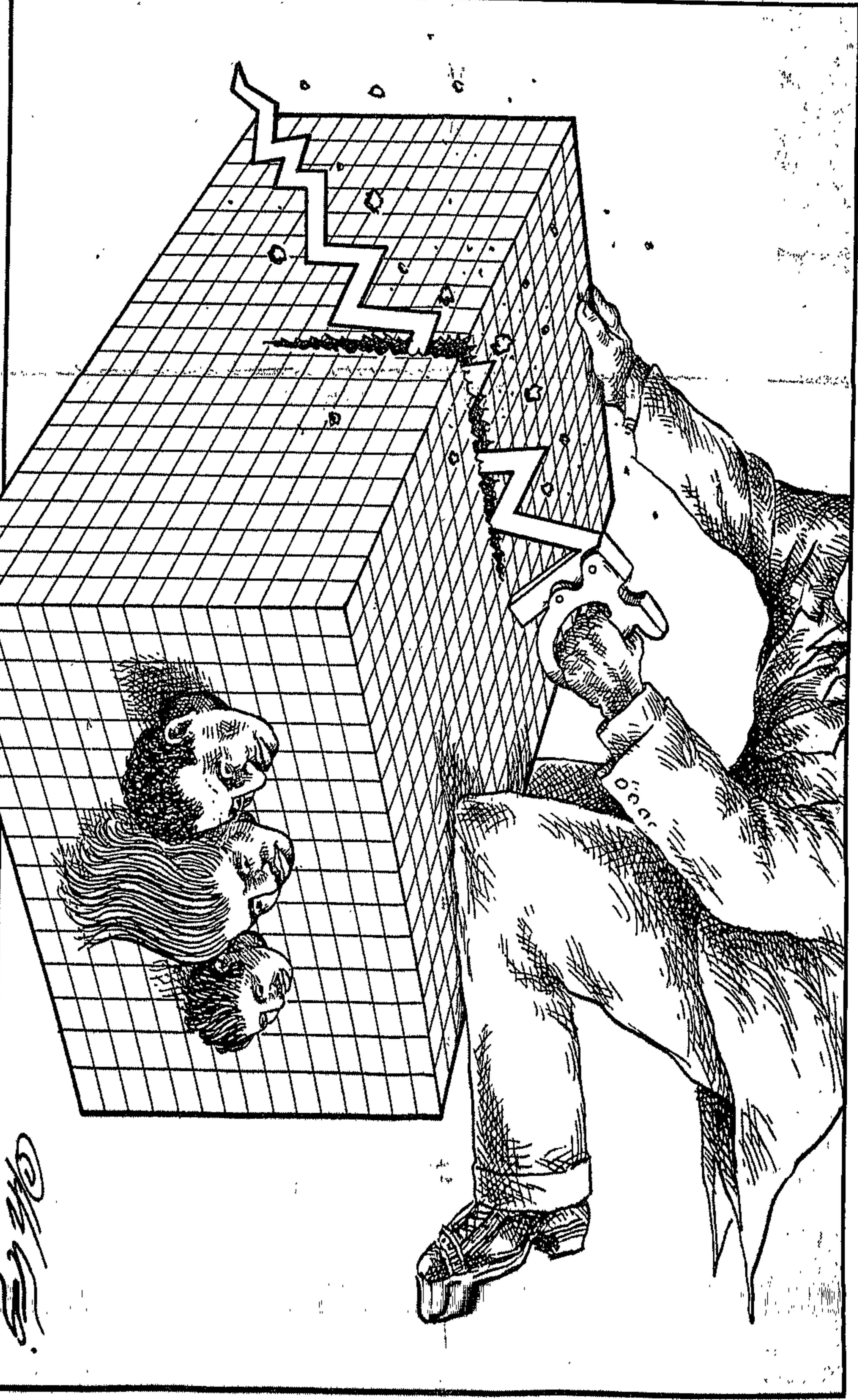
If the government is really serious about inflation, bringing down public sector wages is not the way to tackle it. DUNCAN INNES reports

discontent" in which unions embarked on a series of strikes which eventually played a major role in bringing down the government.

The statements which have already been issued in response to the wage freeze by public sector unions, as well as those by the Congress of South African Trade Unions and the National Council of Trade Unions, suggest that we, too, may well be in for a season of labour discontent in the near future.

One of the central grievances which trade unions have with Botha's proposal is that it makes no attempt to freeze prices as well as wages. In a situation where inflation is currently at 14.7 per cent such an omission is incomprehensible.

The actual situation is considerably worse than



private sector case succinctly: "Privatisation is good because governments don't know how to manage an enterprise. We must open up the economy and get government out of the matter of managing scarce resources."

Market forces communicate information and thus allocate resources more effectively than do bureaucrats. Bethlehem argues: "There is merit in market economies even in socialist economies — the world is too uncertain a place for bureaucrats

this figure suggests. According to the latest figures put out by the Central Statistical Services, the lower income group's inflation rate for 1987 was 17.5 percent, well above the average inflation rate, mainly due to a massive 23 percent increase in food prices last year.

So with workers already suffering more under inflation than other sections of society, the government now tells them that it is they who must make the major sacrifices in order to bring down inflation.

It might be argued that public sector workers are not among the poorest sections of the population. This perception usually derives from the false impression which is sometimes created that most public sector employees are white.

But according to Barry Standish of the University of Cape Town, in 1985 there were 966 000 black employees and 151 000 white employees in the public sector, while the long term trend in the public sector has been for black employment to grow faster than white.

Further, it is significant that Botha seems to have provided a possible way for senior salaried public sector employees, who are all white, to escape the freeze. Provision will be made, he said, for "specific professional adjustments" to occur outside the freeze.

But what effect is the wage freeze likely to have on the public sector?

Inevitably, public services, which are already disastrous in some sectors, can only worsen. Teachers, health workers and other public sector employees are likely to move in greater numbers into the private sector where their financial rewards are better. Consequently, the services they provided will decline, especially in view of the government's promise to "drastically reduce" new job creation.

But this does not seem to concern those like Dr Azar Jammine, of the research agency Econometric, who support the new proposals. According to Jammine, the flight of public servants to the private sector "will reduce public expenditure and

at the same time increase competition for jobs in the private sector, thereby limiting the extent of wage hikes in this sector too."

There should thus be no doubt that Botha's proposals are aimed not just at public sector employees, but at private sector workers as well. But undoubtedly it is the public sector which is inevitable since public expenditure is far too high and must be brought down.

Instead of attacking workers' wages, the government could consider the following: ending conscription which will reduce defence expenditure on personnel; withdrawing troops from Angola, Namibia and local townships; and cutting back on apartheid expenditure which, according to Michael Savage of UCT, costs the country 12c in every rand the government spends.

The advantages of cutting public expenditure along these lines is that, unlike the present proposals, it will promote meaningful reform at the same time as it helps cut inflation.

There is cause for some scepticism about whether the funds going to the state coffers really would be used towards development projects, even though Botha promised they would go into a Capital Revenue Fund, to be set up probably in the March budget.

The privatisation announcement was not accompanied by any sort of detailed schedule of what money would be raised, and what would be done with it. There was no evidence that thought had gone into, for example, what social spending was needed on education and housing, and how the proceeds of privatisation would contribute towards this.

What Botha's privatisation plans will do is shift investible capital from the private sector to government coffers, without creating any new capacity or new jobs. There will almost certainly be fewer jobs as the newly-privatised enterprises rationalise and renege. And there are no guarantees that whatever resources are shifted will go to productive use.

The jobs issue is, for the government, no doubt

sation assumes that the selling off of state-owned enterprises would go with greater competition. In South Africa that's highly unlikely. Some of the corporations to be sold off are natural monopolies: the size of the South African economy hardly justifies more than one railway system, for example. A privately-owned, profit-seeking monopoly could even have more scope and incentive — to fix prices than a public one.

And in the South African economy, already against potential gains in efficiency. Professor Wolfgang Thomas, now at the Small Business Development Corporation, describes the efficiency argument as "one of those glib arguments the private sector makes. It doesn't necessarily follow that privatisation makes enterprises more efficient; there's no reason why it should, particularly if they are the only ones producing the commodity or service."

But, Thomas adds, this is not the issue for the government, which needs capital to spend on major capital expansion projects — hopefully, in his view, on development projects such as building roads and houses rather than on weapons.

dominated by large corporations, economic concentration could well be increased in the privatisation process. Those likely to buy into the state's industrial assets are the large financial institutions, many tied to the large corporations, who already own much of the economy anyway.

The argument for privatisation rests, too, on the assumption that privatised means efficient and public means inefficient management. But there isn't a necessary correlation. Escom, for example, has been restructured and put under new management. South African electricity is among the cheapest in the industrialised world, in part owing to very cheap, and Zenzel's Jan Meiring concluded in a recent article (in *Macroeconomics: Privatisation in South Africa*) that in world energy producing terms "Escom is more efficient than most companies."

It is difficult to see why Escom is being privatised at all, if efficiency and inflation are the reasons. But the electricity corporation is also the one likely to present most appeal to private sector investors and hence is the easiest one for the government to use in its fundraising drive.

The case of Escom illustrates a more fundamental social problem with privatisation. At the moment its profitable sectors subsidise the less profitable but socially important services such as electricity for rural areas. This is after all the oldest and most central argument for state-owned industry — many services are necessary whether or not they are profitable.

Apparently the government did investigate privatising refuse removal but found it would be more costly. If public can be efficient, private can be inefficient. This is quite possible in South Africa's privatisation drive, given the kind of resistance the bureaucrats who run the public corporations are likely to put up. Evidence from countries such as Britain suggests that the concessions which have had to be made to win the support of the managers of enterprises being privatised have worked against potential gains in efficiency.

Professor Wolfgang Thomas, now at the Small Business Development Corporation, describes the efficiency argument as "one of those glib arguments the private sector makes. It doesn't necessarily follow that privatisation makes enterprises more efficient; there's no reason why it should, particularly if they are the only ones producing the commodity or service."

But, Thomas adds, this is not the issue for the government, which needs capital to spend on major capital expansion projects — hopefully, in his view, on development projects such as building roads and houses rather than on weapons.

Assocom chief says SA cannot afford growth of more than 4%

8 + 12/2/88 (49)
By Sven Lünsche

Given the expected balance of payment constraints, South Africa could not afford an economic growth rate of more than four percent this year, Raymond Parsons, chief executive of Assocom, said yesterday.

Addressing a seminar of the Economic Society, Mr Parsons asked whether the economy was likely to overheat this year in view of a predicted surge in imports and a decline in exports in real terms.

"At present, the current account surplus is still substantial and while there does not appear to be any immediate danger to our foreign exchange position, a real growth rate of about three to four percent is probably the maximum South Africa can afford at the moment," he said.

He believed that the course of monetary policy and interest rates would be determined by whether it was possible to run a substantial payments surplus

over the economic cycle as a whole.

"The big question is not so much South Africa's economic performance in 1988, but whether it will be sustained into 1989. The balance of payments and inflation may become limiting factors by then, but the country must try to avoid a 'stop-go' scenario.

"The average businessman does not want four percent growth this year and one percent next year," Mr Parsons said, adding that the real growth rate in 1988 was expected to exceed three percent.

He commented on the new economic blueprint announced by State President PW Botha, which he argued "could transform the South African economy".

But the testing time would come with its implementation. The State President had won the first round in public debate on his policy statement — in most of the media and in the business sector, he said.

It was important that there should be complete clarity on how privatisation was to be implemented. "The underlying principles should be consistent and command the widest possible support.

"This is not yet universally the case. The controversy over the privatisation of certain roads is a case in point. The wisdom of long-range purpose is more necessary than immediate achievement in privatisation policy," Mr Parsons said.

Co-ordination was also important in addressing inflation, which could pose a serious threat to any economic upswing.

"It is possible that the pay restraint plan announced by the State President will make a valuable contribution towards reducing wage inflation this year."

But a proper balance in such a policy would require a clear decision by the authorities also to limit key administered prices, as already had been seen in the case of Eskom, Mr Parsons said.

Care files 12/2/88

Sanctions have failed — De Kock

THE West's economic sanctions against South Africa have failed, the governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

The South African economy, far from collapsing under the strain of sanctions and withdrawals by foreign companies, was buoyant, he said.

A cheerful Dr De Kock, who said his golf handicap had gone down as the economy had picked up, gave a bullish assessment of the South African economy in a briefing to foreign reporters.

He said sanctions had not brought the country to its knees or forced the government to end apartheid.

"Sanctions have not turned out to be the quick fix that people thought they would be," he said.

Dr De Kock said he respected the sincerity of people who wanted to end apartheid, but their

methods had been counter-productive.

If anything, sanctions had helped slow down the cautious apartheid reforms implemented by the government of President P W Botha in the early 1980s, he said.

The South African economy had been seriously buffeted by a combination of factors this decade, including a wave of black rebellion in the townships, but prosperity was returning after a deep recession, he added.

Growth rate

"We are not going to shatter any growth records. We are not going to do a Taiwan or a South Korea.

"But we have done much better than I thought we would."

He said South Africa's real economic growth in 1988 was likely to be around 3% and this could be sustained in coming years. The

economy recorded inflation-adjusted growth of 2.6% last year, up from 0.5% in 1986.

Although his overall tone was optimistic, he conceded that a three per cent growth rate was not enough to keep pace with rising unemployment, which is far higher — at least 30% — among the country's black majority than among whites.

He said inflation would decline to about 14% this year from its current level of 14.7%. In a speech to Parliament last Friday, President Botha pinpointed inflation and government overspending as key problems.

Foreign perceptions of South Africa had improved, Dr De Kock said. Fewer people were convinced that this country was about to be engulfed in revolution.

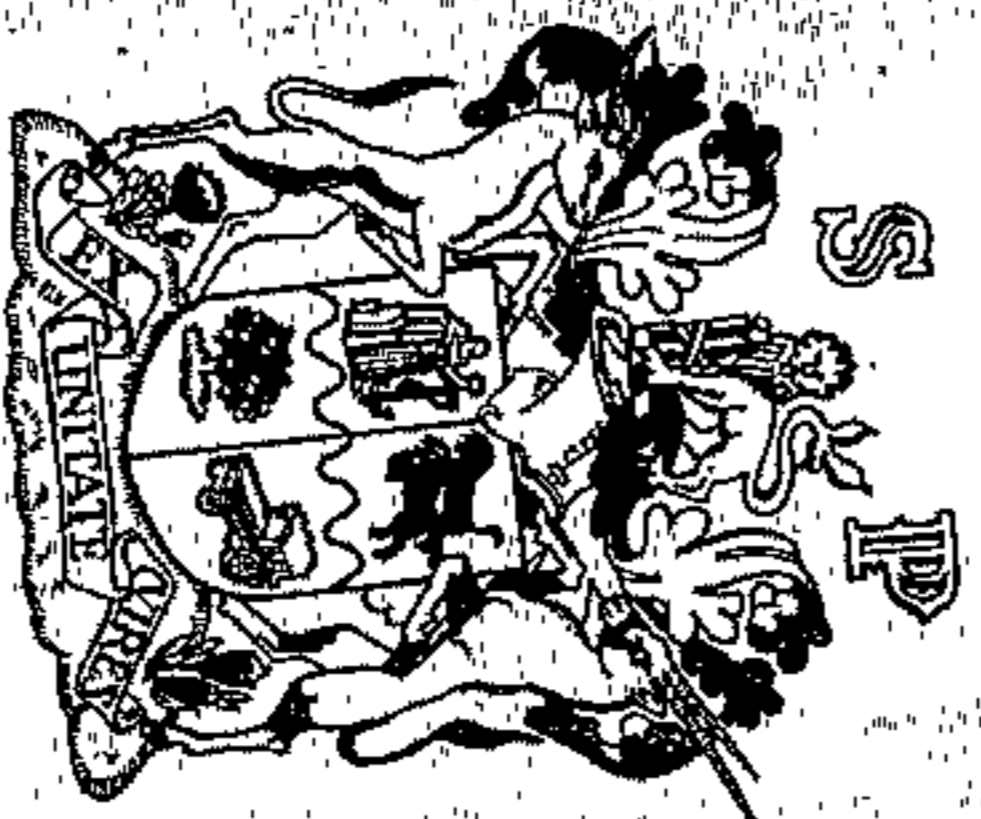
"Confidence is improving every single day," he told reporters. — Sapa-Reuter



(49)

“We can get the economy right. But we can't do it without you.”

Tuynhuys
Kaapstad



Tuynhuys
Cape Town

Fellow South Africans
I said the Government would introduce meaningful reform.

And we did.

We abolished out-dated Acts.
We did away with unnecessary controls.

We scrapped hurtful laws.

We scrapped hurtful and effective measures against the violence.

We took strong and effective measures against the violence.

We took strong and effective measures against the violence.

We took strong and effective measures against the violence.

We took strong and effective measures against the violence.

Now I have
And we will:

But we can't do it without the help of every man, woman and child in South Africa. Including you. We have to control and child in South Africa. We have to tackle inflation.

We have to tighten our belts. We have to control Government expenditure. We have to tackle inflation.

We have to exercise self-discipline with our demands and our prices.

Economic growth is imperative if we are to provide what every South African desires. More jobs.

Improved education. Adequate health services. A fairer tax dispensation. And a secure old-age.

With a strong economic base, we will be able to go ahead with the social and political reform which we need.

Without it, we don't have the foundation to build on. Social, political and economic reform are interdependent.

Come, let's work together for a healthy economy. That is the key to a prosperous future. For you. For our children.

For South Africa.

We can do it. If we want to. South Africa - let's fight to get it right.



P W BOTHA
STATE PRESIDENT

Botha austerity appeal met with mixed reaction

Daily Dispatch Correspondent

JOHANNESBURG — The State President, Mr P. W. Botha, has called for public support for his new economic programmes in a full-page advertisement published yesterday, but it has met with mixed reaction.

In the advertisement, Mr Botha said in the form of an open letter that the government had introduced meaningful reform and it intended introducing economic reform.

"But we can't do it without the help of every man, woman and child in South Africa. Including you. We have to tighten our belts. We have to control government expenditure. We have to tackle inflation. We have to exercise self-discipline with our demands and our prices."

The finance spokesman for the Progressive Federal Party, Mr Harry Schwarz, MP, criticised Mr Botha's linking of government's political plans with its economic plans in the advertisement.

"He said he had no problem with Mr Botha asking for public co-operation, but not everybody

agreed with government's political plans and they shouldn't be confused with the economic.

He expressed support for the new economic policy, but said it must be brought into effect in co-operation with the private sector. There must be consumer protection and the government must set an example in its administration of prices and tariffs.

The leader of the Conservative Party, Dr Andries Treurnicht, criticised the advertisement — placed by the Bureau for Information — as a party-political exercise publicising National Party policy at the taxpayers' expense.

He said the finance spokesman for the CP, Mr Casper Uys, MP, had said in Parliament that the new economic policy would mean salary cuts in real terms.

He expressed concern about the position of government employees where the government was in a position to refuse salary increases.

The chief executive of Assocom, Mr Raymond Parsons, said they supported necessary economic reform and had distributed Mr Botha's ap-

peal for wage and price restraint to businessmen.

"If inflation is to be reduced and economic growth sustained, then clearly moderation in price and wage decisions is highly desirable.

"Along with the need for better management of state finances, the co-operation of all in the public and private sectors is required to avoid a 'boom and bust' situation developing in South Africa this year."

Assocom would examine whether any other steps might be taken to bring the message of self-discipline home to all concerned with wages and prices.

The general secretary of the Federation of Trade Unions of the South African Transport Services, Mr Abraham Koekemoer, said they would support Mr Botha's call for "belt tightening and curbs in government spending", if it affected every sector of the economy to the same extent, otherwise they would fight it and take it to arbitration.

"We think it is unfair if PW only singles out

railway workers and other government employees to make these sacrifices. He knows we are defenceless.

"In the past we have had very expensive experiences of government plans to curb the inflation rate... we were the ones who sacrificed a third of our bonuses (two years ago)... inflation was not curbed at all."

● The Housewives League welcomed the president's statement but added that the government must lead by example.

The National President of the Housewives League, Mrs Lyn Morris said: "They must give us something to follow. He should give us the assurance that no increases in salaries, pensions or allowances for any members of parliament, including the cabinet, be allowed."

She said another encouraging sign would be if parliamentary privileges — like free travel or the use of official cars — were cut back.

"I believe he is sincere about these proposals but we need a bit more than just talk if he wants to win people over to his side."

WESTERN CAPE ADMINISTRATION
Head Office: P.O.Box 62, L
or
Zone 6, Room
Phone: (021) 53-3161 ext 36
Chairman: G. Ntuli
Registered for: African
Administration Board

What IS behind the Maritzburg spiral of violence?

By RICHARD STEYN

IF THE warring parties in the townships around Maritzburg are divided on many issues they are agreed on one point: the violence has its roots in apartheid.

Yet it is probably true to say that if apartheid were abolished tomorrow, both sides would have to find other reasons to explain away the fundamental differences between them.

Essentially the struggle centres on the shape and nature of the post-apartheid society. At one level it is a dispute over strategies to break down apartheid. On a higher plane, it is a clash of world views — over the makeup of the future South African society and whether that society should be capitalist or socialist.

What makes the conflict so intractable is that these agendas are inseparably intertwined.

On the face of it, the battle lines have been drawn between Inkatha and its new trade union offshoot

Uwusa on one side and the UDF-Cosatu alliance on the other. Four years ago the two groups were united in their condemnation of the tricameral parliament, though not in their respective ideologies.

Inkatha is a fiercely proud, traditional, largely rural nationalist Zulu movement whose strategy is to work within State institutions to achieve political and economic liberation.

Signs of strain

The UDF-Cosatu, by contrast, is a large, loose coalition of apartheid. The differences between the two go much deeper than tactics or strategy. Inkatha believes in free enterprise, buttressed by parastatal companies such as the kwaZulu Finance Corporation, and rejects sanctions and trade boycotts as being inimical to the economic interests of black people; the UDF-Cosatu is in favour of a socialist-type economy based on the Freedom Charter and supports sanctions and disinvestment.

The UDF-Cosatu alliance also

claims to represent the interests of the working class more effectively than Inkatha, which wears twin hats as an employer (via the kwaZulu administration) and workers' representative (through Uwusa).

Although clear signs of strain had begun to emerge within the Zulu nation at the beginning of the 1980s, the incident that started the fratricidal conflict was probably the killing in 1982 of five University of Zululand students by Inkatha sympathisers for demonstrating in a manner deemed to be insulting to the kwaZulu leadership.

This event served to crystallize the differences between those who put their faith in the power of Zulu nationalism and those who believed the kwaZulu leadership had been lured into the bantustan trap. The split was generational; between rural-based traditionalists and a younger, more progressive element from the cities, no longer in thrall to traditional customs and beliefs. Beneath the surface a struggle to win the allegiance of the grassroots in both camps began in earnest.

Tensions heightened

The conflict gathered momentum in the Durban areas of Amlazi, Lamontville and kwaMashu where it was contained by the township authorities assisted by the security forces. In 1985 it reared its head in the Maritzburg township of Imbali after a rift developed between the Inkatha-controlled town council and the pro-boycott Imbali Civic Association, which later affiliated to the UDF.

Soon afterwards tensions were heightened by the methods used to impose first a bus boycott and then a consumer boycott in the Maritzburg area in support of workers fired by BTR-Sarmcol at Howick. The sacked Sarmcol workers belonged to Mawu, a Cosatu affiliate; their replacements were unionized by Uwusa, which led to bitter antagonism in many communities — and the murder of Mawu shop stewards allegedly by Inkatha loyalists.

While the rest of the country was racked by urban violence in 1985-86, Natal townships were for the most part quiet but the bitterness simmered beneath the surface, erupting intermittently in Durban and then in the greater Maritzburg area where Inkatha stepped up its efforts to recruit members and the UDF-Cosatu also began to mobilize support. Inkatha claimed that the UDF hit out at Inkatha's coercive methods of recruitment, forcing apolitical people to join the organization and pay membership fees.

Thus began the upward-spiral of strike and counterstrike which has claimed the lives of hundreds, many of them children. The sporadic fighting has not abated during attempts by

the local Chamber of Commerce and churchmen to negotiate a truce.

Some analysts suggest it is wrong to attribute the conflict totally to political differences when the real causes lie deeper and are not amenable to political control. They ascribe the violence to socio-economic factors — poverty, high unemployment, lack of housing and educational facilities — which have created a "lost generation" now giving vent to their frustration by wreaking havoc in their communities.

That is undoubtedly part of the explanation. Decades of economic stagnation in the homelands of kwaZulu bordering Maritzburg, the effects of migrant labour and the legacy of Bantu education have produced a semi-literate population deprived of a stable family life as well as basic skills and jobs. Many of these have-nots have waded into their better-off neighbours with enthusiasm, claiming an often spurious political allegiance with one political cause or the other. "amaqubane" (comrades), whom the authorities are finding so difficult to bring to heel.

The question often asked is why the violence near Maritzburg has not been contained as elsewhere in the country. The answer lies in the geographical location of Natal's capital in the rolling hills of kwaZulu, its black population half-urban, half-rural. In few other places is the mix of rural peasant and township dweller as thorough as in the sprawling Eden-dale valley.

But the police have not helped matters with their apparent partiality. Until now the State has scarcely bothered to conceal its interest in restoring Inkatha's authority in areas where it is under attack. Scores of young UDF-Cosatu activists have been detained, whereas Inkatha has escaped relatively unscathed. A further source of provocation to those who have lost relatives is the non-prosecution of "warlords" and others known to have committed atrocities.

Only one out of 400 possible cases has come to court. Two weeks ago a group of township women signed a petition demanding the removal of the SAP from the townships and their replacement by army units. In response the SAP has strongly denied any perpetrators of violence. Township dwellers, caught up in a murderous struggle that many of them cannot understand, wait anxiously to see whether the Minister of Police can make good his vow to put an end to the fighting. Effective policing is a priority but in the long run "peace" will depend on the willingness of both sides to settle their political differences.
 Richard Steyn is Editor of the Natal Witness.



Elements of a viable recovery strategy now present, says Strauss

Progress made in economy

PRETORIA — Progress had been made in virtually every level of the economy in the past few months, Standard Bank Investment Corporation MD Conrad Strauss said yesterday.

He told the Agricultural Outlook Conference (Agrocon) many of the elements of a viable recovery strategy were now present.

He hoped the political will to implement the strategy was also present. Only then would the prolonged decline in the country's growth achievement not only be temporary

GERALD REILLY
ily halted but decidedly turned around.

For the first time in more than two years there was more good news than bad.

Strauss said the fundamental factors for continued growth had existed for some time and now it looked as if the last important element — business and consumer confidence — had also improved.

Economic performance was still not spectacular but the domestic growth tempo was adequate and

foreign reserves strong enough to help the country through the year and leave the economy in a better state than in the past few years.

Available statistics showed the domestic demand in the third quarter last year had strengthened.

Strauss said in the fourth quarter, provisional indications from retailers, manufacturers and bank statistics showed the improvement had continued in the last few months of the year.

There was a gradual improvement in the demand for credit. Individuals now had enough confidence to spend

more and to use credit.

In the manufacturing sector, there were indications that pressure on industrial capacity was increasing and that companies had begun to selectively invest and to build up stocks.

On the world economy, Strauss said the initial fear that the collapse in the share markets would lead to serious business setbacks, and even to a world recession, was not justified.

The performance of the world's main economies showed the adverse effects of the collapse were still within reasonable limits.

ster. 16/21/88

Du Plessis tables mini-Budget

The Finance Minister, Mr Barend du Plessis, tabled a R16 billion Part Appropriation Bill, or mini-Budget, in Parliament yesterday.

The Part Appropriation is to vote funds to the various State departments to tide them over until the main Budget is passed.

The general affairs departments will receive R13 billion and the provincial administrations R3 billion.

NOT THE FINAL ANSWER

Replying to the second reading debate on the mini-Budget, Mr du Plessis said that wage and price restraints were not the Government's final answer to the inflation problem and other measures would be introduced later this year.

He said he wished to emphasise that wage restraint was only a part of the package to combat inflation.

The Government had not yet responded to the report on inflation by the Economic Advisory Council.

"Many other aspects still have to be addressed, such as the exchange rate, monetary policy, fiscal policy and others."

Responding to points raised in the debate, Mr du Plessis said the Government would carefully work out a timetable for privatisation, particularly in view of the need to sell shares with an eye to prevailing market conditions.

Privatisation was part of the broad strategy to balance revenue with demands from the public.

When companies such as Iscor were established many years ago, public funds were needed to get the

steel industry going but now it was on its feet and it was time to reconsider the application of public money.

It was time for private sector money to take over so that public funds could be released to meet the urgent and pressing need for capital expenditure.

In response to other points, he said that, although he hoped for a growth rate of three percent this year, this would not be enough to catch up with the backlog in work opportunities.

The problem was that the population growth rate was too high and an economic growth rate close to five percent would be needed to address this.

On the question of Government subsidies to universities, Mr du Plessis said universities had reacted responsibly to cuts and were embarking on "imaginative" rationalisation programmes.

HURRYING IT ALONG

Earlier in the debate, the Deputy Minister of Finance, Mr Kent Durr, said the Government wanted to "hurry along" privatisation and did not want to crowd out the private sector.

"But it is also true that a monopoly can be a State monopoly or a private monopoly."

In the process of transition, the public was entitled to be assured that privatisation was in the public interest, Mr Durr said.

He said the process would take "years" but positive trends would emerge soon. — Political Correspondent and Sapa.

Women a great force in economy — doctor

D/D 17/2/88 (49)

Daily Dispatch Reporter

EAST LONDON — Women were a great force in the economy because they were the basic consumers, the guest speaker at the local Business and Professional Women (BPW) club's international night dinner, Dr Diana Steenkamp, said last night.

Dr Steenkamp, East London-born president of the South African Federation of BPW, stressed that women were becoming a greater force in the world of business and public life.

Since its formation 40 years ago, the BPW had had "tremendous" im-

pact with regard to changing legislation affecting women. The abolition of supertax, relief in taxation for married couples and relief to spouses living apart were some of the examples she cited.

"We look forward to the recommendations of the Margo Commission being implemented, maybe there will be some good news for us on separate taxation," she said.

She stressed the importance of the BPW, a body which in the past brought women together and helped them overcome discrimination through "correct and acceptable channels".

Dr Steenkamp said although not every woman wanted to take her rightful place in business, the professions and public life, it was important that she "has the choice and is not discriminated against for being female when she does select a career".

She said South African managerial women were advancing up the corporate career ladder, while others were moving into non-traditional careers such as entrepreneurship, with black women taking a lead in this area.

"In 1960 women composed 23 per cent of the labour force, by 1980 this had increased to 33 per cent. I am convinced

that if we include all the domestic and rural workers, the proportion of working women is 50 per cent," she said.

She expressed concern that even in this age where women have so many opportunities, many were inept at handling their freedom of choice and action.

"Many women underestimate themselves and undersell themselves," she added.

She said it was sad that many women failed to appreciate the opportunities open to them, for it implied that they were losing their sense of wonder, excitement and adventure.

"Let us admit, that most of us are happy to tick along with only the minimum of exertion," she said.

"We ourselves are to blame for something more serious — a sense of inadequacy on the part of many women by overemphasising the success image of the career women clawing her way up the corporate ladder."

Dr Steenkamp said there were many areas where women could be a vital force without necessarily being high-powered corporate executives.

Many could direct their talents in directions such as improved marriage relationships and parenting, upholding codes of sound moral and ethical behaviour in the family and in society at large.



The guest speaker at an international night dinner in East London, Diana Steenkamp, right, national president of the SA Federation of Business and Professional Women, with the junior mayor, Jacki Cook, and the president of the East London BPW, Gladis Smith.

(19) Bloay 17/2/88

Bifsa and FCI back PW's plan

TWO OF SA's largest employer bodies — Bifsa and the FCI — have come out in strong support of government's economic policy initiatives.

Bifsa president Neil Fraser said SA's real economic issues were now being faced squarely.

"I came away from the meeting which President P W Botha held with leaders of the business community in the firm belief that at last the real economic issues facing our country were being addressed by government.

"Having listened to him outlining his economic plans I felt buoyant and we can only now hope that he will start addressing our political issues in the same determined vein."

He said Botha had given the commitment to restrict government services to their present level, if not reduce them.

"There is certainly a need to reduce the current expenditure rather than capital expenditure, because in the past government's capital expenditure has suffered at the expense of the current expenditure account and

MICK COLLINS

it appears as if this factor has at last been recognised.

"It is vitally important that every effort be made to reduce our current expenditure levels."

Fraser said the commitment to deregulate would also hold out many advantages for the country's economy.

FCI president Hugo Snyckers also came out strongly in support of the President's economic initiatives.

"The FCI and its regional chambers will urge members to exercise the maximum possible restraint in both salary and price increases within the overall need to maintain business viability."

The FCI was pleased that no wage freeze, or maximum allowable percentage increase, was applied to the private sector and the collective bargaining process could carry on.

"This will facilitate productivity improvement and industrial stability. The private sector has done much to improve efficiency and productivity in the recession of the last few years."

D/D 17/2/88

Homelands support costly — Schwarz (49)

Daily Dispatch Correspondent

PRETORIA — The hidden costs of supporting the independent states and the self governing homelands could cost taxpayers hundreds of millions of rands a year, the PFP spokesman on finance, Mr Harry Schwarz, said yesterday.

He was reacting to the South African government's direct grants to the ten homelands amounting to R3,5bn during the 1986-87 financial year, and a further R1,2bn in tax and customs duties.

The Auditor General, Mr Joep de Loor, said R1,319bn went to the four independent states and R2,210bn to the six non-independent states.

Mr Schwarz said he had no criticism of the amounts channeled to the self governing states.

However, the independent states were unable to raise funds because they were unrecognised internationally.

They were politically independent but financially dependent on South Africa.

Mr Schwarz said in addition to the amounts set aside for financial support for the ten territories, they raised further substantial amounts in guaranteed loans from commercial banks.

The result was the South African taxpayer was loaded with a potential offbudget liability of hundreds of millions of rands.

This was the unhealthiest form of financing, and completely at odds with good budgeting, Mr Schwarz said.

Analysts predict a 3 pc growth

D/D
7/2/88

49

EAST LONDON — Two leading analysts in the money and share markets yesterday predicted good economic growth for the South African economy despite major imponderables on the world scene.

The group economist for First National Bank, Dr Cees Bruggemans, predicted a three per cent growth this year "with things perhaps being more difficult next year".

Dealing with the money market, he also predicted a gold price of \$500 but would not deal with any extraneous factors of the world market such as the American trade deficit or the South African political situation.

The assistant portfolio manager in First Personal Asset Management, Mr Graham Fisher, predicted the

scenario as well as the question of whether the world faces a recession or a boom. Politics and the military scenario are unpredictable and the Iran/Iraq war affected the gold price.

"If there is a recession, there will be less demand for gold in the jewellery industry as well as for industrial use."

Concluding the market scenario, Mr Fisher said there should be faster growth and movement as shares had been oversold and inflation was coming down.

"The weight of the institutional funds must go into the market soon. The funds are now building up liquidity and decision to invest should be taken soon. If they invest only half the funds, it would mean R20 million to R25 million a day going into the

Seminar reports by Daily Dispatch business editor Matthew Moonieya

share market would rally soon and the gold price would rise.

"There is still scope for shares to fall but there is recovery in the short term which will again be followed by a slide. Long-term investors should invest in reasonable shares because when the market turns, you won't be able to buy shares."

Mr Fisher said the market had shown the largest single decline during the crash last October. The Johannesburg Stock Exchange was showing a further decline since November 5 while other world markets were moving sideways.

He dealt with how investment in shares was a hedge against inflation and said that inflation devalued purchasing power to a major extent. An inflation rate of 15 per cent meant that purchasing power of R1 000 dropped to R450.

Mr Fisher said there were two types of JSE investors: the fundamentalists who looked at all the aspects of a share such as the company's management, track and profit records as well as the world and South African economies. There was the chartist who only looked at the share price and would invest if he thought the price would go up.

"More people are becoming chartists and more, especially in the US, are making use of computers which generate buy and sell signals. I believe this was one of the major causes of the crash," he said.

Dealing with the world and South African economy, Mr Fisher said the local economy could look forward to good growth of about three per cent but there was a balance of payment restraint.

"In the old days when we did not have a debt standstill, we could run a deficit on our balance of payments. But now if imports overtake exports, the government will have to slow the economy down because we cannot borrow.

"I believe that in the long term, the market is going to go up as well as the gold price which will experience a rally soon.

"Factors which affect this are ones such as inflation because gold is seen as a good hedge. When there is a crisis, people run for the safety of gold but there is no sign of such a crisis on the world market.

"Other factors are politics and a military

market. This is a crucial factor."

Other features which influence the market performance are a risk of recession in the US, the gold price recovery, balance of payments restraint, the political situation and inflation.

Southern Life marketing manager, Mr Peter Atkinson, told the seminar that investors had clear choices as they faced two basic dilemmas: they could go for high yield and high risk investment or investment with low yields and low risks.

"We believe that you have to find a balance between long and short-term investments."

He said the South African economy was characterised by a boom and bust syndrome where there "is no happy medium".

"The investor faces heavy swings and we cannot say why the swings are there. They may be because of politics or the gold price.

"Insurance investment spans the middle. Some are low risk and others high. It eases the investment problem."

"Insurance is portfolio management and is unique in that it is capital creation magic."



A businesswoman from Kentane in Transkei, Mrs Mary Ngxenge, at the seminar.

W/Mail

49

Hello to big business. Goodbye to white workers

Botha has made peace with business. But he's heated up the war on the right.

Weekly Mail Reporter, Cape Town

BAREND DU PLESSIS, the minister of finance and mastermind behind the government's new economic strategies, was thoroughly annoyed this week when the Conservative Party leader, Dr Andries Treurnicht, totally ignored President PW Botha's speech about the new policies.

Treurnicht was suffering from "the same sickness as some overseas observers", Du Plessis thundered.

"They actually think that when the cricket score is not given every 15 minutes, the cricket match is over.

"Reform is on the go. This side of the House, under the leadership of the state president, is busy with reform on a responsible basis, and the time has come that on the level of the head of state attention should be given to economic issues.

"The leader of the opposition sidesteps Friday's speech totally. Totally! He did not even refer to it. Not a single reference," Du Plessis lamented.

Apart from his frustrations with the rightwing, Du Plessis, whose increasing influence in the cabinet was demonstrated by Botha's speech when he opened parliament last week, publicly showed his conviction that the economic package reflects fundamental reform.

And whatever else may be said about the new policies, they are certainly a change.

For people like Du Plessis, there is an urgent need to stimulate the South African economy, promote the free enterprise system and release funds for serious social problems such as housing and basic amenities.

In spite of earlier public commitments to privatisation, there was frustration that it was taking so long to get anywhere and there was opposition from within the civil service bureaucracy to any fundamental change.

It was clear that the only way out of this log-jam was for Botha to use his political weight to take firm action on the matter.

There were, however, political consequences, particularly for the white middle class and state employees, about one in three economically-active whites. By freezing civil servants' wages, Botha was effectively saying to those whites that their real incomes would go down. It is precisely on that group of voters that the Conservative Party has been concentrating its efforts.

Botha may well feel that in spite of the current stance of the Labour Party leadership a compromise over changing the constitution is still possible and a general election can be postponed to 1992. By that time, the benefits of the economic reforms will then be obvious to everyone and increasing prosperity will enable the National Party to deflect the rightwing challenge.

The moves also reflect a noticeable shift in the government's support base in the white community — away from a shrinking white working class towards wealthier groups, particularly in business.

Obviously, the government will use ideological and emotional appeals, noticeably through its control of the television monopoly, about which there has been no hint of privatisation, to keep as much as possible of its support base in the white community.

The election on May 6 last year showed the Nationalist support base has changed and it now has significant backing in wealthier English-speaking areas, particularly in Natal and the Eastern Cape. The economic reforms could consolidate that shift.

The response of the business community and the press, particularly in the finance pages, has been predictably positive. This is hardly surprising because the changes have been what they have been calling for and they will clearly benefit from them.

In effect, the National Party has been slowly changing and is breaking away from the confines of being a predominately Afrikaner party into one representing conservative and relatively wealthy whites. The increasing number of English-speaking MPs in its ranks is a

It's goodbye to the white workers

From PAGE 15

reflection of this. At the same time, Botha emphasised more funds would be made available for the development of the small business sector. This is not only aimed at stimulating the private sector but also towards involving an increasing number of black people in entrepreneurial activity.

In this way, government optimists hope that increasing funds will be devoted towards pressing social problems, particularly housing, because of its spin-off effects in the rest of the economy, and, at the same time, more black people will be directly involved in the free enterprise economy. Equally importantly, they hope the reforms will make a significant contribution in reducing the rate of unemployment.

So by consolidating its current support in the white community and devoting resources towards improving living conditions in the black community, as well as stimulating economic growth, the Nationalist leadership hopes to create stability in the poorer areas and stimulate a boom which will keep the National Party in control of the House of Assembly and therefore of the government.

The gamble may not work, but, from the government's point of view, it is certainly a more attractive option than other alternatives.

49

DD 18/2/88
**Bank MD:
work on
common
interests**

Daily Dispatch Reporter

GRAHAMSTOWN (49)

There must be a balance between economic, social and political elements in South Africa, something that did not exist, nor would exist in the short or medium terms.

This was said here last night by the managing director of First National Bank, Mr Chris Ball, at the Grahamstown Chamber of Commerce and Industries' first Business Personality of the Year award dinner.

First National Bank has donated a floating shield while individual cups will be awarded annually to the winners.

"We will be lucky if we achieve an economic growth to match the population growth rate. We have gone backwards in the last 15 years, Mr Ball said.

South Africans must consume less than they produced. Spectacular progress had been made, however.

Some international banks were now doing business with South Africa but the future depended on what could be achieved in economic terms.

"We now have real growth were it not for the balance of payments' constraints, he added.

South Africa was likely to have a three per cent growth rate this year.

The State President in opening Parliament had said a number of "good things.

It is good that he hit at inflation and urged a curb in expenditure but we may not have much confidence till we see the delivery, Mr Ball said.

Nor would South Africans see the rest of "the puzzle until they saw the Budget.

It was likely inflation could go down this year. Interest rates might go up by "not very much but if there were no delivery in terms of the Budget, interest rates could go up sharply.

Inflation in the United States was underpinning the gold price. The rand would probably trade at between 45c and 50c, he said.

"I would like to target a real growth rate of eight per cent per annum for South Africa.

But South Africans would have to change dramatically the social, economic and political relationships that pertained.

"If we contribute as individuals we can invent a future. The building blocks are common interests and these are extensive, Mr Ball said.

The building blocks to hold South Africa together in the future must be identified. The political architecture must be the consequence of common interests.

Communication is the key, he said.

South Africans should be thinking in terms of miracles given the technology available.

If we do not achieve a miracle, we will not survive, he said.

● The selection panel led by the head of the department of business administration at Rhodes University, Professor Gavin Staude, chose Mr Stephen Birt as the 1988 Business Personality of the Year. He is managing director of National Lamps.

D/D 19/2/88 49

De Kock: rand's good

JOHANNESBURG — Exchange rate policy has not changed despite the drop in the rand below the 48 US cents mark for the first time in over six months, says Reserve Bank Governor, Dr Gerhard de Kock.

He said the rand at its current level was at a good price and that the Bank did not deem it appropriate to play the market against the background of the stronger US dollar.

After rising to 52c at the beginning of the

year, the rand-dollar exchange rate has been sliding steadily and this week it dropped to a low of 47,60c. At the close of trading on Wednesday it was quoted at 48,03c.

The recent losses of the rand are seen as realistic considering the stronger dollar, which broke through resistance levels of 1,70 marks and 130 yen last week and has been holding these levels since then.

The rand has not been getting support from the gold price, which has

been trading between \$435 and \$445.

Dr De Kock said: "The rand is in good balance. At this rate we will definitely have an easy run on the capital account, while the strong balance of payments is coupled with lower debt repayments this year."

While the current exchange rate helped the mining sector and domestic industries in general, he did not see the lower value representing a threat to the inflation rate. — Sapa



Dr De Kock: good level

Table with multiple columns and rows, containing financial data and text, mostly illegible due to low resolution and high contrast.

Economic ^{D/P 19/2/88} policy ⁴⁹ warning

JOHANNESBURG — South Africa's new economic policy must avoid a "boom and bust" situation this year and assurances of a sustained growth over the next few years must be given to businessmen if economic confidence is to strengthen.

This is what an Assocom delegation told the Minister of Finance, Mr Barend du Plessis, last week in Cape Town.

The chief executive of Assocom, Mr Raymond Parsons, said a sustained economic growth will have a positive impact on the investment cycle, but a "stop-go" policy would undermine

business confidence.

"Most responsible businessmen do not want a 4 per cent growth rate this year and 1 per cent growth next year. The lessons of 1983/84 should not be forgotten," he said.

The budget will be an early litmus test of the economic philosophy and the challenge facing Mr Du Plessis will be to keep the economy moving without causing "overheating", Mr Parsons said.

Demonstrable evidence that the state's finances are under better control would be if the budget could make room for some supply-side

economics through selective tax cuts, he added.

"Even within the framework of a broadly neutral budget it is essential to do something positive. It is important that the momentum created by the prospect of tax reform should not be lost. It is not enough to merely to avoid tax increases," he said.

The delegation emphasised the need for co-ordination between monetary and fiscal policy.

"There should not be a repetition of the traumatic experiences of 1983/84 and the necess-

ary conclusion should be drawn from what happened during that period.

"Assocom accepts that it may be necessary and desirable to lower the monetary targets in 1988," Mr Parsons added.

He said Assocom recognised that key economic decisions had to be taken at a time when the world economy was slowing down and the South African economy gaining momentum.

"This means that the policy choices in 1988 are likely to be more acute than have been over the past couple of years," he said. — DDC



BRIAN ROBINSON:
"There are too many regulations".

"SOUTH AFRICA doesn't have a free enterprise system — there are far too many regulations," states Brian Robinson, chief executive of Syfrets, on government's privatization moves and promises of a more free economy.

"I am, of course, completely in favour of a free enterprise or capitalist system," he emphasized in an interview yesterday, "but it must be handled correctly and afford everyone the opportunity to put something into the economy."

"At Syfrets we do have a problem with over-regulation but importers, exporters and manufacturers have a much rougher time, while those I feel really sorry for are the small businesses who have to cope

No free enterprise — no privatization says Syfrets

Brian Robinson has added the title deputy chairman of Syfrets Trust to MD and chief executive. At a youthful 58, he is into running and has competed in five JSE marathons — the latest in 1986. In addition to holding a "Green No." as proof of his participation in the marathons, he has won the veterans and Stock Exchange section. He was interviewed by LAWRENCE TOTHILL.

with a whole plethora of forms and red tape."
Having got that off his chest, Robinson then expressed his de-

light that at last the State President has come out in support of bringing the country's economy to the fore and not

plugging the defence and security issue again.

He sees this as a fundamental shift in Government attitude and welcomes the promises of deregulation and privatization.

But Robinson is not starry-eyed about privatization — he's very much a pragmatist and only sees a future for the whole programme if it's done properly.

"There is no future in it if the Government is going to keep

control. If that's the case then private enterprise will show very little interest and it will not be the success which privatization has been in the UK.

"If the State keeps control then privatization is a misnomer — the whole exercise would be a matter of getting investors to put more money into Government coffers."

"Of course, we know little more than the early comments by the State President and it's difficult to judge right now. Apart from being a C.A. (S.A.) and F.C.I.S., Robinson has been a stockbroker and the stock exchange is still a love in his life. What does he recommend right now? Has he a tip?
Those are the questions."
 To Page 17

497 7m/s 20/2/82 (49)

From page 15

No free enterprise . . .

doesn't answer. "We have portfolio managers and there are stockbrokers whose job it is to advise."

But he is convinced that everyone should be invested in the JSE in one way or another whether through a unit trust or through a limited, selected portfolio.

"In spite of the crash, history has shown that share investments are better and more flexible than anything else. Investment must, however, only be made with unborrowed money."

Robinson feels the industrial market is now giving fair value with good results flowing through and recommends a steady investment pattern so that shares are picked up at the bottom of the market — whenever that will be.

"Rand cost averaging is all-important; the only thing that bothers me a little is the rising interest rate.

"I can't believe that prime will go to 20% as some people forecast, that could kill the market. A rise of 1% or 1,5% by the end of the year is more what I expect."

Regarding the development capital market, Robinson confesses that perhaps some of the companies granted a listing had little right to it as it merely allowed the original owners to sell shares to a gullible public in a buoyant market.

"I'm not tarring them all with the same brush — there are, in fact, some very good shares in the DCM and our bright young men here in Syfrets are constantly watching and searching this sector to find the bargains and the companies which will become meaningful in the years ahead."

A self-confessed "gold enthusiast" ("sooner or later the debt scenario Africa/Latin America/Eastern Europe will have to be sorted out"), Robinson believes the gold market is very fragile and not to be rushed into lightly since gold shares are well ahead of the bullion price.

He doesn't see the US dollar down by more than 10% and he doesn't see the gold price up by more than about 10% to around \$500 in the short term.

"I do see the rand going down and would not be surprised to see it at the the \$0,40/\$0,42 level in a year or two. It must go down because our inflation rate is way above the level of nearly every one of our major trading partners.

"We monitor all these financial and economic statistics internally and we also monitor the political and socio-economic trends before making decisions. We don't just go on hunches or thoughts.

"The balance of payments is worsening once more and this should push both the commercial and financial rands down — but the financial rand remains strong.

"Why the narrowing of the gap between the financial and the commercial rand? Somewhere there is more demand than is generally known."

1 F 2

Economists welcome fiscal discipline

Govt estimates 2,1% excess expenditure

CPM/Tint
25/2/88
49

By PATRICK CULL

SOUTH AFRICA'S estimated over-expenditure for the 1987/8 financial year was R968,4m or 2,1% of the main budget Finance Minister Barend du Plessis said yesterday.

Delivering the Additional Appropriation, Du Plessis said that excess expenditure was only 2,1% against 5,3% in 1986/7, and an average of 5,9% in the three previous years was a "cause for much gratification".

The minister said that the economic recovery had developed increased momentum in 1987 and in the last quarter the gross domestic product grew at an annualized rate of about 4,2%.

Growth rate

The growth rate for the 1987 calendar years was 2,6%.

Du Plessis said total domestic expenditure in the final quarter of 1987 was some 9% above that in 1986.

He said the growth in domestic expenditure had not only boasted local production but also led to a rise in imports and as a result the surplus on the current account of the balance of payments had shrunk from R7,2-bn in 1986 to some R6-bn last year.

Du Plessis said the total net capital outflow from SA was R4,1-bn last year against R8,4-bn in 1986, while the recovery in the domestic economy had been accounted by a drop in the inflation rate.

Du Plessis said one technical reason for the drop in the rate of excess expenditure in 1987/8 had been that the main budget had been presented in June rather than March allowing for more precise estimates.

He said the impact of the government's determination to subject total government expenditure to strong discipline appeared very clearly in the results.

The minister said that the most im-

portant services requiring added expenditure were:

- The Natal flood disaster amounting to R85,8m;

- Public order and security which required a further R50m mainly for logistical support and medical benefits, while the prison service needed an extra R30,7m;

- R80m for the Department of Transport mainly for black, Indian and coloured transport services;

- Improvement of service conditions amounting to R116,8;

- R58,8m for Mineral & Energy Affairs to assist certain gold mines and the Atomic Energy Corporation, and

- R79,6m for own affairs administrations.

Greta Steyn reports that economists saw Du Plessis's announcement as a sign that government is serious about maintaining fiscal discipline. In the previous fiscal year, spending increased by 22,2% and overshot the budget by more than 8%.

Fiscal restraint

Sanlam economist Johan Louw said he had expected government to need R1,1-bn to balance its books.

"The figures lend credibility to government's promises of fiscal restraint."

Government's lack of credibility was obvious when one looked at the high level of capital market interest rates, he said.

"But the latest signs of fiscal discipline could ease the pressure on long-term rates."

Volkscas's Adam Jacobs, pleasantly surprised by the figures, said he hoped government's control of State spending would lead to tax relief for individuals.

Nedbank economist Edward Osborn said the minister was to be complimented. "especially in view of extraordinary claims on the state made by floods and drought".

Dand eases

SA still bad risk — finance report

D/D 1/31/88
JOHANNESBURG —Despite an improvement in economic confidence levels, foreign investors have been warned that South Africa continues to present a bad risk.

The authoritative International Bank Credit Analyst (IBCA) says a long-run inflationary bias in policy, combined with growing demands for a redistribution of wealth and political power by non-whites suggests that South Africa remains a "risky place" for investors.

In its January review of the major trading nations, the Canada-based IBCA says it also remains concerned about how South Africa will weather a global economic slowdown.

"The inflationary bias in fiscal and monetary policy has produced an inflation rate of 15-20 per cent during the past three years, despite a domestic recession for much of the time period.

"We remain very concerned that a reversal in the fortunes for South African exports, due to a global slowdown, may generate a tremendous political dilemma which will ultimately lead to

greater inflation." (49)

On the positive side, the IBCA says, the economy is slowly awakening after two to three years stagnation with improved confidence and stronger import volumes.

"Foreign bankers have relaxed capital constraints slightly as South Africa has moved aggressively to pay off foreign debts, the economy is generating a substantial current account surplus which will continue in 1988 and capital outflows have diminished."

However, it says, the outlook for capital investment is mediocre, with continued social instability and excess capacity still evident.

South Africa remains a resource-based economy and the overhang of commodity gluts generated during the 1960s and 1970s implies greater vulnerability for the country during bouts of global recession and deflation.

"Only a massive devaluation in the currency during the 1980s has prevented greater economic hardship."

Assocom warning on Govt crackdown

CAPE TOWN — In a series of meetings which ended yesterday between the Association of Chambers of Commerce (Assocom), President Botha and members of his Cabinet, the association drew attention to the "possible international repercussions" of the restrictions imposed on 18 organisations last week and hoped that the situation would revert to normal as soon as possible.

PRIVATISATION

Assocom also:

- Welcomed the privatisation policy and supported the need for accelerated privatisation.
- Reaffirmed support for the broad economic strategy outlined by the President and undertook to address price discipline in the private sector as an

important element in the general strategy to reduce inflation.

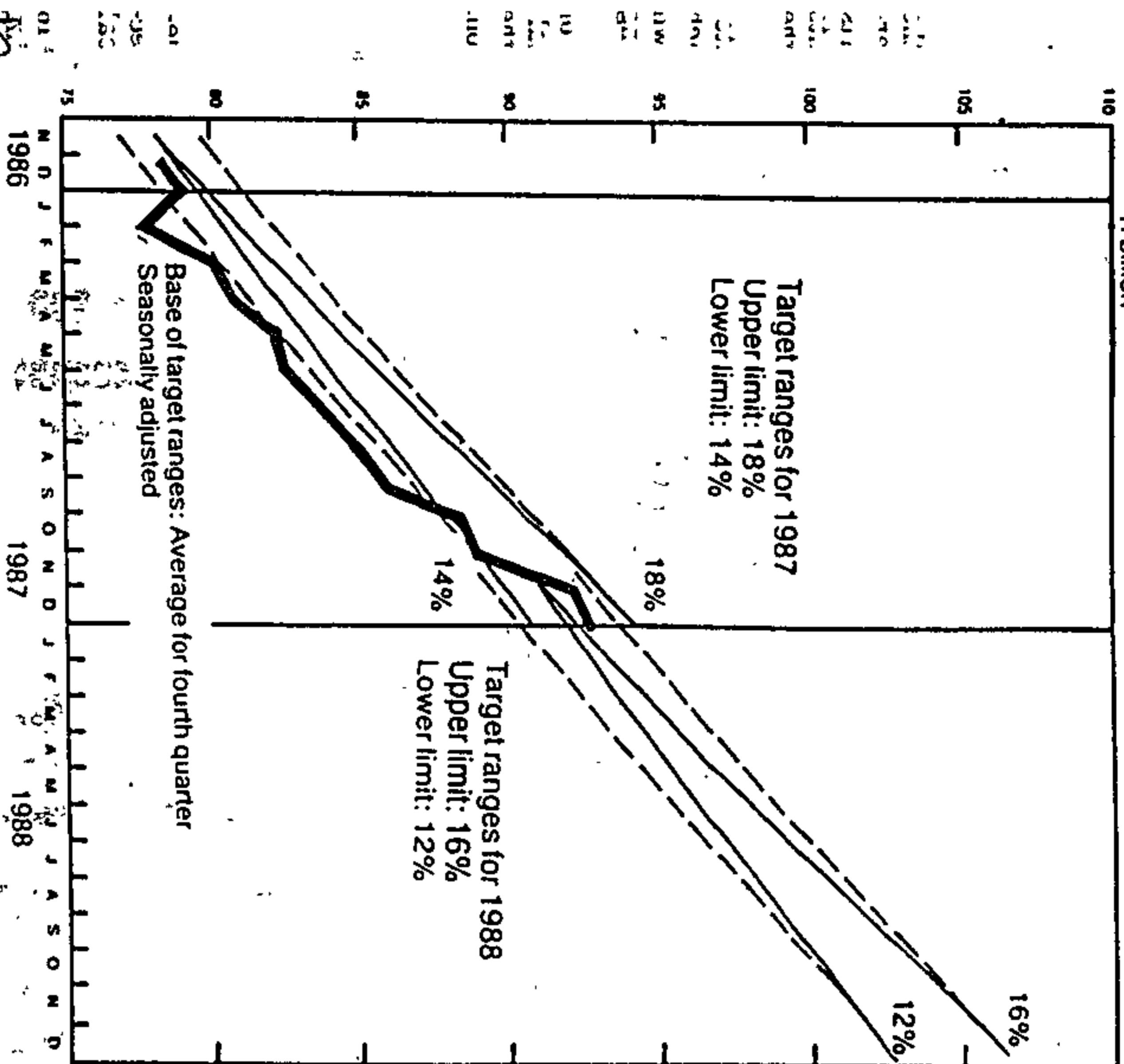
● Agreed that the economy required stable growth and that "stop-go" policies should be avoided. The forthcoming Budget on March 16 would have to be geared accordingly.

● Emphasised the need to continue deregulation and supported the "interim steps" which the Government was taking.

● Urged the Government to remain aloof from the collective bargaining process and to allow industrial relations issues to be basically settled by negotiation between employers and employees.

Assocom also outlined its support for the broad recommendations of the President's Council report on the Group Areas Act. — Sapa.

Graph 1: Target ranges for growth in M3
R billion



Cloete analyses new target range

Reserve Bank 'is working on 3 pc'

real growth rate

By Sven Limsche

By revising its money growth targets recently, the Reserve Bank was working on an implicit three percent growth rate for real economic growth during 1988, says former Barclays Bank chief economist Johan Cloete.

Commenting on the new target range of 12 to 16 percent between the fourth quarter of 1987 and 1988, Mr Cloete believes that the Bank intends operating on money supply and thus interest rates to keep the rate of increase in nominal GDP within a similar target range.

Last year's money supply target was set at between 14 and 18 percent. "Within the context of its nominal

GDP range this means that its implicit target for the average monthly inflation rate for 1988 is around 13 percent," he says.

In the wake of the freeze on civil servants' salaries and wage increases, Mr Cloete believes the budget deficit for 1988/89 will be substantially below that for the previous year.

This, together with a likely smaller surplus on the current account of the balance of payments, could dampen demand appreciably in the year ahead and in order to ensure economic growth of three percent Mr Cloete believes that administered price increases will be contained.

"By accepting an inflation rate of 13 percent the Reserve Bank is intimating to the private sector that if they want GDP, that is their sales, to grow by three percent in 1988, they will have to restrict wage and salary increases to 13 percent.

"It thus believes price and wage-makers to take cognisance of the message contained in the Reserve Bank's new money growth target in terms of the price and wage behaviour expected of them in the year ahead.

"Irresponsible price and wage increases significantly beyond the target intimated by the Bank will merely destroy real incomes, drive up interest rates and once again prevent the economy from achieving the growth and employment which it is still capable of attaining," Mr Cloete concludes.

THE BUDGET

Predicting restraint

The unveiling of the Budget on March 16 will be a major test of how serious government is about reining in spending and moving towards a freer market. Southern Life economist Mike Daly is among those who believe Pretoria is serious this time around.

"These guys mean business and are trying to prove the capital market and the average citizen wrong," he says. "I think there's going to be more effort than ever before. They know they've got to cut down, they can't tax any further."

Nedbank chief economist Edward Osborn agrees: "It is evident that government has found compelling the argument that, without major surgery, total expenditure is irretrievably beyond the reach of revenue and that the gap, or deficit before borrowing, is growing at an alarming rate." (See graph.)

The concern, Osborn says, is that the growing deficit is crowding out private-sector borrowing and sending capital market rates higher.

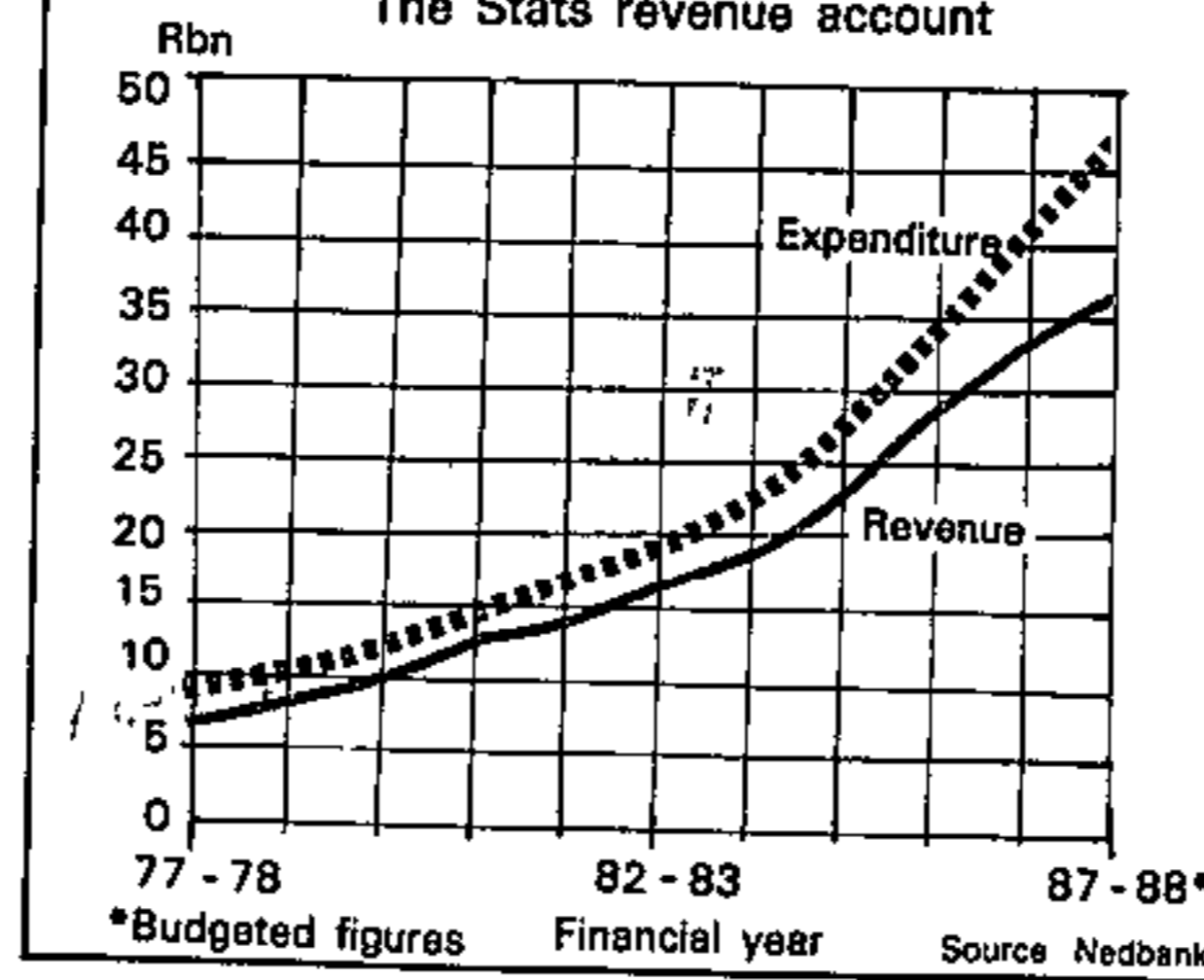
Also, public-debt interest cost feeds on itself year after year and further drives up State expenditure.

Many economists predict a real decline in spending in the 1988-1989 Budget, a step in the right direction.

Several surveyed by the *FM* predict, on average, that spending will rise to R53,6bn — a 12% nominal increase from 1987-1988, but a real decrease against the expected

A 10-year rise

The Stats revenue account



inflation rate of about 15%. (See chart.)

Contributing to a real decline in spending will be the partial freeze on public-sector wages, which Daly says should save about R2bn. But he believes capital spending and education spending will increase.

On average, the economists expect the Budget to call for R43,7bn in revenue and a R9,9bn deficit, or public-sector borrowing requirement (PSBR).

Old Mutual's David Mohr expects a PSBR of R9,9bn in both 1987-1988 and 1988-1989. That would bring the borrowing requirement down from about 6% of GDP to 5% — and could ease the burden on other borrowers. "If they can stick to the budgeted figures and the spending overrun isn't too big, it could take some pressure off the rising trends in interest rates, but

it would not stop the rise," Mohr says.

Sanlam's latest *Economic Survey*, which also projects a real decrease in government spending in 1988-1989, says individuals might see a bit of tax relief in the Budget: "A slight reduction in the form of a lower personal income tax — even if it is only to compensate for the effect of inflation (the so-called fiscal drag) — should not be discounted."

Whatever the specifics, Econometrix chief economist Azar Jammie hopes that any discipline shown in this Budget will come with a commitment of more to follow. "One cannot rectify government excesses overnight in one Budget; it will take several," he says. "I would like to think they're planning ahead and will stick to it over time." ■

4388 FM

Finding the safe course

49

Parsons: How do you estimate the strength of the current recovery?

De Vries: Minister Barend du Plessis said on Wednesday in parliament that we grew by 4%-4,5% in the fourth quarter of 1987 and 2,6% for the year as a whole. We are still basically on the fourth quarter level, but there are danger signs of a slight slowdown.

Geldenhuis: I think the growth rate will slow considerably in the second half of the year.

What is your latest estimate of the real growth rate for 1988?

Bethlehem: I stick to around 3%.

De Vries: 3%-3,5%.

Geldenhuis: I'm now looking for only 2,5%.

How high is the risk of overheating, given the balance of payments (BoP) constraint and the outlook for the world economy?

With the Budget now less than a fortnight away, the FM's Board of Economists assesses what the minister of finance may have in store — and what they would like to see. Ronnie Bethlehem of JCI and Louis Geldenhuis of stockbroker George Huysamer are joined by a new member of the team, Professor Attie de Vries of the Stellenbosch Bureau for Economic Research. De Vries replaces Rob Lee, following a shift in his duties within Old Mutual. The chairman, as usual, is Raymond Parsons, of Assocom.

Bethlehem: Very high. I am perturbed at the strength of the economy against the background of a slowdown in the world eco-

nomy. There is a real danger that we'll paint ourselves into a BoP corner 12 to 18 months down the road.

De Vries: Maybe a bit further, as the capital account should be a bit better this year.

Geldenhuis: If there is any consistency in implementing P W Botha's recent guidelines, we are not going to overheat.

How important is the BoP constraint?

Bethlehem: We need to run a surplus between US\$1bn-\$2bn. Anything below \$2bn is already into tricky territory. One reason we got into difficulties in mid-1985 was because our reserves were so weak; we had no way to defend ourselves.

There seems to be renewed uncertainty about the gold price. Is this the joker in the pack for 1988?

Geldenhuis: Yes — it always is!

Bethlehem: The risk is that in the vital next six months we may have a weak gold price.

De Vries: We must also remember that some export volumes are declining and other export prices are under pressure.

Bethlehem: We're seeing a substantial recovery in fixed investment in the private sector. We could underestimate the rebound in imports that this will stimulate.

Has the State President's speech, especially about pay restraint, altered your perceptions?

Geldenhuis: A major provision in my earlier forecast was a rise of about 10% in wages. On a pay standstill, I've lowered my forecast.

De Vries: I've cut my growth forecast, but I'm a bit more optimistic on inflation.



FM's Bruce and panel (L to R): Geldenhuis, Parsons, De Vries, Bethlehem

Bethlehem: The State President's emphasis on restraint is right, but the approach is wrong. I don't think it will work in the private sector. When corporate profits are increasing as strongly as they are, and there is such a shortage of skilled manpower, it is very difficult to preserve that kind of thing. But an important factor is that government is leading by example — the freezing of transport tariffs is very important.

What signals do you read into the lower money supply targets for 1988?

De Vries: An early warning nervousness that the current upturn shouldn't be too sharp, primarily for BoP reasons.

Bethlehem: Targets reflect what the Reserve Bank would like to see. The critical question is whether it acts to see that the targets are realised. Last year we had an approximate fulfilling of target by year-end, but the previous year money supply grossly under-performed and the targets remained unrevised, which brought their whole effectiveness and credibility into question. I think 1988 will see a reverse of that, in an overshooting of targets which the Bank will do nothing about.

What factors do you see as having the biggest influence on interest rates?

De Vries: Domestic demand for funds, the reserve position, the current account, the BoP and, for the longer end of the market, the inflation rate. There is no doubt rates will harden. I've not changed my forecast of 15% prime by year-end.

Bethlehem: The governor made the point that the Reserve Bank doesn't control interest rates, but that's not altogether true. The authorities exercise a very powerful influence. Often they try to over-anticipate changes, so unless there is an effective exercise of authority, you will see great volatility. **In the light of experiences of 1983-1984, is the economy more sensitive to interest rates now, and so may small increases have a large psychological effect?**

De Vries: My feeling is yes. There are fears that the peak will repeat the previous cycle of 25% — though that need not be the case.

Bethlehem: If we have a rerun of the mini-boom (Reserve Bank Governor, Gerhard), De Kock's commitment not to push interest rates up but allow the market to do so is the wrong kind of commitment — as we saw in 1983. The authorities must then play a leading role.

Money supply, interest rates and exchange rates are interdependent; so can I have your outlook for the exchange rate?

De Vries: I believe the dollar will fall further — not much, perhaps to DM1,60.



Whether the total tax burden will come down will depend on how well government expenditure can be contained.

— De Vries

Given that, plus what we said about gold and the reserve position, I see a 1988 range for the rand between US45c-US48c.

Geldenhuis: We simply have to ensure that the economy stays competitive, longer term. I expect the rand to average US46c-US47c.

Bethlehem: There are three critical factors. First, in terms of my purchasing power parity model, the rand at US50c is approximately correctly valued against the dollar. If the gold price weakens, as we expect,

that will be adverse. Finally, if the inflation rate is differentially large — as it is, even though it is coming down — that will also be adverse.

What should be the main message of the March 16 Budget speech?

Bethlehem: Central government expenditure as a percentage of GDP has increased from 22%-28% during the Eighties so far. We have a strongly growing private sector and we don't want the public and private sectors to compete against one another, creating BoP or inflation problems. So I want a clear commitment that something will be done about government spending.

De Vries: It will be possible in the coming year to curb government spending purely by the restraint on public sector salaries, but this is no long-term solution. We must be realistic, but there must at least be solid indications of a longer term programme.

Geldenhuis: The nominal deficit should be smaller in the new fiscal year, and most definitely less in relative terms than the almost 6% of GDP we'll have this year. Perhaps between 4,5%-5% in the initial phase.

Bethlehem: I would like a commitment to 4%, but only if Treasury feels it could reasonably achieve that. I would rather set it at 5% or 4,5% and know it would be realised. It's very important to realise targets.

De Vries: I would go for 5% just to be on the safe side to say this may be realised.

Given these considerations and against the background of the Margo Report, do you see any scope or need — not the same thing, of course — for tax relief?

Geldenhuis: I don't think there is scope to do anything meaningful, though we may have certain cosmetic changes.

De Vries: The total tax burden will not come down in the next fiscal year. Whether it does in the future will depend on

how well government expenditure can be contained.

Would some immediate direct tax adjustments, as part of the Margo package, be possible within a broadly neutral Budget?

Geldenhuis: Concessions of up to R500m might be possible; but R500m in terms of the Budget and GDP numbers is insignificant.

Bethlehem: Tax reform introduces big uncertainties. If there's a fairly brisk economy, there may be scope for a few handouts when you introduce reform. And if VAT is expected to bring in a lot more money than GST did, maybe you could afford some direct tax cuts. A lot of people use the word "cosmetics" in a negative sense, but the cosmetics of a Budget presentation are very important — the arguments the (Finance) minister uses to justify what he is doing are critical.

Privatisation has soaked into a lot of decision-making. Have the correct priorities and procedures been set?

Geldenhuis: We may have created expectations that may not be realised in the time spans people have in mind. I wonder whether redirecting funds into underdeveloped areas is the most important or advantageous effect, shorter term. I see much more in terms of efficiencies and attitudes of workers in organisations that are privatised.

Bethlehem: The State President — and this was repeated by the Minister of Finance — emphasised the need to concentrate on capital investment. In other words, it is not a matter of taking from capital to make way for increased current government spending. Two important issues relate to privatisation. One is the shifting of funds from the private sector to the public sector. We know that room has to be made for rising expenditures on black housing, black education, and general welfare spending. It is logical that funds should be shifted from the private to the public sector for that. The other is efficiency. A private sector monopoly is preferable to a public sector one because the private sector monopoly has to address its bottom line in a different way; it doesn't have government to bail it out if it doesn't manage its resources properly. One can open up competitive influences later.

Do you not see public perceptions of the dangers of exploitation by a private monopoly as a problem?

Bethlehem: No. You can control private sector monopolies directly. We have a Monopolies Board for that purpose.

De Vries: If you are forced to buy certain services and still have to pay tax at the same rate, privatisation becomes just an additional form of taxation. That could lead to a lot of distortion — the whole thing will have to be played very carefully.

Geldenhuis: We should



There is a real danger we'll paint ourselves into a balance of payments corner 12-18 months down the road.

— Bethlehem

not accelerate socio-spending just because of privatisation, but by what the economy can carry. There are dangers if you go at a rapid pace because you are turning certain assets into money and then spending it. Then maybe government's share in the economy won't even fall.

Does successful privatisation partly depend on creating the perception in the public mind that they are part of this process? In other words, is the issue of enlarging a shareholder democracy important?

Bethlehem: Of course. The Sasol example was a tremendous success and I don't see why Eskom shouldn't be just as successful. **What political factors are relevant to economic performance this year?**

Bethlehem: The future of the market economy is on the line in southern Africa and in SA in particular. For one thing, there is a snowballing attitude in the black community in favour of a socialist future. There is also a threat in how the government sector has increased its share of expenditure. Then

there is the question of success of government policy. If the anti-inflation policy fails, there may be a mounting demand within government's own constituency for a direct management of resources.

De Vries: Political instability is one reason why we must keep some fat in terms of our current account and reserves.

Against the projections and uncertainties we've highlighted, what would be your message to the business community?

Geldenhuis: We've adjusted to the shocks of the Eighties and though we may have slow growth for the next two or three years, we can look forward to more stability.



“We shouldn't accelerate socio-spending just because of privatisation, but by what the economy can carry.”

— Geldenhuis

Bethlehem: The businessman must take three things into account: the State President's commitment in his opening of parliament speech; the banning in the past few days of 17 anti-apartheid organisations; and the Budget. He must look for a government commitment to continued reform — hopefully not just on the economic front.

De Vries: It will be in businessmen's interest to accept that the rate of recovery will slow down, but the fruits of that will

be that the growth phase will last longer.

Should investment plans be cancelled?

De Vries: No, especially if interest rates rise. But investors remain careful and adaptable.

some meaning to a pay freeze was by freezing remuneration, as defined in the Income Tax Act. Even that definition is not settled. ■

THE BUDGET

Predicting restraint

The unveiling of the Budget on March 16 will be a major test of how serious government is about reining in spending and moving towards a freer market. Southern Life economist Mike Daly is among those who believe Pretoria is serious this time around.

"These guys mean business and are trying to prove the capital market and the average citizen wrong," he says. "I think there's going to be more effort than ever before. They know they've got to cut down, they can't tax any further."

Nedbank chief economist Edward Osborn agrees: "It is evident that government has found compelling the argument that, without major surgery, total expenditure is irretrievably beyond the reach of revenue and that the gap, or deficit before borrowing, is growing at an alarming rate." (See graph.)

The concern, Osborn says, is that the growing deficit is crowding out private-sector borrowing and sending capital market rates higher.

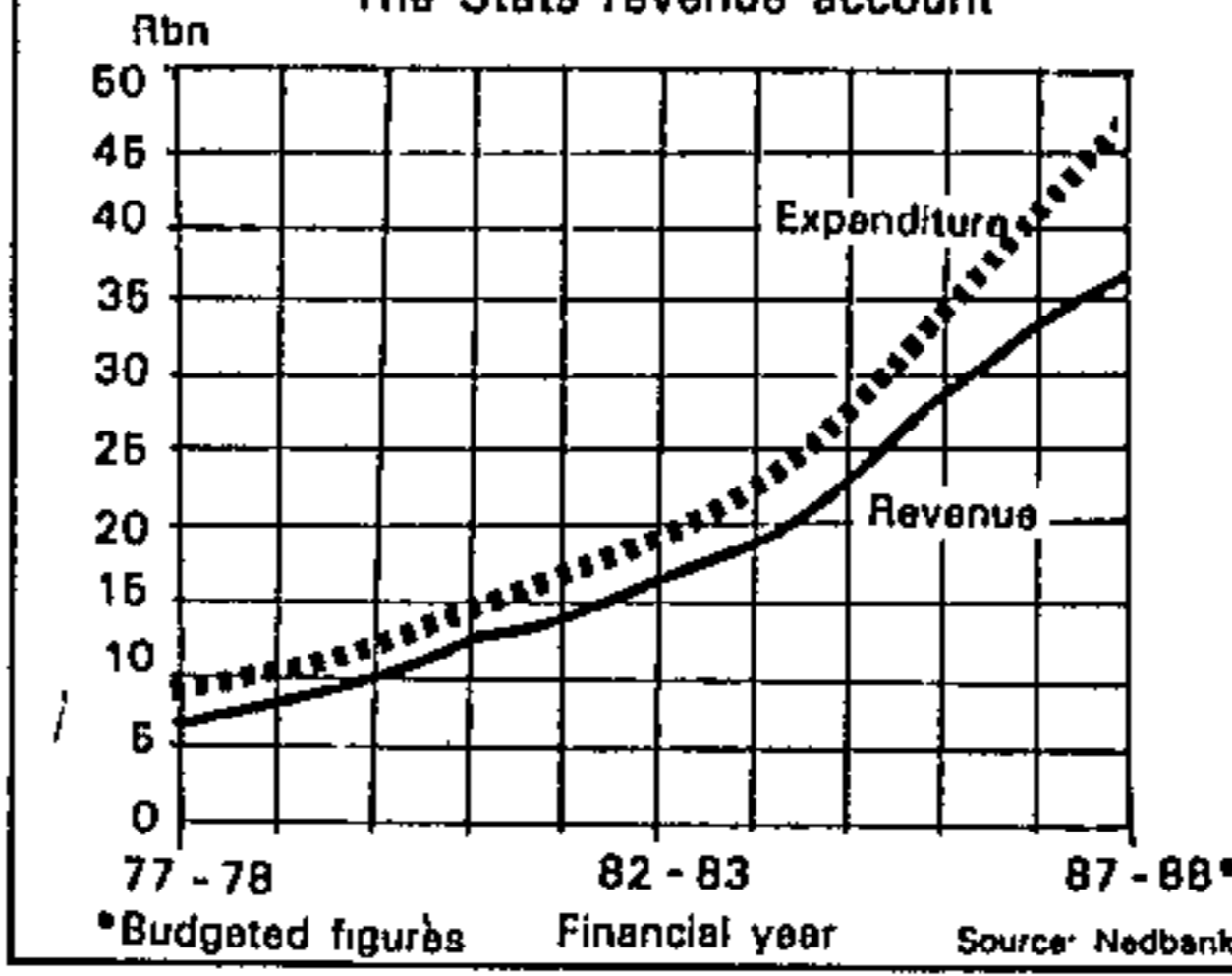
Also, public-debt interest cost feeds on itself year after year and further drives up State expenditure.

Many economists predict a real decline in spending in the 1988-1989 Budget, a step in the right direction.

Several surveyed by the *FM* predict, on average, that spending will rise to R53,6bn — a 12% nominal increase from 1987-1988, but a real decrease against the expected

A 10-year rise

The Stats revenue account



inflation rate of about 15%. (See chart.)

Contributing to a real decline in spending will be the partial freeze on public-sector wages, which Daly says should save about

R2bn. But he believes capital spending and education spending will increase.

On average, the economists expect the Budget to call for R43,7bn in revenue and a R9,9bn deficit, or public-sector borrowing requirement (PSBR).

Old Mutual's David Mohr expects a PSBR of R9,9bn in both 1987-1988 and 1988-1989. That would bring the borrowing requirement down from about 6% of GDP to 5% — and could ease the burden on other borrowers. "If they can stick to the budgeted figures and the spending overrun isn't too big, it could take some pressure off the rising trends in interest rates, but

it would not stop the rise," Mohr says.

Sanlam's latest *Economic Survey*, which also projects a real decrease in government spending in 1988-1989, says individuals might see a bit of tax relief in the Budget: "A slight reduction in the form of a lower personal income tax — even if it is only to compensate for the effect of inflation (the so-called fiscal drag) — should not be discounted."

Whatever the specifics, Econometrix chief economist Azar Jammine hopes that any discipline shown in this Budget will come with a commitment of more to follow. "One cannot rectify government excesses overnight in one Budget; it will take several," he says. "I would like to think they're planning ahead and will stick to it over time." ■

LOOKING AHEAD

Central government balance sheet

| | Spending | Revenue | Deficit |
|------------------------------------|-------------|-------------|-------------|
| 1986-87 | | | |
| Actual | R40,44 bn | R34,60 bn | R5,84 bn |
| 1987-88 | | | |
| Budgeted | R46,87 bn | R38,44 bn | R8,43 bn |
| Projections: | | | |
| Finance Ministry | 47,8 | — | — |
| Southern Life | 48,0 | 38,5 | 9,5 |
| Old Mutual | 48,5 | 38,6 | 9,9 |
| Sanlam | 47,8 | 38,6 | 9,2 |
| Nedbank | 47,2 | 37,7 | 9,5 |
| Average of projections | 47,9 | 38,4 | 9,5 |
| % increase from 86-87 | 18% | 11% | 63% |
| 1988-89 | | | |
| Projections for Budget: | | | |
| Southern Life | 54,0 | 44,0 | 10,0 |
| Old Mutual | 54,1 | 44,2 | 9,9 |
| Sanlam | 53,0 | 43,0 | 10,0 |
| Nedbank | 53,2 | 43,4 | 9,8 |
| Average of projections | 53,6 | 43,7 | 9,9 |
| % increase from 87-88 | 12% | 14% | 0,4% |

5/11/88
 RSC/H



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik **50c** Local
Buitelands 70c Other countries
Posvry • Post free

Vol. 273

49

KAAPSTAD, 4 MAART 1988

CAPE TOWN, 4 MARCH 1988

No. 11178

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 445.

4 Maart 1988

No. 445.

4 March 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 4 van 1988: Gedeeltelike Begrotingswet, 1988.

No. 4 of 1988: Part Appropriation Act, 1988.

ACT

To appropriate an amount not exceeding R16 000 000 000 out of the State Revenue Fund for a part of the requirements of the State for the financial year ending 31 March 1989.

*(English text signed by the State President.)
(Assented to 3 March 1988.)*

BE IT ENACTED by the State President and the Parliament of the Republic of South Africa, as follows:—

Appropriation of moneys for part of requirements of State, excluding provinces

1. Subject to the provisions of the second proviso to subsection (1) and of subsection (2) of section 4 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated out of the State Revenue Fund such amount not exceeding R13 000 000 000 as a charge against the State Revenue Account, as may be necessary for a part of the requirements of the State, excluding the provinces, during the financial year ending 31 March 1989, until such time as provision has been made in an Appropriation Act for such requirements.

Appropriation of moneys for part of requirements of provinces

2. Subject to the provisions of the second proviso to subsection (1) and of subsection (2) of section 4 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated out of the State Revenue Fund as a charge against the various Accounts for Provincial Services mentioned in subsection (1) of section 2 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), such amount not exceeding—

- (a) R860 000 000, in the case of the province of the Cape of Good Hope;
 - (b) R600 000 000, in the case of the province of Natal;
 - 20 (c) R400 000 000, in the case of the province of the Orange Free State; and
 - (d) R1 140 000 000, in the case of the province of the Transvaal,
- as may be necessary for a part of the requirements of each province during the financial year ending 31 March 1989, until such time as provision has been made in an Appropriation Act for such requirements.

25 Short title

3. This Act shall be called the Part Appropriation Act, 1988.

JOHANNESBURG — January's balance of trade figures released this week should set alarm bells ringing for the monetary authorities, say economists.

The trade surplus narrowed significantly during the month from R779,2 million in December to R550,3 million in January, as a result of the higher value of imports and the lower value of exports in rand terms.

Economists said the economy could not be allowed to grow too fast and measures to ensure it did not should be taken.

In the light of South Africa's foreign debt commitments, pressure

D/D 4/3/88
Alarm
at new
trade
figures?

49

coincidence with the drop in the gold price must add to the negative psychological impact."

He said the balance of payments represented a constraint to the South African economy, because of the country's foreign debt commitments.

"It is necessary to run an annual surplus of between \$1 billion and \$2 billion to keep up with debt repayments without dipping into gold and foreign exchange reserves. Our reserves represent not only a cushion, but, in our vulnerable political position, a defence against attack on the foreign exchange front." — DDC

on the current account surplus could threaten the gold and foreign exchange reserves, which would severely affect foreign confidence in the economy.

The JCI group economics consultant, Mr Ronnie Bethlehem, said the extent of the decline in the trade surplus concerned him. "And the

SA Reserve Bank
allows 2pc drop
in rand to dollar

JOHANNESBURG — The South African Reserve Bank has allowed the rand to fall by 2 per cent in relation to the dollar this week because a depreciated currency could prevent the current account surplus from being whittled away.

A lower rand means imports become less attractive and exports more competitive.

The rand's reciprocal to the dollar yesterday fell to close at R2,1375 (or in the old quotation \$0,4678) — a new low since January 1987.

The Reserve Bank deputy governor, Professor Jan Lombard, said yesterday the bank was not "perturbed" at the exchange rate because it reflected the current circumstances — the effective rate of exchange against the stronger cross rates, the lower gold price, South Africa's high inflation in relation to major trading partners and the domestic economic recovery.

The weaker rand and drainage on the domestic money market go hand in hand with rising interest rates. Soon importers, who have been reluctant to seek offshore trade credit, will be lured to seek foreign credits because of the interest rate differential, Prof Lombard said.

South Africa's growth scenario was plainly reflected in trade figures released this week. Imports in January rose 2,3 per cent to R2,7 billion and exports decreased 4,8 per cent to R3,2 billion dumping the current account surplus 45 per cent to R550,3 million compared to December.

The forex market yesterday reacted sharply to the trade figures as importers rushed to buy dollars for forward cover pushing down the value of the rand to the dollar to R2,1400 (\$0,4672).

The Reserve Bank supported the rand at that point and put dollars into the market. — DDC

it
s
o
o
i
i
r

I
F
t

It's only a matter of time before interest rates start climbing

Starts 5/3/88 (49)

SVEN LUNSCHÉ

A rise in the prime rate is unlikely before the release of the Budget on March 16, Reserve Bank Governor Dr Gerhard de Kock said yesterday.

Speculation in financial markets has been rife that an increase was imminent to support efforts by the monetary authorities to pre-empt the economic upswing from overheating too soon.

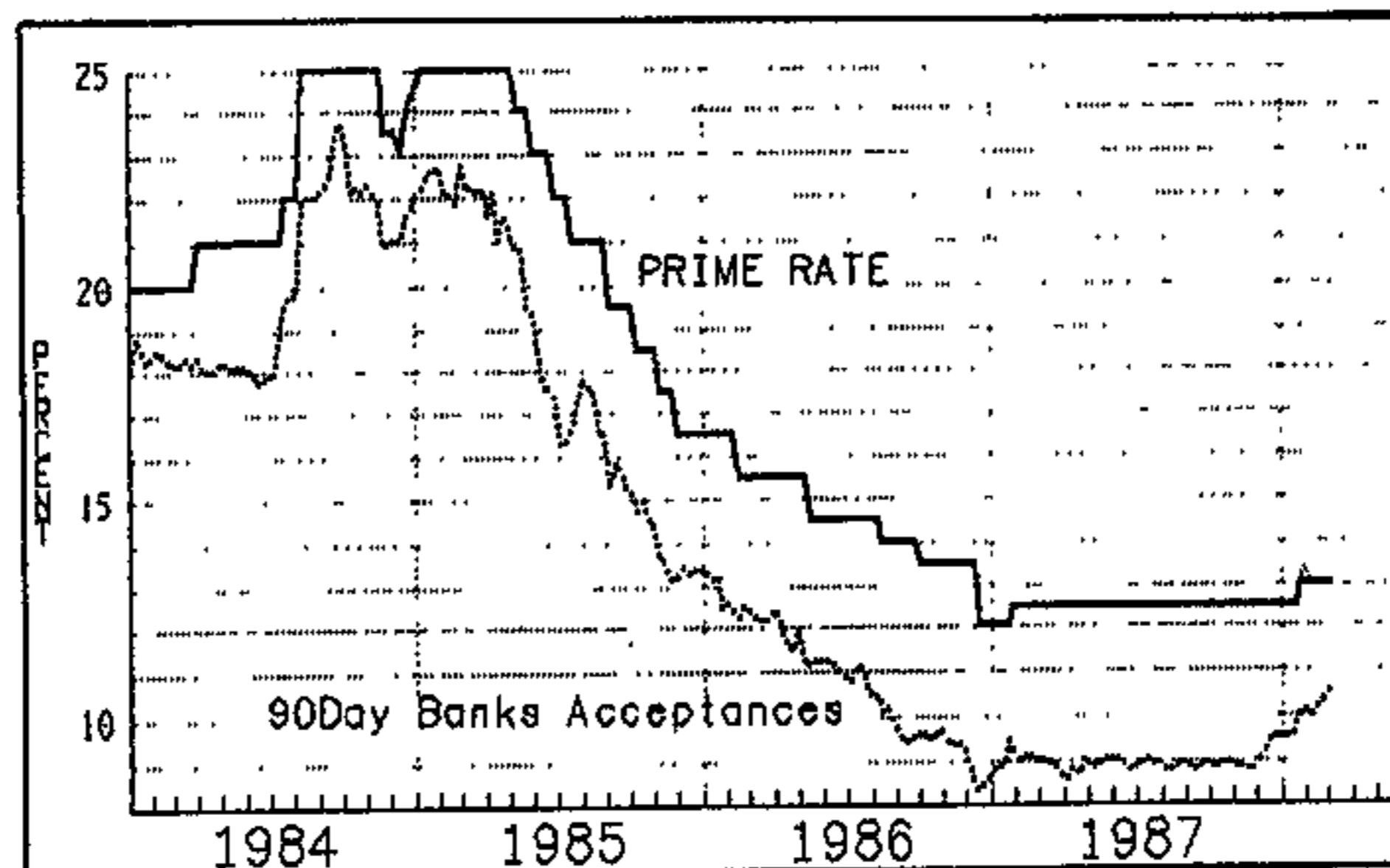
But it was decided at a top-level meeting between banks, building societies and the Reserve Bank yesterday, to delay an announcement until more clarification about the Budget and the demand for credit had been received.

"We are in the run up to the Budget and still very close to the end of February, when the largest tax payments of the year are transacted, so that greater clarification about underlying tendencies in the economy are required," Dr de Kock said.

But he added that the situation could be reviewed any day now. "We are very reluctant to see interest rates increase prematurely, but if the economy demands it we would obviously let them rise.

"The bank rate has remained unchanged at 9,5 percent since November 1986, as a result of the sluggish economy last year. But 1988 looks much better in economic terms and there is pressure on interest rates to rise," he said.

Dr de Kock thought it unlikely that the banks would raise the prime rate without a preceding rise in the bank rate, as happened in January this year when prime was pushed up by half a percent to 13 percent.



Graph shows the close correlation between the Bank rate and the BA9 rate. — Graph: Simpson McKie

"While we are in close consultation with the banks, we don't legally determine their rates so that an early decision on their behalf is not precluded," he commented.

In recent weeks economic indicators have borne witness to the sudden surge in local demand, and economists have warned that the government should use all possible means to prevent the economy from overheating — including a rise in interest rates.

Real retail sales have shown year-on-year increases of between 0,5 and 2,5 percent over the last three weeks, new car sales rose 3,4 percent in January on the December figure and the volume of manufacturing production rose by an annual rate of 3,8 percent in November.

However, the most visible evidence of the upturn in economic demand has been the upward surge in short-term interest rates. The BA9 rate has risen from just under nine percent in December last year to 10,8 percent this week,

with the market shortage rising to over R1 billion.

To alleviate the shortage Dr de Kock said the Reserve Bank yesterday tendered a repurchase agreement of R500 million in addition to the accommodation provided daily through the discount window.

This figures certainly give cognisance to the huge pick-up in credit demand. Says Frankel Kruger's economist Gillian Raine: "In December liquid assets of commercial banks fell as they sought accommodation given the shortage of paper, while credit extended to the private sector grew R4,2 billion from end-October to end-December, with the major increase being largely corporate working capital — but hire purchase and leasing also rose."

Apart from the shortage on the money markets, the upswing in demand has also impacted quite dramatically on South Africa's trade surplus.

Figures released this week showed that imports in January rose 2,3 percent to R2,7 billion and exports declined by 4,8 percent to R3,2 billion, cutting the trade surplus in January to R550,3 million compared with December 1986.

In view of the need for substantial debt repayments over the next few years, it is essential that the country maintains a substantial surplus on the current account of the balance of payment, which has been threatened by the strong demand for imported goods.

The authorities' initial response to the decline in the trade surplus was to allow the rand-dollar exchange rate slide. The currency yesterday dropped to R2,1485 (\$0,4654 in the old quotation) — its lowest value since January 1987 and a decline of over ten percent since the beginning of the year — as importers covered forward and rushed to buy US dollars.

But against the background of the government's recently announced anti-inflationary policy it is obvious that the Reserve Bank will not allow the currency to drop too far below its present levels — the next step therefore seems to be higher interest rates.

It would also make sense when viewed against the recent announcement of new M3 money targets — 12 to 16 percent from the fourth quarter of 1987 to the fourth quarter of 1988, compared with the target of 14 to 18 percent previously.

Says economist Ms Raine: "These targets are only achievable if interest rates rise relatively sharply during 1988 to curb credit demand or real income increases disappear sharply."

Thoughts of Clem

MY bet is that even if you're early, he'll be at the door before you, as he is at Ravenswood, the eighteenth century Anglo doss house here in Cape Town.

Clem Sunter is tall, nicely assembled, pink (an all day cricket match the day before). He is balding a little, to reveal a pate wherein must reside much brain, his hair instead flourishes in awesome brows

He is the author, as we well know, of *The World and South Africa in the 1990's*, a slim shiny volume of future possibilities, and the star of the same-name video.

He is also the inventor of Sunterspeak, that powerfully fashioned language that has, or should have, struck hope, or chill, into the hearts of millions of South Africans.

"The future is normally not what it used to be."

"High Road ... Low Road."

"We flex and interplay the key uncertainties."

"Dual-logic economy."

"Active future."

"Each-ism."

"Triad and non-Triad."

Finally, boyishly, there is his 'heck of an important concept.' Us.

Sunterspeak is, in fact, plain common sense.

HIS Guru is Pierre Wack, the love of his life his wife, Margaret.

When you ask whether South Africa has embarked any distance up the 'High Road' or down the 'Low Road', he says that in terms of whether his presentation has influenced South Africa, the jury is still out.

"Pierre Wack, who was head of Royal Dutch Shell's planning, says you don't look for short term results with scenario planning. You're trying to change the microcosm of the person, their mental map. You do that slowly. Essentially you're asking people to convert themselves, rather than trying to convert them from outside. Then it sticks."

What is the first thing he'd like to see change?

"Attitude — where people really see each other as partners in this country. That whites perceive the blacks as a very valuable asset in terms of the economy and in turn the blacks see the whites as an asset in the sense that South Africa has done extremely well rel-

ANGLO'S SUNTER ON THE POWER THAT'S 'OUT THERE'

W/6 ARGUS 5/3/88
by GORRY

BOWES-TAYLOR

Weekend Argus Reporter

Picture:
DANA LE ROUX,
Weekend Argus.



ative to the rest of Africa."

The strikes last year jolted people in the mining industry into realising that the blacks now have real economic clout.

"It's no longer a question of just having a group of unskilled workers in your company, you now have highly skilled black workers who can't be replaced. The more white management and whites generally realise that there is real power out there, the more they will see they will have to extend that partnership into the political sphere as well."

ANXIOUS

And he is anxious about the effect of people here fanning overseas criticism of this country.

"The more you convince the outside world that we have nothing but demons in South Africa the more difficult it'll be for our High Road scenario. Attitudes will eventually harden.

"I think the rest of the world is perceived by South Africans as too much of a player in that sense. The government on the one hand appeals to the world against sanctions, the blacks appeal for more sanctions when they should actually be looking to each other.

"I guess that is the most important change I'd like to see, people saying we've got to share in the future. We're going to lay down the rules together."

HE is back behind a corporate

desk now, this synchronised man. He has spread Sunterspeak in almost every nook and niche of the country (with help from colleagues Michael Spicer and Jim Buys), to all colours and political protestations, to most of the Cabinet and government departments, to virtually all English and Afrikaans universities and, as he says, "lots" of schools.

What is his own, er, "active future"?

"I like to think I can do something else on the scenario front. The subject that really interests me is the development of ideologies. What I call a bit of each-ism. That has to be one of the best concepts in our world material where Gorbachev and Deng are both moving towards a pragmatic blend of ideologies. So are Spain, France, Vietnam, and New Zealand just to name a few others. You take a degree of capitalism, a degree of socialism and you mix them together in a combination that works for you.

EXAMPLES

"Some countries prefer higher profile government, others prosper under virtually totally free enterprise. I try to emphasise that there are benign and malign forms of government intervention. That which restricts entrepreneurs is definitely malign, killing the human spirit — for you have to accept that the engine room of

economic growth is the entrepreneur — whereas benign intervention increases the freedom of the individual."

He gives as good examples of benign intervention education and hospitals, "because educated, healthy people are freer than sick ignorant ones.

"What I say, particularly when I'm talking to left-wing audiences is that the primary objective must be to double the per capita income from R4 000 to R8 000 (in today's terms) in the year 2 000. It means a real growth in this country of eight per cent per annum over the remainder of the century.

"When that is achieved you will have the schools, the hospitals for everybody and you will also give people the income to clothe and feed themselves.

"It's a heck of an important concept that."

IN Sunterspeak he spells out dual-logic economy, whereby big business sub-contracts to medium-size business, who sub-contracts to micro business.

"That marvellous channel for getting the wealth from the top echelons to the bottom echelons. That cascading of wealth through all levels of society."

Take the black taxi industry: "It's not just the taxi, industry per se, it's all the spin-off industries — paint spray shops, panel-beating, spares.

"I was told that 60 percent of the houses in places like Guguletu have backyard businesses. 60 percent! That's tremendous.

"I believe one's got to get used to the idea that the fastest growing market in South Africa today is the Third World Metropolitan Market. The opportunities there are unbelievable.

"There is a book about to be published, *Third World Destiny* by Nick Green and Reg Lascaris which talks marvelously about all the opportunities that are available in that market and the fact that you've got to be upbeat about having Third World characteristics."

South Africa has an urban population that is growing at five percent per annum which in itself creates many opportunities.

"You've got a lot of young people out there and in the late 90s on our High Road scenario you'll probably have more rich black teenagers than white teenagers and there's a hell of a scope in a market like that. We haven't even touched it."

Spending rise could damage trade surplus

(Glasgow) GERALD REILLY *(SA)*

PRETORIA — The balance of payments could accommodate nothing more than a moderate upturn in the domestic spending without causing serious damage to the economy, said Volkaskas in its February Economic Spotlight. 2/3/88

It said that was the reality of the country's economic position.

It was apparent SA still could not afford too strong an increase in domestic spending components.

If that happened, interest rates would have to rise fairly strongly and the exchange rate value of the rand would have to drop.

It might even be necessary to consider other measures to curb demand, Volkaskas economists said.

DD 713684
Bank to hold off increase in rate (49)

JOHANNESBURG — In the run-up to the end of March 16, the Reserve Bank decided on Friday to hold off making an announcement on a possible increase in the prime rate, the bank's governor, Dr. Gerhard de Kock, said.

However, he said there would be a "constant monitoring situation" and the rates would go up if they needed to.

He said the Reserve Bank had eased the upward pressure on interest rates on Friday by giving banks an additional R500-million and the treasury bills rate had gone up to 10.23 per cent from last week's 9.95 per cent.

Dr. De Kock said: "Further changes in interest rates are not excluded but we have decided not to make a move now."

Money markets had been tightened at the end of February and this situation would be watched in terms of whether it related only to expected seasonal tightening, he added.

Economists, however, fear an imminent increase in prime rate of between 0.5 per cent and 1 per cent. —DDC

DID 11/3/88
Pension funds:

R17,5bn reserve

CAPE TOWN — The government's five pension funds, which together have a cumulative shortfall of billions of rands in terms of actuarial valuations, had cash reserves totalling a little more than R17,5bn at the end of March last year, according to the Minister of National Health and Population Development, Mr Willie van Niekerk.

(49)

The Government Service Pension Fund had funds totally R12,3bn; Associated Institutions Pension Fund R2,5bn; Temporary Employees' Pension Fund R1,6bn; Authorities' Service Pension Fund R959,3m; and the Authorities' Service Superannuation Fund R40,5m.

The total contribution made by the state to these five funds in the 1986/7 financial year totalled R1,4bn. — DDC

THE ECONOMY

It's boom-time for profits. But for wages? Not likely

BUSINESS BAROMETER

GENERAL INDICATORS

SHORT TERM INTEREST RATES



INTEREST RATES

The bank rate — the interest rate the Reserve Bank charges the banks — was raised this week by one percentage point to 10,5 percent, the first change in this rate since December 1986. This is a response to increased demand for credit and the consequent expansion of the money supply as the economy has improved. The Reserve Bank is trying to curb inflationary tendencies by putting up the price of money. The rise in bank rate follows January's increase of half a percentage point in the prime overdraft rate — the rate commercial banks charge their best customers. Prime rate is now expected to increase again, probably by one percentage point, to 14 percent.

COST OF CIVIL SERVICE

The total cost of public servants this financial year was R13,4-billion, an increase of 151 percent on the 1982/83 figure of R5,3-billion, Minister of Finance Barend du Plessis said in parliament this week. As a percentage of state revenue, public service remuneration has risen from 28,8 percent to 33,5 percent and, as a percentage of gross domestic product, from 6,5 percent to 7,6 percent.

BALANCE OF TRADE

South Africa's foreign trade surplus has been declining as imports have increased and exports have fallen. Imports rose by 2,3 percent between December and January while exports were down by 4,8 percent. January's trade surplus was R550,3-million compared with R779,2-million in December and R930-million in January last year. For 1987 as a whole the trade surplus was just under R14-billion, about 8,7 percent smaller than the 1986 figure. According to Nedbank, the current account of the balance of payments, which includes the (negative) services balance as well as the trade balance, should be just over R6-billion for 1987, compared with R7,2-billion in 1986. A surplus of R4-R4,5-billion for this year is forecast in Nedbank's February Guide to

the Economy, with exports static due to reduced world demand while imports grow as domestic spending improves.

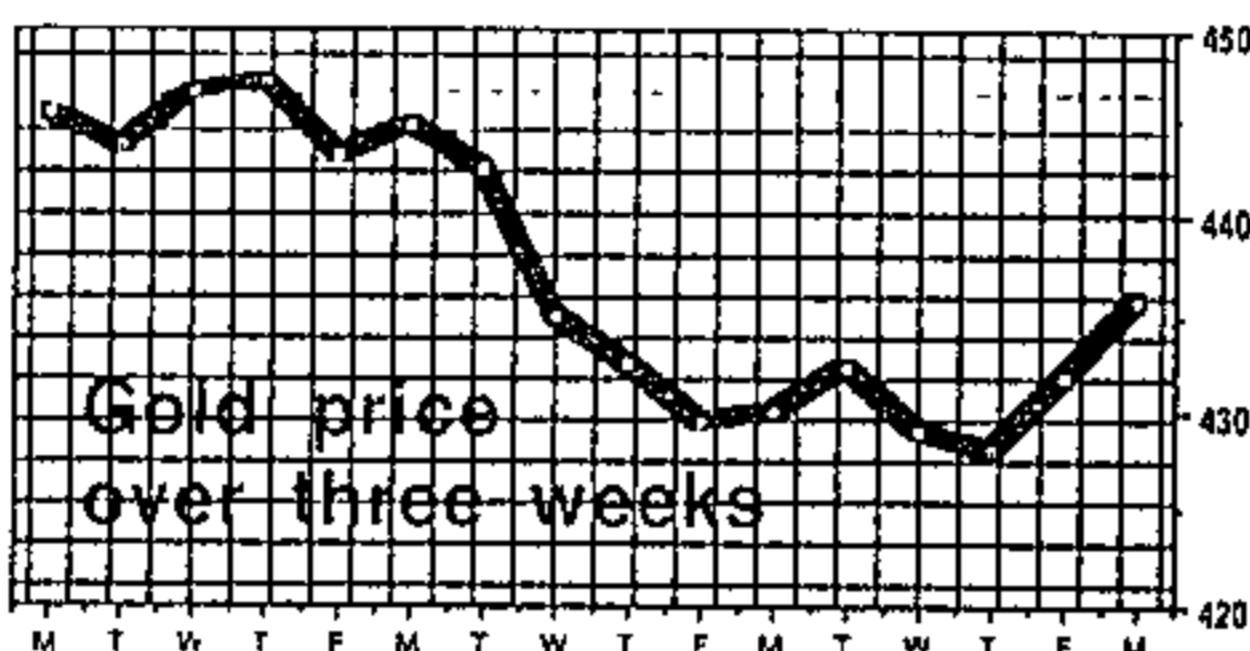
FINANCIAL INDICATORS

Johannesburg Stock Exchange Indices

| JSE Indexes | 7/3/88 | WEEK AGO | % CHANGE |
|------------------|--------|----------|----------|
| All Market Index | 1564 | 1518 | +3 |
| All Gold Index | 1244 | 1212 | +2,6 |
| Industrial Index | 1429 | 1444 | +1 |

Short-term interest rates

| | 7/3/88 | WEEK AGO | YEAR AGO |
|---------------------------------|--------|----------|----------|
| Three-month bankers acceptances | 10,75% | 10,45% | 9% |
| Prime overdraft rate | 13% | 13% | 12,5% |



Gold Price

| | 7/3/88 | WEEK AGO | % CHANGE |
|--|--------|----------|----------|
| | 435,70 | 430 | +1,3 |

Selling price: Major currencies against rand

| | 10/3/88 | WEEK AGO | % CHANGE |
|-----------------|---------|----------|----------|
| US dollars | 2,1430 | 2,1400 | +0,1 |
| Pounds Sterling | 3,9528 | 3,8071 | +3,8 |
| Deutsche Mark | 0,7796 | 0,7920 | -1,6 |
| Yen | 59,82 | 60,36 | -0,9 |
| Swiss Franc | 0,6440 | 0,6556 | +3,4 |

US Dollar against major currencies

| | 10/3/88 | WEEK AGO | % CHANGE |
|----------|---------|----------|----------|
| Dm | 1,6707 | 1,6953 | -1,5 |
| Sterling | 1,8445 | 1,7690 | +4,2 |
| Yen | 128,20 | 129,27 | -0,8 |
| SwFr | 1,3800 | 1,4040 | -1,7 |

Source: First National Bank

COMPANIES reporting their yearly and half-yearly results are showing spectacular improvements in profits and turnover, confirming the recent upswing in the economy.

Among the profit leaders are giants such as Toyota SA, which declared a 307 percent increase in both after tax profits and earnings per share for the year.

Such dramatic improvements have not been restricted to large companies. FS-Team Distributors, a relatively small company, achieved an after tax profit improvement of 543 percent for the past six months and an improvement of 98 percent in earnings per share.

A survey carried out recently by the SA Barometer and published in its March 11 edition showed that, of 120 companies which have reported results since the beginning of 1988, 12 (or 10 percent) reported improvements of over 200 percent in after tax profits.

Those companies reporting their results for the year declared an average improvement of 93 percent in after tax profits over the preceding year. Those companies reporting over the six month period ending in December 1987 declared an average improvement of 79 percent compared with the same period in 1986.

This compares very favourably with the improvement recorded this time last year when 130 companies declared an average improvement in profits of just under 30 percent for 1985.

Further evidence of the improvement in corporate profitability may be found in the increase in the number of companies reporting any improvement in their profits. Whereas 82 percent of the companies surveyed last year reported increased profits, this year the figure has risen to 94 percent.

These spectacular increases in prof-

Some 120 companies have reported results this year, of which 94 percent show an increase in profits. Can staffs expect a salary bonanza? Not likely, report **DUNCAN INNES** and **MICHAEL 'O DONOVAN**

its stand in stark contrast to the performance of wage and salary increases over the last few years.

Between July 1985 and July 1986 white private sector wages and salaries rose by only 11 percent and black wages by 11,3 percent. Over the same period the consumer price index rose by 16,9 percent.

Between July 1986 and July 1987 white wages and salaries rose by 13,5 percent and black unionised workers' wages by 14 percent. Over this period the consumer price index rose by 17,9 percent.

Thus, while wages and salaries have lagged behind inflation over these two years, company profits are now soaring well ahead of the inflation rate.

It is in this context that State President PW Botha's recent call for the private sector to exercise wage restraint should be assessed.

Although some private sector representatives have expressed reservations about implementing his proposal, Federated Chamber of Industries' president, Hugo Snyckers, stated that: "The FCI and its regional chambers will urge members to exercise the maximum possible restraint in both salary and price increases."

However, such calls for price restraint seem to have had little impact so far. This week's announcement of a 15 percent increase in the price of whisky, coupled with previous announcements of price increases for sugar, meat, milk, beer, bricks, paint, timber, tyres and cars, neatly illustrate this point.

In the context of price rises and phenomenal profits, it is difficult to see precisely how the FCI and its fellow employer associations intend to justify wage restraint — other than by arguing that they have to respond to the state president's call.

Clearly, though, the improved results recently announced by companies are good news for the economy. Both the average increase in turnover of 45 percent and the improvement in earnings per share of 60 percent point to a real improvement in economic activity.

Furthermore, dividends have also improved substantially. A quarter of the companies that declared dividends for 1987 had failed to do so in the previous year. Those that did, increased their payments by 88 percent.

While shareholders are clearly benefiting from the recent improvement in company profitability, it remains to be seen whether employees will experience any corresponding benefit.

I won't jump on soap boxes, says new Premier chief

"I would hope that in my lifetime my job could be taken by a black man," says the man who is the Premier Group's new chief executive. "This will mean the capitalist system has worked."

Developing the "heart of the organisation", as he puts it, is one of Peter Wrighton's priorities. He is committed to eliminating discrimination within the organisation. What is said in the boardroom on this issue what happens on the shop floor are not necessarily the same thing, in his view.

Wrighton chooses his words carefully when he talks about politics and labour relations.

Premier's new chief Peter Wrighton says he's committed to eliminating discrimination within the group, but won't be playing a high-profile political role. He talks to HILARY JOFFE

Although he shares many of his predecessor's beliefs, Wrighton says, he doesn't feel he has Tony Bloom's attributes when it comes to politics. And he won't be adopting Bloom's high profile approach: "I'm more conservative, not politically, but in personal style," Wrighton says.

He takes office as chairman on April 1 and "my role at the beginning is to take the reins internally, not to jump on any soap boxes externally", he says.

Wrighton hopes Premier will continue to play its role in the community: he sees the company as having an interdependent relationship with the community, as well as with its customers, suppliers and shareholders.

He sees the relationship between company and employees as an interdependent one too — and it's clearly this more "unitarist" view that he hopes to promote within the organisation.

"We believe strongly in non-discrimination, justice and dignity for all our people, workers and management. In the polarised society in which we live it's not easy but we do spend three quarters of our waking hours at work so it's very important that we develop respect and care for each other in the organisation."

Labour relations are a priority — "I can think of nothing worse than being at war with my workers". And while he acknowledges the conflict he hopes for a co-operative relationship between union and management in terms of building the company. He adds: "The union also has a major responsibility in this regard which they must accept."

Premier does pay wages higher than those of its competitors — a policy which Bloom last year described as one aimed at building a long term relationship with the union. Wrighton argues, however, that in its core businesses Premier is now paying what he considers to be a decent living wage and economic realities have now got to be faced. "There is always going to be a debate as to the definition of a living wage — but that's natural and good."

He is more ambivalent about unions' political role: South Africa's labour relations are "bedevilled by the political situation", as he sees it. He

recognises that in the apartheid situation labour will use its power to harm industry in its attempt to bring about change in government. He argues workers must be careful not to destroy what gives them employment and an opportunity to improve their standards.

On political stayaways, for example, Wrighton says: "I sympathise and I can understand their frustrations and the need for solidarity but this particular tool has got to be used very cautiously."

In Wrighton's view, the labour relations Bill currently before parliament is not likely to facilitate good industrial relations, but he is hesitant about commenting on it before Premier has discussed the Bill with the trade union.

He comments thoughtfully too on the sanctions and disinvestment issue. He believes these measures are counterproductive but he does see an upside to it: sanctions have in some ways forced South Africa to discipline itself more than it otherwise would have, so it has not run up huge debts to the rest of the world as have other developing countries. "But in the long terms we are a capital consuming country because we are a developing country and we need foreign capital," he says.

He hopes also that South Africa will continue to be a country of free enterprise, although he believes the economic system of the future should draw on the best of both capitalism and "African socialism".

Wrighton is still thinking things out, easing into the position of chief executive of a group which has traditionally had a high liberal profile.

But on industry matters he speaks with authority and enthusiasm. He is particularly excited about Premier's new R55-million flour mill in Vereeniging, which had its official opening yesterday. "At a time when business confidence has been low, we have been investing," he says with pride.

ADMINISTRATIVE ASSISTANT

Mulderdrift Clinic, an independent Health Service, operating in a farming community, requires a Part-Time Administrative Assistant for its Johannesburg Office.

You should have:

- Experience in student organisations.
- Administrative and organisational skills.
- Valid driver's licence.
- Interest in progressive Primary Health Care Services.
- Work four-and-a-quarter hours per day, which must include 11.30am to 2pm. Salary: R430 to R660 per month to start immediately.

Please telephone Angela Vogel on 716-3571 (011) for further information

The Barend budget

● FROM page 15

of some detail of the proposed system which is to replace GST (general sales tax).

Since the introduction of GST in 1978 this source has provided an ever-increasing proportion of state revenue. When GST was introduced in 1978, it was estimated its contribution to government coffers would be around R1-billion each year. The figure for 1987 is more like R9,4-billion.

Inflation is another factor which will be affected by budget policy. Nampak's McCurton says while a deflationary budget is essential, the government will have to be careful not to take the steam out of the economy.

In spite of the complex problems facing budget decision makers, the government has for the first time recognised the problem of inflation and has announced it will privatise inefficient state operations — trends which appeal to most business people.

W/Princl
11-17/3/88

(49) W/Princl
11-17/3/88

SPENDING ON SCHOOLING SOARS BY 3 500 PERCENT IN 15 YEARS

By PUNDY PILLAY

GOVERNMENT spending on education has risen impressively, with a 40 percent increase in last year's budget and a further increase possible this year.

In fact educational spending has soared by 3 500 percent over the past 15 years.

But the vast increase in government spending on education and in the number of black children in school does not necessarily mean education problems are being solved. The products of the education system are not being any better educated. In fact the growth in expenditure and in enrolment ratios may have served to increase the educational disparity between those at the bottom of the educational ladder and those at the top.

The level of education of the adult population or the educational composition of the labour force are useful ways to measure progress towards equity in education.

State expenditure on black education has risen significantly, especially since the 1976 Soweto uprising.

Also, real current expenditure on African edu-

| | 1971-72 | 1976-77 | 1986-87 |
|----------|---------|---------|---------|
| AFRICAN | 25 | 49 | 395 |
| WHITE | 461 | 654 | 2746 |
| COLOURED | 94 | 158 | 1330 |
| INDIAN | 124 | 220 | 1952 |

SCHOOL ENROLMENT RATIOS

cation increased from R358-million in 1980/81 to R977-million in 1984/85 (excluding Transkei and Venda).

Moreover, per capita spending on African education increased eight-fold between 1976 and 1986 — admittedly from a low base — while white per capita expenditure rose four-fold during the same period.

Allied with these increases in expenditure have been similar dramatic increases in school enrolment ratios of all black students, but especially African students.

The school enrolment ratios (number of pupils expressed as a percentage of pupils of school-going age) have risen for all races, but for African students the increase is phenomenal: 83 percent.

While enrolment ratios measure the effort a country is making to alter the educational stock of its population, they may give a distorted picture when used to assess relative priorities for educational investment.

For example, they provide no information on the internal efficiency of the educational system,

or its capacity to retain and educate students effectively.

The educational attainment of the labour force gives a more accurate indication of the return on educational investment because it assesses the effective supply of human resources available for economic growth.

This can be expressed in two ways: (a) through the mean years of schooling; or (b) through the level of education on a scale of one to six — ranging from no schooling, incomplete primary, complete primary, incomplete secondary and complete secondary to higher education.

Using the first measure provides a 1985 mean year of schooling for the African economically-active population of 5,1 years; for coloureds 6,8; Indians 9,4; whites 11,8; and for the entire labour force 7,1.

The educational attainment of the labour force has not kept pace with enrolment, increasing at a rate of only 0,15 years per calendar year. And with a mean schooling of 5,1 years, the African labour force is, at best, semi-literate.

The picture is even starker when one looks at the median level of education, which remained unchanged at a scale rating of 2 (incomplete primary) for Africans and coloureds between 1970 and 1985; during the same period the median for whites rose from 4 (incomplete secondary) to 5 (complete secondary); for Indians the median went from 3 (complete primary) to 4.

In 1985 25 percent of the African labour force and 12 percent of the coloured force had no education at all; 43 percent of Africans and 39 percent of coloureds had incomplete primary education. The corresponding figures for whites were 0,5 percent and one percent.

11-17/3/88



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik **50c** Local
Buitelands 70c Other countries
Posvry • Post free

Vol. 273

KAAPSTAD, 11 MAART 1988
CAPE TOWN, 11 MARCH 1988

(49)

No. 11184

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 466.

11 Maart 1988

No. 466.

11 March 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 10 van 1988: Gedeeltelike Begrotingswet (Volksraad), 1988.

No. 10 of 1988: Part Appropriation Act (House of Assembly), 1988.

ACT

To appropriate an amount not exceeding R2 186 800 000 out of the State Revenue Fund for a part of the requirements of the Administration: House of Assembly for the financial year ending 31 March 1989.

(English text signed by the State President.)
(Assented to 4 March 1988.)

BE IT ENACTED by the State President and the House of Assembly of the Republic of South Africa, as follows:—

Appropriation of moneys for part of requirements of Administration: House of Assembly

- 5 1. Subject to the provisions of the second proviso to subsection (1) and of subsection (2) of section 4 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated out of the State Revenue Fund such amount not exceeding R2 186 800 000 as a charge against the Revenue Account: House of Assembly, as may be necessary for a part of the requirements of the Administration:
10 House of Assembly during the financial year ending 31 March 1989, until such time as provision has been made in an Appropriation Act for such requirements.

Short title

2. This Act shall be called the Part Appropriation Act (House of Assembly), 1988.



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik 50c Local
Buitelands 70c Other countries
Posvry • Post free

VOL. 273

(49)

KAAPSTAD, 11 MAART 1988
CAPE TOWN, 11 MARCH 1988

No. 11182

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 464.

11 Maart 1988

No. 464.

11 March 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 6 van 1988: Gedeeltelike Begrotingswet (Raad van Verteenwoordigers), 1988.

No. 6 of 1988: Part Appropriation Act (House of Representatives), 1988.

ACT

To appropriate an amount not exceeding R761 796 000 out of the State Revenue Fund for a part of the requirements of the Administration: House of Representatives for the financial year ending 31 March 1989.

(English text signed by the State President.)
(Assented to 4 March 1988.)

BE IT ENACTED by the State President and the House of Representatives of the Republic of South Africa, as follows:—

Appropriation of moneys for part of requirements of Administration: House of Representatives

5 1. Subject to the provisions of the second proviso to subsection (1) and of subsection (2) of section 4 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated out of the State Revenue Fund such an amount not exceeding R761 796 000 as a charge against the Revenue Account: House of Representatives, as may be necessary for a part of the requirements of the
10 Administration: House of Representatives during the financial year ending 31 March 1989, until such time as provision has been made in an Appropriation Act for such requirements.

Short title

2. This Act shall be called the Part Appropriation Act (House of Representatives),
15 1988.



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)

Plaaslik **50c** Local
Buitelands 70c Other countries
Posvry • Post free

Vol. 273

KAAPSTAD, 11 MAART 1988

CAPE TOWN, 11 MARCH 1988

(49)

No. 11183

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 465.

11 Maart 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 7 van 1988: Gedeeltelike Begrotingswet (Raad van Afgevaardigdes), 1988.

No. 465.

11 March 1988

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 7 of 1988: Part Appropriation Act (House of Delegates), 1988.

ACT

To appropriate an amount not exceeding R296 000 000 out of the State Revenue Fund for a part of the requirements of the Administration: House of Delegates for the financial year ending 31 March 1989.

*(Afrikaans text signed by the State President.)
(Assented to 4 March 1988.)*

BE IT ENACTED by the State President and the House of Delegates of the Republic of South Africa, as follows:—

Appropriation of moneys for part of requirements of Administration: House of Delegates

- 5 1. Subject to the provisions of the second proviso to subsection (1) and of subsection (2) of section 4 of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there is hereby appropriated out of the State Revenue Fund such an amount not exceeding R296 000 000 as a charge against the Revenue Account: House of Delegates as may be necessary for a part of the requirements of the Administration:
10 House of Delegates during the financial year ending 31 March 1989, until such time as provision has been made in an Appropriation Act for such requirements.

Short title

2. This Act shall be called the Part Appropriation Act (House of Delegates), 1988.

Reserve

Bank

49

action

has come not a moment too soon

MONEY MATTERS

by Magnus Heystek



The Reserve Bank's decision to increase bank rate by one percent to 10,5 percent comes not a moment too soon. This is the rate at which the Reserve Bank — the lender of last resort — lends money to financial institutions to balance their books and is an important instrument in monetary policy.

The dearer cost of money will have to be passed on to the general money-lending public, as witnessed by the increase in prime overdraft and mortgage bond rates this week.

At the same time, the decision to increase bank rate signalled a definite shift in monetary policy by the Reserve Bank. For three years the bank has been trying its utmost to get South Africans to increase their lending and spending so as to increase economic growth.

Uplift indicated

After several "false starts", the economy is now well on the growth path, with economists expecting a further real growth rate of 3 percent for 1988. Several leading economic indicators point to an uplift in economic activity.

Demand for bank credit has risen sharply, the growth in money supply has rocketed, the property market is booming and vehicle sales are set to increase even further, despite stock shortages.

But why should the Reserve Bank be worried by all this? Wasn't it trying to achieve exactly that?

Indeed it was, but there have been signs of the economy overheating in recent months. This called for prudent action, which, some economists say, might have even been a little late in coming.

What is exactly meant by overheating of an economy? It simply means a country is living well beyond its means, consuming more than it earns. The indicator of this state of affairs is the current account of the balance of payments (BOP).

During the mini-boom of 1983/84 — which many analysts said was politically inspired in time for the referendum — South Africa's BOP turned sharply negative.

All would have been well if this deficit could have been financed by an inflow of capital from abroad, a normal occurrence for any developing country. But the rules were drastically changed when South Africa found its supply of international capital cut by politics.

For the last three years South Africa enjoyed a BOP surplus due to the weak internal economy, a drop in the rand, which increased export earnings, and a rising gold price.

Import surge

But in recent months imports have surged considerably, the gold price has come down by more than \$60 an ounce while export performance is sluggish.

The result has been a steady decline in the BOP surplus.

As PFP finance spokesman Mr Harry Schwarz pointed out this week, the South African economy is now held prisoner by the BOP. South Africa cannot afford to run a deficit on this account any more.

The implications is that internal economic activity will be dictated by the state of the BOP. This automatically puts a ceiling on growth rate potential. Three percent growth is about the most we can afford.

● Letters should be addressed to MONEY MATTERS, PO Box 1014, Johannesburg 2000. Subject matter of the letters should please be restricted to questions of personal finance.

AHI fears a fizzle ⁽⁴⁹⁾

THE Afrikaanse Handelsinstituut (AHI) is worried that the economic upturn might fizzle out by the end of this year. It believes any further economic curbs in addition to President Botha's anti-inflationary programme should be avoided.

AHI president Pierre Steyn says the upturn is fundamentally based on increased consumer spending. But in-

By Udo Rypstra

creases in exports and the gold price cannot be relied on as a base for the spending spree.

The AHI says it is necessary to isolate the balance of payments from international factors, such as slower growth rates in other countries and the gold price — otherwise "the upswing will have to be smothered soon".

VS JT 13/3/88

SA facing a financial squeeze

1760's
14/3/82
49

From CHRISTOPHER WILSON

JOHANNESBURG. — Buffeted by sanctions and a falling gold price, South Africa faces a financial squeeze that could threaten its ability to keep up heavy repayments of foreign debt.

In the past three years, Pretoria has used the surplus on its balance of payments current account to repay about five billion dollars in foreign debt. But in January the account swung into deficit.

The unexpected deficit, the first since 1984, surfaced in customs and excise figures disclosed last week, sending an early warning signal to international creditor banks.

Trade has been hit by a 40 percent drop in South Africa's exports to the United States in the first nine months of 1987 under the impact of sanctions.

"I wouldn't say there's a need to panic about debt payments, but there is certainly a need for caution," said Mike Brown, an economist at stock-brokers Davis, Borkum, Hare Inc.

Austere

In the run-up to the Budget, to be presented to Parliament on Wednesday, the shrinking balance of payments poses a dilemma for Finance Minister Barend du Plessis.

More austere economic policies run the risk of aborting a tentative revival in the economy and alienating white voters.

South Africa has been forced to curb domestic growth in favour of a current account surplus since 1985 when international banks, alarmed by

insurrection in black townships, refused to roll over loans, prompting Pretoria to impose exchange controls and declare a moratorium on the repayment of foreign capital.

Prospects seem even rockier if the gold price falls further.

South Africa produces 20 million ounces of gold annually and every 10-dollar fall in the bullion price wipes about 200 million dollars off the balance of payments.

"The January (deficit) figures are not the end of the world, but they do emphasise how quickly the current account can move from a surplus to a deficit," said Brown.

According to Government estimates, the current account deficit was 50 million dollars in January when the gold price was hovering around 480 dollars an ounce. The price has since sunk to around 440 dollars.

"It's certainly not unexpected that the current account should get smaller this year, but our debt repayment commitments are also much smaller this year," said Mr Chris Stals, director-general of finance and head of Pretoria's foreign debt negotiating team.

"I've had absolutely no indication from the creditor banks that they are worried about the situation."

South Africa has reduced its foreign debt to an estimated 21 billion dollars but will have to run surpluses until mid-1990 to meet its repayment commitments. Repayments totalling about one billion dollars fall due this year. — Sapa-Reuter.

1 0 0 0 1 . . . 0 1 . . .

Minister faces difficult 'balancing-act' budget

By Magnus Heystek
Finance Editor

The Minister of Finance Mr Barend du Plessis will in all probability unveil a "balancing-act Budget" when he addresses Parliament on Wednesday afternoon.

In contrast with three previous Budgets the economic upswing is now well under way and economists and analysts are expecting an important shift in monetary and fiscal policy in Wednesday's budget.

This much was evident in a speech by Dr Gerhard de Kock, Governor of the Reserve Bank, when he announced an increase of one percent in the Bank rate less than a week ago.

He said: "While the increase in the Bank rate is partly a technical adjustment to recent money market developments, it does signify the adoption of a less accommodative monetary policy stance. The increase in the Bank rate is both a consequence and an integral part of this less accommodative monetary strategy."

Taxation

This set the tone for this week's Budget, which will also be accompanied by the release of the Government's White Paper on the proposals made by the Margo Commission on Taxation.

This fact in itself, coupled with the statements by Government spokesmen that proposals of Margo could not be imple-

mented until next year's Budget, rule out drastic fiscal changes.

That the economy is now motoring under its own steam is evident from a host of economic data released recent weeks: passenger vehicle sales are up 24 percent in the first two months of the year compared with the same period last year, January wholesale figures are up 19 percent, the gross domestic product during the fourth quarter of last year grew at an annualised rate of 5 percent compared with the same quarter in 1986, to mention just a few.

The sudden upswing in domestic economic activity has already prompted some economists to sound a note of warning on the possible overheating of the economy, pointing at the sharp increase in the demand for credit which has resulted in the M3 money supply overshooting the 16-20 percent target range in November and December.

The dangers of the South African economy overheating in the present international political climate bear stressing. Import volumes rose by 30 percent on an annualised basis during the fourth quarter of last year, a factor which has contributed largely to the declining surplus on the current account of the balance of payments.

The sharp drop in the gold price from its high of over \$500 an ounce in January to recent lows of around \$425 an ounce, was another timely warning of

the vulnerability of the country's external trade account.

Mr Du Plessis and his team of forecasters will have to take cognisance of the current uncertainties prevailing on the international oil market. Some forecasters are expecting the oil price to drop even further, some say to as low as \$9 a barrel. This will put further downward pressure on gold, which contributes more than 40 percent of foreign exchange earnings.

Pressure

While the direct income to the exchequer from the gold mining industry has declined in recent years, it is still a major contributor. Any sharp fall in the gold price, if not accompanied by a similar fall in the rand exchange rate, will put state income under severe pressure.

In last year's main Budget it was expected that Government expenditure would increase by 16,2 percent to R46,868 billion in the 1987/88 fiscal year.

After rising sharply during the first number of months of the financial year, government spending has in fact levelled out and most economists are now predicting overspending of barely 2 percent.

This should place government spending at around R48 billion for the year, which also automatically provides the bases for forecasts for the current financial year.

If recent comments by various spokesmen, including the

Minister himself, are anything to go by, government spending as a ratio of gross domestic product is set to decline in the current fiscal year.

Assuming a built-in inflation rate of 15 percent and assuming no real increase in government spending this year, total budgeted expenditure could be around \$56 billion.

Important to the markets is the size of the budget deficit before borrowings. In recent years the budget deficit as a percentage of GDP has risen sharply (to more than 6 percent in last year's budget), but it is known that the government would like to bring this figure down.

Under present healthier economic conditions, with an expected sharp increase in taxation from companies individuals and general sales tax, the deficit is likely to be much smaller, probably closer to 4 percent.

Once again expenditure on education is bound to take up the largest slice of expenditure (R9,1 billion in last year's Budget) but a sharp increase in defence expenditure can be expected considering the extent and duration of South Africa's war in Angola. In last year's Budget defence spending amounted to R6,6 billion, a rise of 30 percent, and a further sharp rise is forecast on Wednesday.

● The Star will provide detailed coverage of the Budget speech in its City Late Edition on Wednesday afternoon.

D/D 15/3/88

Budget hopes washed away?

49

CAPE TOWN — Tomorrow's Budget may lessen the tax burden of the man in the street by doing away with fiscal drag — which erodes the effect of pay increases by pushing people up into higher tax brackets fixed at a time when their money was worth more.

This is the opinion of some economists who say that, although a stimulatory Budget is not to be expected, the government cannot allow the economic upturn to collapse through a lack of consumer confidence.

But others, pointing out that the Minister of Finance, Mr Barend du Plessis, has very little scope for cuts, suggest that the bill for flood damage means that any hope of worthwhile concessions has been washed away.

Assocom says in its magazine, Review, that stimulus to the economy

has to come from private sector demand and not from government spending. A "boom-and bust" syndrome must be avoided at all costs.

A Budget designed to overstimulate the present upturn could threaten the balance of payments at a time when South Africa could not fall back on the International Monetary Fund for aid, Assocom said.

The Budget would not be credible unless the minister was seen to be reining-in the public sector's insatiable demands on national resources. The wage restraint, while providing some breathing space, had to be regarded as a temporary measure.

"What will the minister produce: a bold forward-looking Budget which gives the country a lead, or a colourless document filled with good intentions but not goals?" Assocom asked.

DDC

49 B/dwy
16/3/88

Floods will raise long-term costs

Industry warns of disruption in road transport

WITH road and rail links severed in many areas of the northern Cape and Free State, massive disruptions could be expected in the transport industry, informed sources said yesterday.

Worst hit has been the road transport sector with trucks stranded in flood-devastated regions after roads and bridges were wiped out. There have been delays in the delivery of fresh produce, with reports of some market shortages being experienced.

A road transport industry spokesman said even before the floods, SA's fleets had been stretched beyond capacity because of the economic upswing.

"The drastic depletion of the national fleet during the recessionary years between 1983 and 1985 has created a critical shortage of heavy moving equipment and general road transport. The floods have compounded these problems," said Natro CE Ian Lockett.

Another source said the impact would be felt not only in shortages and delays, but also in the long term by increases in transport rates.

A Sats spokesman said yesterday many rail lines in rural districts were still closed.

MICK COLLINS

"We don't know how long it will take to get these branch lines open again. Many are still under water. However, all main lines, with the exception of the Cape Town/Durban line, are back to normal. For the moment trains from Cape Town to Durban, which normally go via Bloemfontein, are being routed on the Kroonstad line."

The following main roads were still closed because of flood damage: Bloemfontein/Jaggersfontein, the road between Reitz and Bethlehem, Bultfontein/Reitz, Bultfontein/Kestell, the road between Kimberley and Douglas, the road between Golden Gate and Qua-Qua, and the road between Kimberley/Modder River/Cape Town which is closed between Bloemhof and Christiana.

Motorists travelling north from Bloemfontein to Johannesburg must travel via Winburg, Senekal, Steynsrus, Kroonstad and Parys. The recommended route from Bethlehem to Natal was via Kransfontein, Afrikaskop and Harri-smith.

Drivers of heavy vehicles travelling between Pretoria and Bloemfontein were advised to use the route via Kroonstad, Steynsrus, Senekal and Winburg.

1 1

A SENIOR police officer

Call for supremo to manage SA economy



Dr du Plessis

By TOM HOOD
Business Editor

A NEW call for an economic supremo to manage the country's economic strategy and reform was made today by Dr Fred du Plessis, chairman of Sanlam.

He urged the appointment of a "managing director of South Africa Incorporated" responsible to the President, something advocated by his predecessor, Dr Andreas Wassenaar, two years ago.

"It is doubtful whether a Minister would be able to assume the burden of this difficult task in addition to his departmental duties," said Dr du Plessis in his chairman's address at Sanlam's 69th annual meeting in Bellville.

"Expecting this of him would be just as questionable as entrusting the strategic management of an enterprise to the financial, marketing, production or manpower director."

TAXATION

Dr du Plessis said the post of managing director of South Africa Incorporated was vacant — "it has not yet been created".

He said: "A number of undesirable trends have had the chance to develop in our economy in the last decade.

"The share of the public sector in the economy has grown too strongly, the taxation system has inhibited productive private initiative, personal savings have dropped too far, too little fixed investment has occurred, a spiral of increasing inflation and a depreciating rand have developed, South Africa's import propensity has increased."

He said new industrialising countries which had decided to manage their economies properly had worked wonders.

Just as the Government deemed it necessary to dispense with the normal system

of maintaining law and order and had declared a state of emergency to be able to act more effectively, so it was necessary for the South African economy to be managed through its crisis, he said.

Economic survival must be pursued systematically with determination and resourcefulness.

"We will have to manage our economic strategy. This does not mean a central plan that everyone has to follow, nor that private initiative should be kept in check.

"It simply means that entrepreneurs should be encouraged to develop in a direction that will ensure the maximum growth potential."

Management meant much more than following ad hoc plans of action.

"It is essential that someone be made directly responsible for the systematic pursuit of specific goals in a way that is adapted continually to suit changing circumstances," he said.

In 1979 the Government had accepted a new policy approach propagated by the Governor of the Reserve Bank, Dr Gerhard de Kock, after an unacceptably poor performance of the economy in the second half of the seventies.

But this decade had almost passed and "up to now the results have been much worse than they were in the seventies".

Gold up at \$446,0

Business Staff

GOLD traded at \$446 an ounce in London today, up from yesterday's \$442,25 London close.

The rand traded at R2,1360 (\$0,4681) to the dollar in Johannesburg today, little changed from yesterday's R2,1365 (\$0,4680) close.

● See Page 15.

VIP 16/3/88

Tax relief: ~~the~~ Barend's (49) hands tied?

CAPE TOWN — Financial experts from around the country were gathering here yesterday for today's Budget which could be one of the most momentous in years.

The Minister of Finance, Mr Barend du Plessis, will finally reveal the government's long-awaited reaction to the Margo Commission's proposals on sweeping tax reforms which it is hoped will spread the tax burden on a more equitable basis.

The Budget will be substantially framed around the changes the government hopes to implement.

It was suggested in political circles yesterday that the Budget would have to be seen as a "holding" operation and in the context of the changes which will have to be made over a few years.

It is highly unlikely that Mr Du Plessis will be able to make any major tax concessions today because his hands are tied by a cash flow problem, which could be further aggravated by the transition to the new tax system, a lack of foreign investment and huge flood relief problems.

However, it is generally expected that there will be some tax relief by an upward adjustment of tax brackets to ameliorate fiscal drag. — DDC.



At the East London Chamber of Commerce annual meeting last night were newly elected members of the executive council with guest speaker, Mr Gabriel Mokgoko, and the new president, Mr Errol Spring. From left: Mr G. Bassingthwaite, Mr K. Levey, Mr P. Hill, Mr Mokgoko, Mr Spring, Mr R. Bridger, Mr M. Williams and Mr E Tiltman.

DIP 16/3/88

Recovery not yet felt in EL says Spring

EAST LONDON — Businessmen here were still punch drunk and perhaps a bit poorer after the recession, the newly elected president of the East London Chamber of Commerce, Mr Errol Spring, said.

"The effects of the recovery have not yet reached. East London properly and I predict the year ahead will not be easy," he said.

He said South Africa was going through a difficult period and that economic stability and development depended on the maintenance of law and order and a climate of peace.

"It must prevail to enable the entrepreneur to operate and contribute to the creation and wealth to enable us to live in the type of society which our birthright entitles us to.

"The chamber has structured itself to contribute to the economy."

Replying to the national co-ordinator of Nafcoc, Mr Gabriel Mokgoko, Mr Spring said blacks would have to be incorporated into the economy if the free enterprise system was to survive.

Earlier the outgoing president, Mr Nico Cloete, appealed to businessmen among all races to join hands and contribute to the solution of the country's economic problems.

"The East London Chamber of Commerce is colour blind and I believe there are too many separate commercial bodies which could have been talking with one voice.

"We are still divided by historic prejudices. We are still confusing economics with politics. While I realise there are cultural differences and different religious and language groups, I believe we can still come

together and work together.

"This has been proven locally where we have the CSI (Chamber of Commerce, Sakekamer and Chamber of Industries) which works for the common good of all.

Earlier in his presidential report, he said the delay in the upliftment of the region, although it was largely political, "can also be laid at our feet".

"Government can create the correct atmosphere but we must take the initiative. Too long have we sat back and concerned ourselves with our own affairs and ignored our social responsibilities.

"How many of our members have encouraged equity participation in our businesses with potential shareholders of other races?"

"Who has considered offering shares to deserving members of our senior black staff? Only when we can restore mutual trust can we make meaningful progress. It is imperative that we prove our bona fides to share with all members of our society."

Mr Cloete said the chamber had come to serve all sectors of the economy and urged "the non-traditional chamber sectors to consider joining our team".



The outgoing president of the East London Chamber of Commerce, Mr Nico Cloete (left) congratulates his successor, Mr Errol Spring, after his election last night.

(49) ~~49~~ SMM 16/3/88

'Economic constraints must be dropped'

Govt urged to let blacks compete

By Esmaré van der Merwe

All statutory constraints on blacks should be removed to ensure a strong economy which was essential for constitutional reform, Mr Len Abrahamse, president of the South Africa Foundation, said today.

Only through meaningful participation in competitive enterprise would blacks make a contribution to the economy and take their rightful place in the South African society.

Addressing the 28th annual meeting of the foundation, Mr Abrahamse said South Africa would be re-accepted by the Western world only if "whites are able to bring along a responsible cross-section of fellow black South Africans".

Competitive economy

However, black business had been preoccupied with the problem of coping with discriminatory and pervasive limitations. They could thus not participate in transforming the almost semi-socialist economic system into a competitive economy.

"The greater the degree of freedom and the less the level of Government control the greater the capacity to create wealth," he said.

"No economy can be free if the majority is not able to participate at every level and to enjoy the benefits of that participation. If we equivocate on this, then we undermine the possibility that economic growth provides the path to a more just society in South Africa," he said.

Some 80 percent of South Africans were prevented from freely competing in the economy. Apartheid had distorted the free enterprise system.

Many blacks associated apartheid with capitalism. However, apartheid was best cured by economic growth which was best promoted by the free enterprise system.

Mr Abrahamse welcomed the Government's new commitment to privatisation and deregulation.

The Government should cease to "pay lip-service to a market-orientated economy" and give it "energetic forthright impetus", he said.

19
6/20/88
17/3/88



**BUDGET
1988**

R353m to aid conditions in public sector

Political Staff

DESPITE the wage and salary freeze in the public service an amount of R353m has still been allocated for improvements in the conditions of service for the 1988/89 financial year.

A memorandum submitted by the Ministry in the State President's Office entrusted with Administration and Broadcasting Services says the amount has been made available for the improvement of the service benefits package.

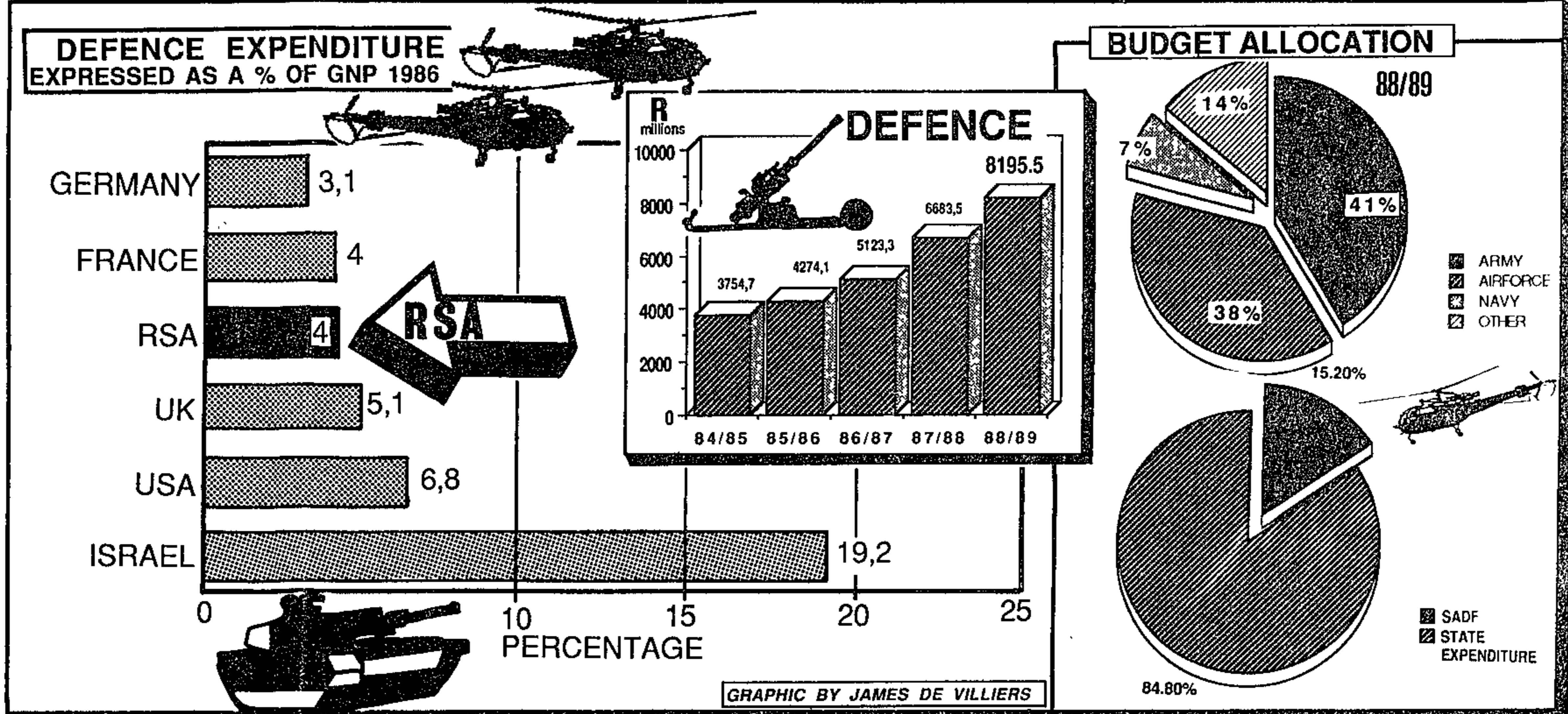
The memorandum says R135m will be used for the further elimination of salary disparities between the various population groups and R218m for the revision of "occupational-specific" dispensations and the adjustment of general service conditions.

It says it is essential for "dynamic and efficient administration" that the state be moderately competitive in the open labour market.

Against this background government has adopted a remuneration policy in terms of which service conditions in the public service will allow for moderate market competitiveness.

"This implies that improvements to service dispensations be brought about on a continuous and orderly basis by way of general salary adjustments, specific occupational adjustments and the improvement of general service conditions.

The amount allocated for the 1988/9 financial year is about one-third of that budgeted for last year.



Prof says of R8,1-bn defence allocation:

'Angolan war real reason for increase'

By Craig Kotze

South Africa's involvement in Angola and its aid to Unita are major reasons for this year's 22,6 percent jump to more than R8,1 billion in defence spending, says Professor Mike Hough, strategic studies expert at the University of Pretoria.

Responding to Finance Minister Barend du Plessis' Budget speech, Professor Hough said yesterday that South Africa was sending some of the most sophisticated military hardware "outside of the Soviet Union" into Angola.

NEW MILITARY SYSTEMS

Other factors that had played a role in the increase in defence spending were the introduction of new military systems, such as the conversion of Mirage 3 fighter planes to the more modern Cheetah and the development of helicopter prototypes.

The navy had also built a new replenishment vessel, the SAS Drakensberg.

Inflation was also a contributing factor.

Professor Hough said the military's involvement in South Africa's townships played only a "peripheral role" in increased spending.

"The townships might contribute, but Angola is the real reason," he said.

On the allocation of 38 percent of the defence budget to the air force — only 3 percent less than the army — Professor Hough said one of the major factors was the air threat from Angola and the expensive technology involved.

However, he said the military's share of total government spending remained the same.

Mr du Plessis announced yesterday that 15,2 percent of the record R53 billion Budget would be spent on defence.

Professor Hough said: "In terms of last year, the spending is significant but in terms of the percentage of the total Budget, it remains much the same."

But he cautioned that national security was larger than just the military aspect — it also involved socio-economic issues such as education and housing.

"It is important to develop the welfare leg of national security," Professor Hough said.



Every time you buy a beer... a third pays duty

By Sven Forssman

South African Breweries slammed the increase in customs and excise duties on beer.

Duty on all beer — locally produced or imported but excluding sorghum beer — goes up by about 1,9 cents a 375 ml bottle or 4,8 cents a litre.

"Beer is the working man's pleasure, but it is the most heavily taxed beverage," Mr Graham MacKay, managing director of SAB's beer division, said yesterday.

"But we'll only pass on to the consumer the amount of the new excise and not any additional amounts to recover costs."

"That means that 33 percent of the price of beer is now composed of Government excise duty," he said.

"The Minister's reason for the increase was that the excise duty on beer had not been increased for some time. But, if he

was consistent he would have put some excise on wine and sorghum beer which have carried no excise burden for some years."

Duty on whisky, brandy and gin goes up by about 1,8 cents a tot.

Mr Jacque Kempen, a director of Benny Goldberg's, said beer had again been singled out.

"This means the price of beer will be increased for the second time in two weeks," he said.

He added: "This is the third price increase on whisky in a month. It's going to put a lot of pressure on whisky sales."

"The increases should also result in a growth in the sale of wines."

Mrs Isabelle da Rocha of Liquorama said the customs and excise duties on beer and spirits were "shocking".

"People are counting their pennies these days," she said. "This will have an adverse affect on sales."

Govt's aims are wrong, says Cosatu

Labour Reporter

South Africa's biggest worker federation says the Government's Budget shows a lack of commitment to meeting the socio-economic needs of most South Africans and an intention to continue with political repression.

The Congress of SA Trade Unions (Cosatu) says the Budget reflects the Government's incorrect priorities and lack of commitment to meeting the socio-economic needs of the majority of South Africa's people.

"Once again the economy is being subjected to military objectives which are wasting the resources that should ideally go to development."

Cosatu says the increase in the money allocated for job creation and training is "negligible", given that the Government has recently adopted a set of economic measures which will result in the loss of jobs.

Bond scheme 'will keep wolf from door'

By Janine Simon

Aside from announcing a new-deal "granny bond" scheme and a total R110 million one-off bonus for all social pensioners, yesterday's budget contained little of direct importance for the almost one million aged and disabled who survive on State pensions.

Representatives of organisations for the aged and disabled expressed concern that nothing was said about social pension increases and that this could mean no adjustments were to be made this year.

Mr Syd Eckley, director of the South African National Council for the Aged, and Dr William Rowland, chairman of Disabled People South Africa, called on relevant own affairs authorities to clarify the situation.

Regarding the social pension bonus, Dr Rowland said the fragmentation of pension authorities made it difficult to

deduce what this meant to each of the 992 790 social pensioners. He feared the Minister was working backwards by allocating a ceiling figure, rather than budgeting according to need, he said.

The new granny bond system — in the form of a 15 percent interest State-subsidised savings scheme for senior citizens — was welcomed by Mr Eckley as an attempt to keep the inflation wolf from the door.

The restructuring followed the council's requests to lower the R200 000 maximum and dispense with the R500 minimum amounts stipulated in last year's disastrous attempt at the scheme, he said.

Mr Eckley also said the move to privatise the venture with the State subsidising existing Post Office, bank and building society pensioner schemes, was good and less likely to disturb financial markets.

Tax 'a step in the right direction'

By Marika Sboros and Sian Blackburn

The "new deal" for married working women in yesterday's Budget has been welcomed as a "step in the right direction" despite disappointment at no separate taxation.

The "new deal", in effect, would benefit 83 percent of South Africa's married working women, said economist and president of the Johannesburg region of the Women's Bureau, Mrs Paula Huysamer.

Government statistics had found that this group of women earned less than R20 000 a year. Yesterday's Budget announcement meant that the tax liability of these women would be determined by deductions in accordance with the PAYE system, and they would no longer have to submit tax returns.

Married women earning more than R20 000 could still utilise the tax concession of 22,5 percent on their salary, she said.

'Too little emphasis on black education'

By Zenaide Vendeiro

The small increase in spending on black education announced in the Budget raised serious questions about the Government's commitment to equalising education, educationists said.

It was the first time in a decade that the percentage increase for black education was not higher than for the total Budget. It was also the lowest increase in at least 10 years.

Mr Roger Burrows, PFP spokesman on national education, said it was to be regretted that South Africa's first line of defence — education — had not been well handled by the Government.

He said State spending on education had increased by an overall 15 percent from R8,6 billion to R9,9 billion, an increase well below the 22 percent allo-

cated to Defence.

Mr Ken Andrew, PFP spokesman on black education, said the small increase reflected the lower priority that black education was now being given by the Government.

"For years the Government has claimed that the shortage of skilled teachers rather than a shortage of funds has been the main stumbling block in improving standards in black schools. This is clearly no longer so and the backlogs in black education are going to increase," he said.

Prominent educationist Dr Ken Hartshorne said he could not comment fully on the black education budget until details of the vote were announced but said that on the face of it, the increase was "tremendously low".

He noted that the increase was below the inflation rate and said it was difficult to see education being equalised, as promised.

Ms Judith Hawarden of the Black Sash Education Committee said she deplored the minimal increase. But the Black Sash believed increases in spending would, in any case, have no effect on a "rotten system".

Big rise in money for protection

By Esmaré van der Merwe

Sharp increases in spending on protection services, contrasted with smaller increases on social services such as education and housing, were the main feature of yesterday's Budget.

Expenditure on defence, police and prisons totalled R10 620,8 million — a 22 percent increase.

Of these, prison spending showed the biggest increase of 28,8 percent to R630,4 million, followed by defence (22,6 percent to R8 195,5 million) and police (17,3 percent to R1 794,9 million).

By contrast, overall expenditure on social services — including education, health and housing — increased by only 12 percent to R19,7 billion.

The national health budget went up by only 2,9 percent to R2 273,2 million, although population development is one of the Government's highest priorities aimed mainly at reducing the high black population growth rate.

Critical reaction by other parties

Political Staff

CAPE TOWN — The Budget was greeted with little enthusiasm by the various parliamentary parties and there was sharp criticism that it contained little to help the lower income groups, the poor and social pensioners.

Opposition finance spokesman Mr Cas Uys said that, in spite of the approximately R60 one-off payment social pensioners would receive in October, they would be worse off this year than before.

Mr Harry Schwarz, PFP finance spokesman, describing the Budget as cautious and unexciting, said it contained little for the lower income groups and the poor.

"It demonstrates that any upswing in the economy is likely to be of short duration and not very substantial," he said. "The chances of a boom are minimal."

NET INCREASE

Mr Uys said the budget contained marginal tax reductions but, at the end of the day, there would be a net increase in taxation.

It was difficult to say whether personal tax would go up or down, he said.

"It's not a budget for growth and it doesn't do much to act against inflation"

Labour Party finance spokesman Mr J Douw also criticised the Budget's lack of imagination.

He warned that while the government's fight against inflation might well combat price increases, there was the very real danger that economic growth might simultaneously be retarded.

Leader of the National Democratic Movement Mr Wynand Malan saw the marginal decrease in personal income tax as part of a "big bluff" and an attempt to create the impression that the economy was improving when it was not.

NOW! Drive in with Confidence.

If your fuel injection system needs attention, have it set and tuned by us. Our specialists have been professionally trained in the delicate art of fuel injection inspection and quality service.

MY BOSCH SPECIAL
WE SPECIALISE IN RECONDITIONING ALL TYPES OF DIESEL FUEL INJECTORS AND TURBO CHARGES

D.P.A. Diesel
14 Hans Pirow Street, Selby
BOOYSENS 2091.
Tel. 493-6046



We Care for Your Vehicle

EVER since President Botha's recently announced economic reforms and Governor of the Reserve Bank, Gerhard de Kock's statements concerning interest rates and money supply targets, fiscal and monetary policy in South Africa have come under renewed scrutiny of public opinion.

In order to understand the recent policy initiatives, it is essential to grasp the economic priorities of the government and the parameters in which it must operate to achieve its goals.

While a high level of economic growth and full employment are generally desirable from an economic, social and political standpoint, inflation and balance of payment pressures tend to limit the extent to which the South African economy can afford to grow.

The main short-term priorities of the authorities seem to be to manage the growing economic and political isolation South Africa is facing.

The most obvious illustration of their concern in this matter manifests itself in current account (exports minus imports) pressures.

It is only through having a current account surplus that the country can continue repaying foreign debts without dipping into foreign reserves or forcing the

The policy objectives, both fiscal and monetary, may in a nutshell be said to aim at slowing down growth. The authorities have expressed their satisfaction with a 3% growth rate and are prepared to forgo a higher growth rate for these reasons.

SA's FISCAL POLICY UNDER SCRUTINY

Sowetan 17/3/88

49

balance of payments on new infusions of foreign loan capital, which are unlikely to be forthcoming in any event.

Domestically, economic growth remains a top priority to the extent that it can be afforded. A fast growing economy which is usually accompanied by a surge in demand for imports is not desirable as it will put undue pressure on the current account.

Deficit

With lower gold and other export earnings, and the relatively higher price of imports due to a lower rand, maintaining a surplus on the balance of payments has the potential to impose a severe constraint on growth.

The economy grew at a 5% rate during the fourth quarter of 1987. Imports are increasing at a rate of around 12%, whereas exports have a 3% growth rate.

Overheating in the South African economy is thus taking on a new dimension as the economic upswing will not be allowed to force the current account into deficit at any cost.

Another important policy objective is to bring down inflation to the extent that the cyclical realities make it possible. A lower inflation rate will contribute to making our exports relatively more competitive as well as being politically attractive.

The authorities have adopted an eclectic mix of fiscal and monetary policy in an effort to achieve the above objectives.

Fiscal policy may be defined as the use (by the central authorities) of government expenditure and revenue (taxes) in an effort to influence the flow of income or economic activity in an economy.

Revenue

When the revenue exceeds the expenditure, a budget surplus results, when the revenue falls short of the expenditure, a budget deficit results.

This deficit may be financed by taxes and/or by government borrowing from the central bank, commercial banks or the private sector.

Government expenditure has increased at an alarming rate over the past decade. The recessionary environment in South Africa prior to the upturn in the economy some 19 months ago, made increasing taxes an unviable option to finance the budget deficit. Borrowing from

abroad has become exceedingly difficult due largely to political factors. This left the option of issuing Treasury bills and bonds locally in an effort to finance the growing budget deficit.

During the first 10 months of the 1987/88 financial year, government spending rose by 21.1% while revenue increased by only 12.2% compared to the same period of the previous year.

Tax

The deficit as a percentage of GDP, which was budgeted at 4.8% for this period, as opposed to 4.2% last period, will probably have to be revised upwards to around 5.7% this year.

President Botha, in his recently announced economic measures, promised a cut down of unnecessary government expenditure where possible and a real cut of all public sector salaries.

On the revenue side, the controversial Value Added Tax is to be introduced and is expected to broaden the tax base as well as lessen tax evasion.

Fiscal policy, however, by its very nature is discretionary and it is unlikely that any noticeable reduction in government expenditure will take place this year.

On the contrary, the government's commitment to certain reform

processes and a widening of the economic base in some respects as well as its responsibility to defence will disallow a reduction in expenditure.

Moreover, the strong government deficit spending has been the main engine behind the domestic recovery, particularly in sustaining the momentum in the consumer sectors and it is unlikely that the government will substantially reverse this trend in its spending.

Monetary policy, which may be defined as the attempt to influence the economy by way of the supply of money and the terms and availability of credit, has also undergone some recent changes which are consistent with the authorities overall economic goals.

Earlier this year the prime interest rate rose to 13% after having set at 12.5% for an entire year. This was the first indication by the Reserve Bank that a gradual return towards positive interest rates is desirable in the long term. Prime was again raised to 14 percent on March 11.

This was a further indication that the economic growth in the economy is at a stage now where it can weather slightly higher interest rates without substantially jeopardising growth.

The desire of the authorities to temper economic growth is also

bound up in their flexible attitude to raising interest rates, something they were extremely reluctant to do when the economy was battling to take off.

The increase in the money supply, particularly since September last year, bears testimony to the fast pace of economic growth. The Reserve Bank, in an effort to curb inflation while promoting economic growth, has lowered the money supply target growth for the year.

This attempt to reduce inflation is in line with the fiscal policy measures announced earlier by the President with respect to lowering wage increases and expenditure.

Curb

The growth momentum, in the economy is strong and as such should not be underestimated with respect to a rising rate of inflation which may accompany it at a later stage should the money supply increase too fast.

The Reserve Bank is thus not prepared to continue pumping credit into the money market to keep interest rates low. Higher interest rates will be tolerated if the authorities deem it necessary to slow down economic growth for the balance of payments reasons mentioned earlier or to curb money supply growth in an endeavour to control inflation.

Drinkers, smokers to whine — wives, pensioners smile

By David Braun
Political
Correspondent

PARLIAMENT — Modest tax relief for most taxpayers but more expensive beer, spirits and cigarettes are the major components in yesterday's Budget speech.

The record R53 billion Budget contained a comprehensive reform of the taxation system — reducing tax rates, scrapping or drastically amending various rebates, and introducing a better deal for most working wives.

Bonus

Highlights of Finance Minister Barend du Plessis' 1988/89 Budget are:

- Duty on local and imported beer, but not sorghum beer, is up by 1,9c a 375 ml bottle, or 4,8c a litre.
- Duty on spirits such as whisky, brandy and gin is up by 1,8c a tot.
- Duty on cigarettes is up by 2c for 10 and on cigarette tobacco by 2c for 50g.
- Social pensioners are to get an extra once-off bonus this year, costing the Exchequer an additional R110 million.
- A new form of "granny bonds" is to be introduced — narrowly limited to people older than 65 who invest a maximum of R30 000 for three years. The fully taxable interest on these savings will be 15 percent in the first year.
- A new system of minimum tax for companies is proposed, whereby companies will be obliged to pay, according to a formula, one-quarter of so much of the dividends



they declare which exceed the sum of normal tax paid for that year and the quantum of dividends received or accruing to it in that year.

● The taxable portion of investment income earned by long-term insurers is to be raised from 40 percent to 70 percent.

Abolished

- Tax on debit entries is to be extended to transmission accounts with building societies and to telebank facilities with the Post Office
- Non-residents' tax on interest is abolished from today.

Mr du Plessis told a joint sitting of the three Houses of Parliament that the Government placed a very high premium on granting tax relief.

The new measures will collectively cost the Exchequer about R1 billion a year.

They include a rate re-

duction that moves the level at which the maximum marginal rate of tax becomes payable for individuals from R60 000 to R80 000.

In the process, the rates of tax of all taxpayers are reduced. For example, the basic rate for taxable income less than R12 000 has been reduced from 15 percent to 14 percent.

The primary rebate is to be increased from R920 to R1 100 for married taxpayers, and for other taxpayers from R650 to R750.

However, the medical expenses deduction is to be scrapped in its present form and replaced with a new system in which the taxpayer pays all his medical costs himself up to 5 percent of his income.

All amounts incurred for medical purposes above 5 percent of income are to be fully tax-deductible.

The present insurance premium rebate (maximum R75) and dependents' rebate are to be abolished.

Mr du Plessis further announced a new system of standard income tax on employees.

Liability

This tax is to work as follows: for a man or a single woman earning not more than R12 000 a year, or in the case of a married woman R20 000, tax liability will be finally determined by deductions in accordance with the PAYE system. They will, therefore, not have to submit tax returns.

Where a married woman's income is more than R20 000 it will — less 22,5 percent — be added to her husband's income and will accordingly be taxed at his marginal rate.

This system is to phased in.

Wage and price freezes ruled out

Political Staff

PARLIAMENT — Finance Minister Mr Barend du Plessis intends going all out to fight inflation but he says the Government will not entertain a price or wage freeze.

Greater teeth will be given to Government-appointed watchdogs such as the Competition Board and the Consumer Council to ensure "market mechanisms function properly".

He said he expected inflation to drop again this year from the 14,2 percent achieved in January.

In his Budget speech yesterday, Mr du Plessis said the true answer to inflation lay in "basic discipline by the Government and individuals alike" and not in the belief that it could be smashed overnight by a price and wage freeze.

The Government was doing its bit by keeping down expenditure, mainly by denying general increases to civil servants.

He appealed to the private sector to do its share by stopping the practice of raising prices.

The inflation rate had fallen from 20,8 percent in last January year to 14,2 percent this January and had taken place against the background of a strengthening rand, he said.

Pick 'n Play

Hypermarkets and Supermarkets

BUDGET POLICY

WE ARE PLEDGED TO FIGHT INFLATION THROUGH THE LOWEST PRICES ACROSS THE WIDEST RANGE OF GOODS POSSIBLE

WE HAVE BROUGHT IN STOCKS AND WILL HOLD DOWN

CIGARETTE PRICES

WHILE STOCKS LAST.



BENSON & HEDGES
SPECIAL MILD

869

200's

WE THANK THE MINISTER FOR EASING THE TAX BURDEN FOR PENSIONERS AND SENIOR CITIZENS, AS WELL AS MARRIED WORKING WOMEN.

W Withdrawal of funds by telephone makes ProSave and ProCall accounts popular with professional people. Minimum balance R5 000.

INVESTEC
337-5032

MUNDELS 13867

The Star

Gold

London close \$446,20 (\$442,20)
New York close \$445,50 (\$446,75)
Hong Kong open \$447,40 (\$447,30)

JSE close

Overall 1645,0 +17
All Gold 1303,0 +27
Industrial 1504,0 +10

Government cuts spending in real terms

By Magnus Heystek
The Government has done all that it can to stimulate economic growth. The ball is now in the hands of the private sector.

This was the underlying message from Mr Barend du Plessis, Minister of Finance, when he presented his Budget for the 1988/89 financial year.

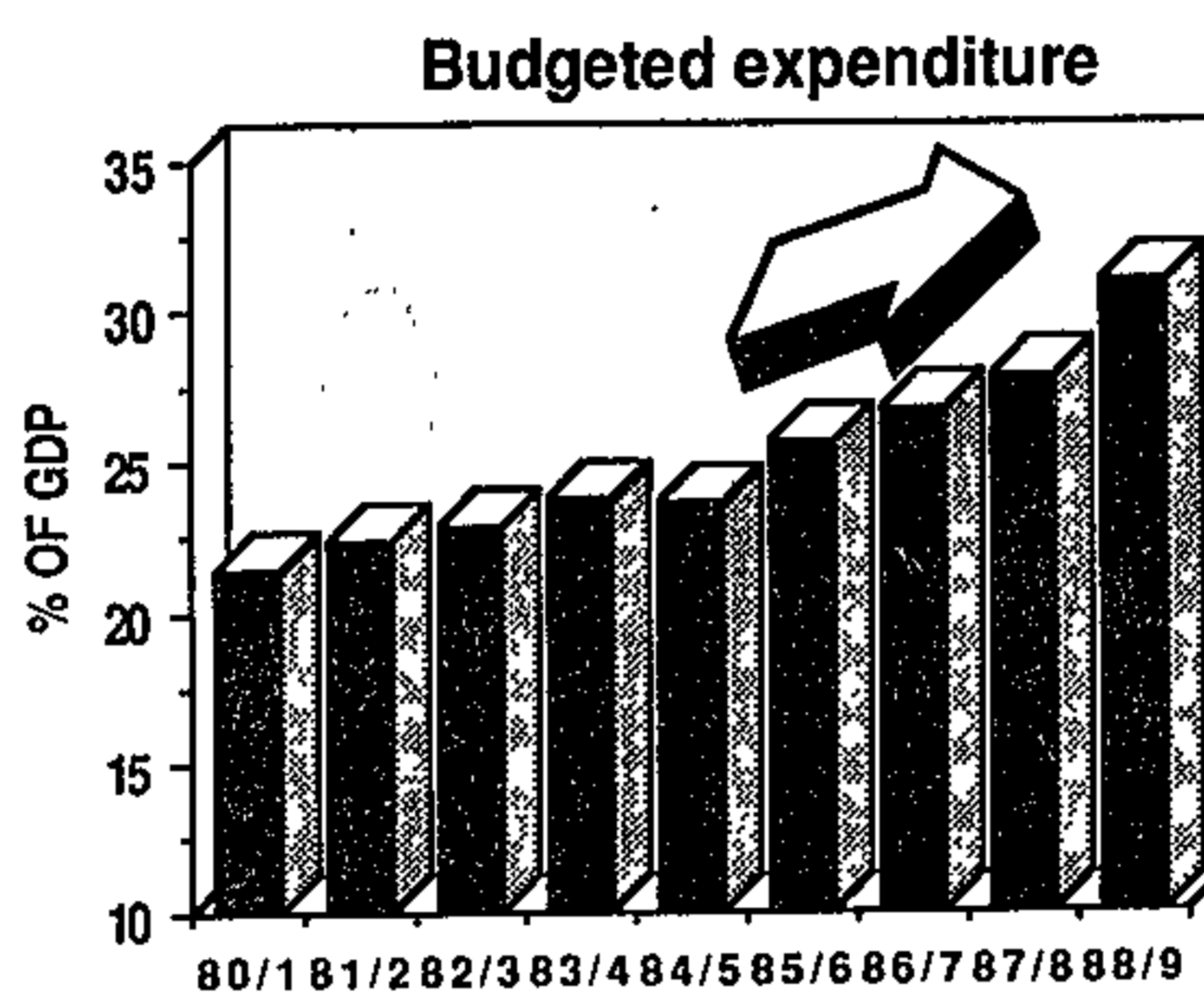
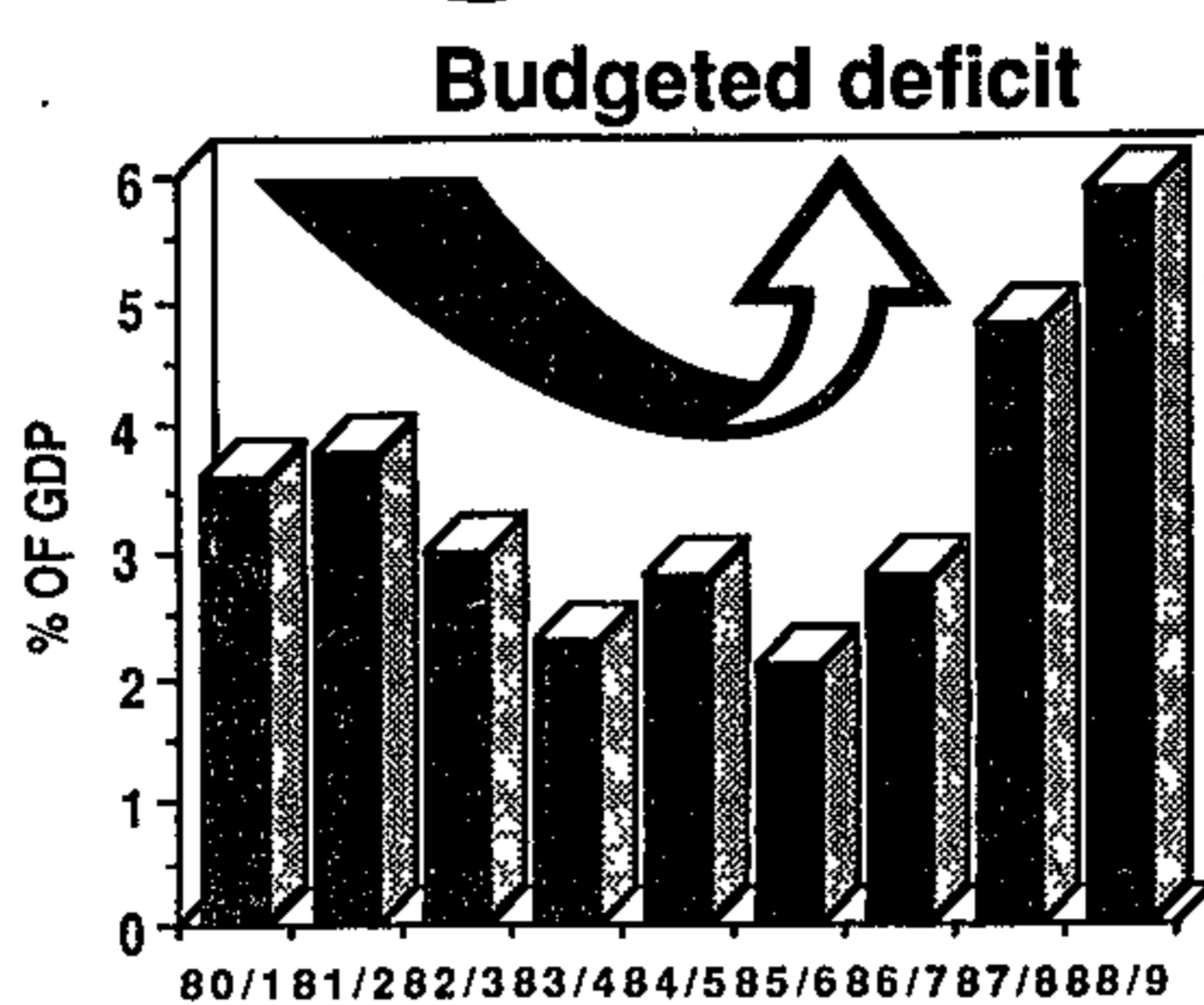
Economists and analysts generally welcomed the financial discipline shown by Government in budgeting for a decline in government spending in real terms.

Estimated expenditure and revenue for the current financial year are respectively R53,865 billion and R44,005 billion which leaves a deficit before borrowings of R9,860 billion.

Significant to economists is the relatively small increase in budgeted expenditure, only 12,6 percent higher than the revised figure of R47,836 billion for 1987/88. In real terms this amounts to a decrease as inflation is forecast to average between 14 and 15 percent this year.

Even allowing for an overshoot of a couple of percentage points in expenditure, this still indicates the Government is serious in its commitment to reduce its share in the economy.

Of course, there is the



danger that by cutting back government spending without the private sector taking the economic initiative it could lead to a recession, but that is the gamble that Mr Du Plessis was apparently willing to take.

The budget deficit before borrowings is equal to about 4,9 percent of the estimated Gross Domestic Product. Cou-

pled with domestic and foreign loan redemptions, the State's financing requirement for 1988/89 will be R12,531 billion. This is less than the revised deficit before borrowings in the 1987/88 financial year.

In recent years the deficit before borrowing has been increasing at a worrying pace for some

economists, who have warned of the inflationary consequences of the state "crowding out" the private sector. The pace of this tendency has increased since the downturn in the economy in 1984, resulting in the State's share of the economy rising to more than 36 percent for the first time while the Budget deficit before borrowings rose to more than 6 percent of GDP.

In South Africa and comparable countries a deficit before borrowings of about 3 percent of GDP is often suggested as a proper and sound norm. This guideline has in fact frequently been confirmed in policy speeches by previous Finance Ministers.

This process can, however, partly be justified by the sharp downswing 1984. But with the economy on the upswing and well-placed for further growth, it was time for an important shift in government policy, as was witnessed by the recent increase in the Bank rate.

The magnitude of the deficit before borrowings gives rise to certain expectations in the local money and capital markets, which in turn influence interest rates in these markets.

A deficit that is regarded by the market as too large will place upward pressure on interest

rates: the larger the deficit the greater the pressure.

Yesterday the capital market initially reacted defensively with a rise in rates but at the close rates started coming down while money market rates were mostly unchanged as dealers and participants were busy evaluating the Budget.

The Johannesburg Stock Exchange was firmer but more in response to the stronger gold price than the Budget proposals. Insurance counters, however, were marked down heavily on the news that the life insurance industry is to be taxed at higher rates from this year.

The deficit for the current financial year will be financed by stock sales by the Public Investment Commissioners (R4,6 billion), the roll-over of maturing stock (R2,425 billion), further capital market stock issues (R4,350 billion) and bond sales worth R250 million.

It is estimated that new foreign loans of R500 million at present within the debt standstill net can be converted into long term loans to the State, while there is the provision for raising short term loans of R410 million for the financing of the Exchequer, bringing the total to R12,535 billion.

ONLY ONE TRUST COMPANY HAS SAGE FOUNDATIONS.

Through a policy of disciplined diversification, the Sage Holdings Group has built a broad, innovative financial services group with a highly successful track record.

The acquisition of Northern Trust Company Limited – now renamed Sage Trust Company Limited – introduces an additional dimension to the Sage Group. Sage Trust Company offers a full range of trust company services, including portfolio management, estate and trust management, participation bonds and many other attractive investment opportunities.

Now, see what can be built on strong foundations.



Client care • Financial flair

Sage Trust Company Limited 30 Loveday Street Johannesburg Telephone: (011) 836-3944.

A member of the Sage Holdings Group



SHEPHERD 2226/6

BUSINESS

Markets

Dollar R2,1285 (F-rand R2,7100)
FTSE 100 close 1825,7 -14,2
Dow close 2064,32 +16,91

Commodities

Copper (3-mths) £1178,00
Platinum \$497,00 (\$492,75)
Sugar £117,20 (£119,00)

X

X-ray and other professional equipment can be acquired by professional people using the traditional leasing facilities we offer.

INVESTEC

337-5032

MUNDELS 13868

Analysts hail lack of change for mines

By Teigue Payne
Analysts yesterday welcomed the lack of changes in the tax regime for mines in the Budget despite the Margo Commission's recommendations.

They said that although the mining industry had expected that the Government would not tamper with the delicate mine tax system, it would be relieved by the actual lack of change.

Mr du Plessis did not refer to the Margo Commission's mining tax recommendations in his Budget speech to the House of Assembly. But he said tax revenues this year from mining companies would be much lower at R2,4 million, compared with R3,4 billion last year — a decline of 30 percent.

This reflects the lower gold price which is expected to prevail this year.

Some mining companies will, however, be affected by the new minimum tax provisions.

In terms of the provisions, tax will be levied on companies at the rate of 25 percent of so much of the dividends declared by them during the year of assessment as exceeds the sum of the normal tax paid for that year and the quantum of dividends received or accruing to it in that year.

One analyst noted that the tax would be similar to a loan to the taxpayer as it would be held as a credit against future tax payments when the company became taxable or when its tax payments reached a point where they exceeded dividend payments.

The new provisions would affect mines which, for instance, have recently been opened and have just reached profitability, but are still benefiting from the tax umbrella arising from capital expenditure financed by shareholder funds.

It would also affect long-established mines which similarly have assessed losses or tax umbrellas resulting from recent expansions, but are able to pay dividends, as well as mines which benefit from export incentives or decentralisation concessions.

The new tax may result in mining companies deciding to pay dividend payments, or to reduce them — depending on how large the taxable gap is.

By Ann Crotty
One aspect of the Budget which has generated passionate response is the proposal to increase the portion of investment income on which long-term insurers pay tax from 40 to 75 percent.

According to Sanlam chairman Dr Fred du Plessis, the effect of the proposal would be to reduce annual bonuses by 1,5 percent.

Reaction in the industry varied from restrained disappointment to outrage and dismay. Most had hoped the current tax situation regarding long-term insurers would have remained unchanged until the implementation of the majority proposal of the Margo Commission which was not expected to take effect for about 12 months.

But the Minister has decided not to wait that long to increase his tax take from the life offices. As he said yesterday: "In comparison with other sectors, and given the magnitude of the investment funds that have been and are being channelled to the insurance industry, it seems that the long-term insurance sector should make a bigger contribution to the fiscus." The expected additional revenue for 1988/89 financial year is R170 million.

Long-term insurers' investment income is earned on two types of funds: untaxed funds and taxed funds. The untaxed funds is that money attributable to pension business, retirement annuity contracts, and individual annuity contracts. The taxed funds relate chiefly to life assurance and provident assurance business. The investment income derived from untaxed funds is not taxable. That deriving from taxed funds is.

Life insurers dismayed over investment tax

The industry's major grievance was that they are looking at, what, in effect is, a 75 percent increase in tax and that it was a move taken without consultation.

As Southern Life general manager Graeme Hill said: "We are dismayed that it's being done on the basis of non-consultation," adding that life offices will be paying more than their fair share of tax.

Liberty Life chairman Donald Gordon described the move as a "pretty heavy charge on the insurance industry" and believed the impact will be particularly harsh on the smaller companies who will be hard-pressed to maintain bonuses. He made the point that the move will have a discouraging effect on long-term savings: "The heavier tax bill, which will reduce the returns to life assurance policy-holders, will make it that much harder to sell life assurance, which is an important form of long-term savings."

Mr Gordon believed the proposal would increase the industry's tax bill by about 50-60 percent and not the full 75 percent because of the portion of investment income

that is attributable to untaxed funds. It would also encourage them towards investment in equities, where there was greater potential for capital gain, and away from fixed interest investments.

Lifegro MD Tony Laubscher noted that the industry's product mix was likely to change, with a greater emphasis on the traditional products such as pensions and retirement annuities which are untaxed business: "These products will have to be promoted to replace the cash that is lost as individuals and institutions turn to more tax efficient investment."

Old Mutual's MD Mike Levett, who was taken aback at the magnitude of the move which he believed was inappropriate, felt that it could be a temporary move until the Margo proposals were ready for implementation.

Referring to the impact on long-term savings, Mr Pierre Steyn said: "Since South Africa is increasingly dependent on domestic and, particularly, long-term savings, it is a pity that one of the few remaining sources of risk capital and investment has been dealt a serious blow."

Budget is responsible and restrictive, say economists

By Sven Lünsche
Most economists questioned after the Budget said that the Government was rightly putting the breaks on economic growth and that it was adapting fiscal policy to the monetary needs outlined by the authorities earlier in the year.

They added, however, that it was unlikely that the Government could stick to its original expenditure forecasts.

Following is a summary of the economists' comments:
Nico Czipionka, Standard Bank: It is a "clean" Budget and rather restrictive, which is the right thing to do in the short-term. The Budget reinforces monetary policies and is rather deflationary.

It is definitely not expansionary as revenue from individual income tax will be up by 20 percent over the year. I also doubt whether they can stick to their estimated expenditure levels.

Edward Osborn, Nedbank: It is a good Budget which is suitable for the time. It combines moderate fiscal growth stimulation with monetary conservatism.

The deficit before borrowing is an improvement on the 1987/88 fiscal year and pressure on interest rates will remain minimal. The big question remains whether they can actually hold this deficit.

David Southey, Max Pollock and Fremantle: The overall direc-

tion of the Budget is pretty neutral and I expect money market rates to respond positively by easing over the next few months, although they initially reacted adversely — the RSA 2005 jumped 10 to 15 points to 16,82 percent yesterday afternoon.

The Budget would appear to carry more credibility because the State President, at the opening of Parliament, provided the political clout.

The proposed 23 percent increase in collection of individual income tax seems to be too high. It is more likely to be in the region of 17 percent.

Rudolf Gouws, Rand Merchant Bank: The Budget suits both the long- and short-term requirements of the economy. It will have a slightly contractual effect on economic expansion, but the economy will carry on growing.

It was essential that the growing budget deficit was brought to a halt. If everything turns out well, we will have a 1 percent fall in the deficit before borrowing as a percentage of GDP during 1988/89 compared to the 1987/88 fiscal year. But the Government will have to slow rises in expenditure and increase its revenue collections.

Gillian Raine, Frankel Kruger Vinderine: An increase in 20 percent for defence expenditure, compared to rises of 12 percent

for education, is not exciting given the priorities in our economy.

I am, however, concerned that the rise in the deficit will inevitably put sustained pressure on interest rates in the long run. They will definitely need to raise more than last year on the capital markets.

John Banos, Simpson McKie: The Budget is mildly deflationary as could have been expected given the high percentage the deficit before borrowing reached against GDP in 1987/88 and given the recent strain on the balance of payments.

I find it most surprising that revenue by individuals will increase by 23 percent, despite Margo's recommendations that an increased tax burden should be placed on companies rather than individuals. Consequently the growth in Private Consumption Expenditure could fall towards the end of the year.

Jos Gerson, Mathison Hollidge: The Budget is fiscally responsible and could help the business cycle at this stage. It is also in the spirit of the announcement by the State President earlier this year.

The Government has been tight on expenditure and the 12,7 percent growth expected this year is negative in real terms, as inflation could average about 14 percent this year.

**For full
Budget
speech
see Metro
section**

KRUGERRANDS

THE SOUTH AFRICAN GOLD AND SILVER COIN

THE BEST INVESTMENT OPPORTUNITY

AK TO BERNIE CHANES

THE INVESTMENT CORPORATION

HAPPINESS IS A POSITIVE CASH FLOW

CASH FLOW PROBLEMS?
→ YES

SLOW PAYING DEBTORS?
→ YES

CAPITAL? LIQUIDITY FOR EXPANSION?
→ YES

SOLUTION → CONTACT INDUSTRIAL & COMMERCIAL FACTORS

DON'T WAIT 30/60 OR 90 DAYS FOR YOUR DEBTORS TO PAY

SELL TO YOUR CUSTOMERS ON TERMS AND RECEIVE IMMEDIATE CASH SETTLEMENT FROM US

CREDIT SALE = INSTANT CASH
→ THE YES SOLUTION

PHONE INDUSTRIAL AND COMMERCIAL FACTORS (PTY) LTD
9TH FLOOR, SANLAM CENTRE, JEPPE STREET,
JOHANNESBURG (011) 29-6634/5

Motor trade 'not surprised'

By Teigue Payne
The motor industry reacted with little surprise that tax on company cars was effectively to be increased.

Mr Colin Adcock, managing director of Toyota, commented that whether it was correct or not that large vehicles should shoulder more or the cost of road wear, the levy would be inflationary because heavy vehicles were transporting farm goods and food. This extra cost would be passed onto the consumer.

Mr Du Plessis said in the Budget that, as a result of an urgent request from the motor industry, which had experienced difficult times in 1986 when

the perks tax on company cars was introduced, figures valuing company cars in the Seventh Schedule to the Income Tax Act were scaled down.

However, the understanding was that they would be adjusted upward once circumstances justified this.

Mr Du Plessis said it had now been decided to adjust these values.

The values, based on the cost of the car and the size of its engine, are added to the income of the car's recipient, and taxed at the marginal rate.

Mr Du Plessis also announced the levy on heavy vehicles, although he gave no details.

No surprises, says Volkskas

Finance Staff
Seen from a macro-economic perspective, there were no surprises in the Budget, Volkskas economist Adam Jacobs said yesterday.

The economic realities of a deteriorating world economy, the necessity of action to protect the balance of payments and the

fairly large deficit on the Government's accounts, all required a relatively strict and disciplined Budget. This was also the objective of yesterday's Budget.

Given the international economic developments and a Budget that restrained economic growth that could become neutral, depending on how strictly

the Government adhered to the expenditures for which it had budgeted, one could expect that the growth momentum experienced of late would decelerate, that the inflation rate could fall slightly and that interest rates would not increase much further.

Buy the very rare South African gold and silver coins from us ON CREDIT on our unique 24-monthly payment system.

KRUGERRANDS

SELL OR BUY ANY QUANTITY FOR CASH AT DEALER'S SPOT PRICE

COIN GOLD INVESTMENT CC

Phone (011) 28-2284/28-2270
Telex 48-6477

Mr Azar Jammine, director of the Econometric Research Unit, said the Budget was pretty much as expected as it tried to prevent economic overheating. The deficit was, however, still large enough to exert upward pressure on long-term rates.

Barend tightens the purse strings

49 Blandy 17/3/88

FINANCE MINISTER Barend du Plessis yesterday presented a Budget which cautiously starts the immense task of restructuring the economy.

For the first time in decades, the Budget envisages a decrease in real terms in government spending which is projected to rise to R53,8bn — a 12,6% increase compared with last year.

Also, the deficit before borrowing is projected to be reduced from 5,8% of GDP last year (R10bn) to 4,9% of GDP (R9,86bn).

This is being seen as a sign that government is serious about reducing its share of the economy and curbing its bureaucracy. It is also the first step towards

GERALD PROSALENDIS
and HAROLD FRIDJHON

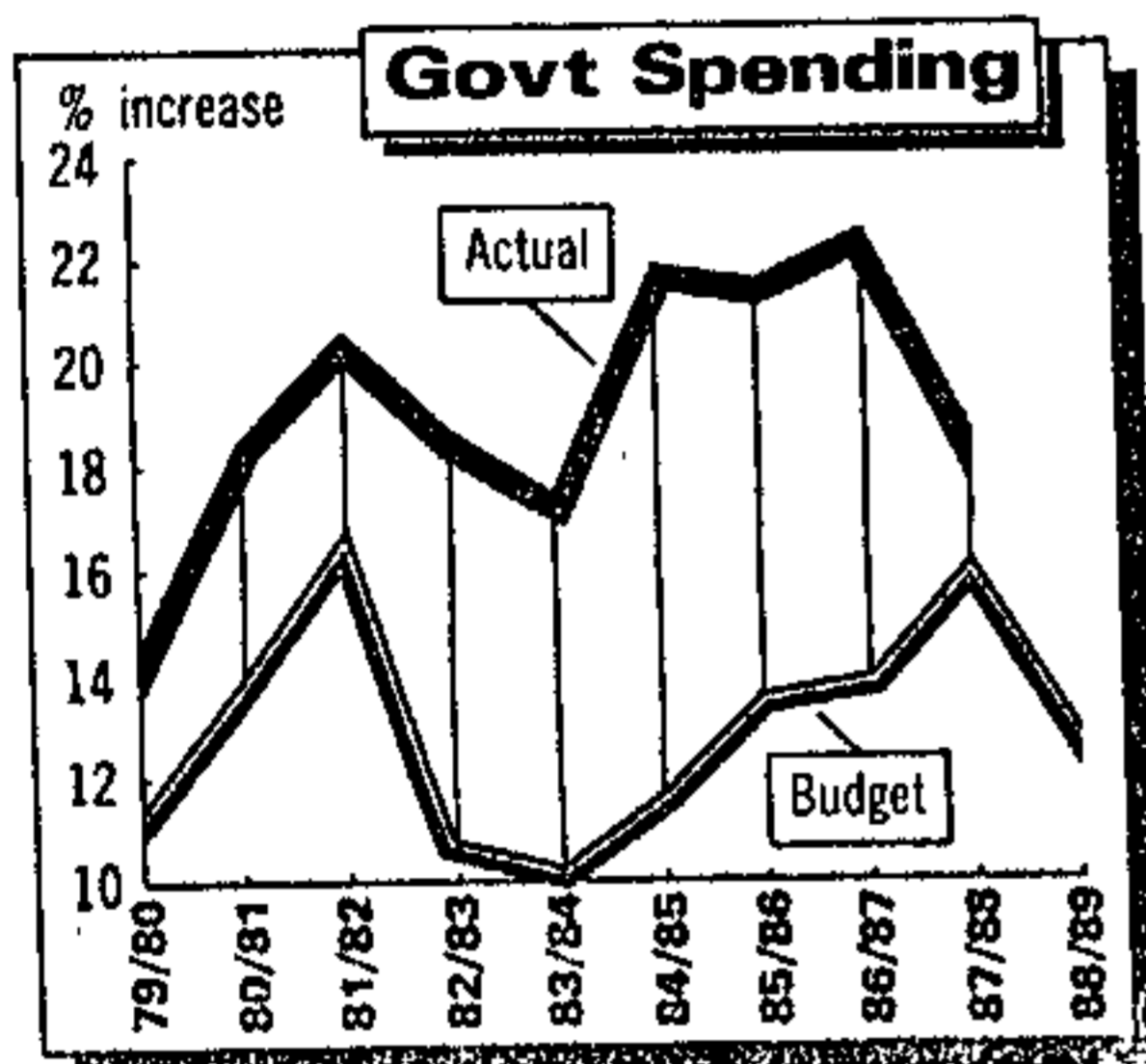
shifting part of the burden of controlling inflation from monetary policy to a partnership between monetary and fiscal discipline.

Du Plessis' Budget is essentially neutral leaving growth to come this year from the private sector and, hopefully, consumer demand, which has received only a small stimulus from the limited tax cuts.

In net terms, the Minister has given back to the private sector R1,3bn via tax cuts. But he has taken away from the private sector R1,1bn by implementing a minimum tax on companies (R350m), tax on the investment profits of long-term insurers (R170m), eliminating medical and insurance rebates for individuals (R200m) and imposing a R200m levy on heavy vehicles.

Although the Budget was heavily influenced by the proposals of the Margo Commission, government yesterday went only some way down the path recommended by it. However, the first steps — including lower individual tax rates while raising the level at which the top marginal rate applies from R60 000 to R80 000 — was a promising start to what could be a long-term process.

The main Budget proposals are aimed at providing some relief to individual taxpayers who have been severely hit by



HERE are some highlights from today's Budget:

- Tax rates for individual taxpayers reduced: maximum marginal tax now payable at R80 000 (previously R60 000) and percentage paid in tax reduced for low earners.
- Standard income tax for employees (SITE) introduced, where PAYE will be the final tax for lower earners, who will no longer submit tax returns.
- Tax relief for two-breadwinner fam-

- ilies, as married women earning less than R20 000 will pay SITE. But separate taxation of spouses rejected.
- Medical costs allowed as deductions only if they exceed 5% of taxable income.
- Tax rebates abolished for insurance premiums, and contributions to provident and benefit funds and to the Unemployment Insurance Fund.
- Tax rebate for dependants abolished, but rebate for married taxpayers goes

INSIDE:

- Special 8-page supplement
- Budget details — Pages 4 & 5
- Tax tables — Page 7
- Comment — Page 6
- Margo White Paper — Page 11

so-called "bracket creep" — the phenomenon whereby the individual's tax burden is increased as inflation-adjusted salaries push taxpayers into higher tax brackets.

It also provides partial relief for married working women.

However, the major importance of the Budget is perhaps that it seeks to check, and even reverse, an entrenched trend of rising government spending.

If, unlike the practice of recent years, the Budget figures are achieved, it would be a first giant step towards reducing inflationary pressures and increasing government credibility.

Du Plessis rejected the idea that government's policy of wage-and-price restraint was a precursor to a "totally regulated economy". He said: "This policy can no more work here than anywhere else in the world. Price-and-wage control is thus not an acceptable option for this government."

up to R1 100 (from R920) and for single taxpayers to R750 (R650).

- Capital transfer tax at a flat rate of 15% replaces donations tax and estate duty.
- Beer duty up 1,9c per 375ml bottle.
- Value of company cars for purpose of perks tax readjusted upwards.
- Long-term insurers to pay tax on 70% of investment income (previously 40%).
- One-off bonus, but no increases for social pensioners.

49 B/day 17/3/88

YESTERDAY'S Budget is the first, though incomplete, step towards fiscal discipline. Government's conversion to the need to balance its books has not been voluntary. Rather it has been forced on it by an steady erosion of the tax base and financial sanctions imposed by international bankers.

It is the latter — and SA's need to maintain a surplus on the current account in order to repay debt — that looms large over both SA's fiscal and monetary policy.

The room for error is minimal. If the country had access to foreign credits, government may have been tempted to push for one more year of growth both by fiscal stimulation and easier monetary policy.

This would have been done in the full knowledge that these measures would have produced a current account deficit which could have been financed by foreign capital.

This is no longer possible. Finance Minister Barend du Plessis is caught on the horns of a dilemma. While he does not want to nip the upswing in the bud by applying the fiscal brakes and raising interest rates too high too quickly, he cannot allow the present upswing to run away for fear of swinging the current account into deficit.

Should yesterday's Budget succeed in steering a middle path between a rock and a hard place by stemming the inexorable increases in government spending, the benefits will be enormous. It will pave the way for the full implementation of those Margo recommendations accepted by government, allow SA to appease its international creditors, foster economic growth and reduce inflation.

If it fails to contain spending, however, the consequent rise in interest rates would abort the present upswing, a currency depreciation would be on the cards, and that would be just the beginning.

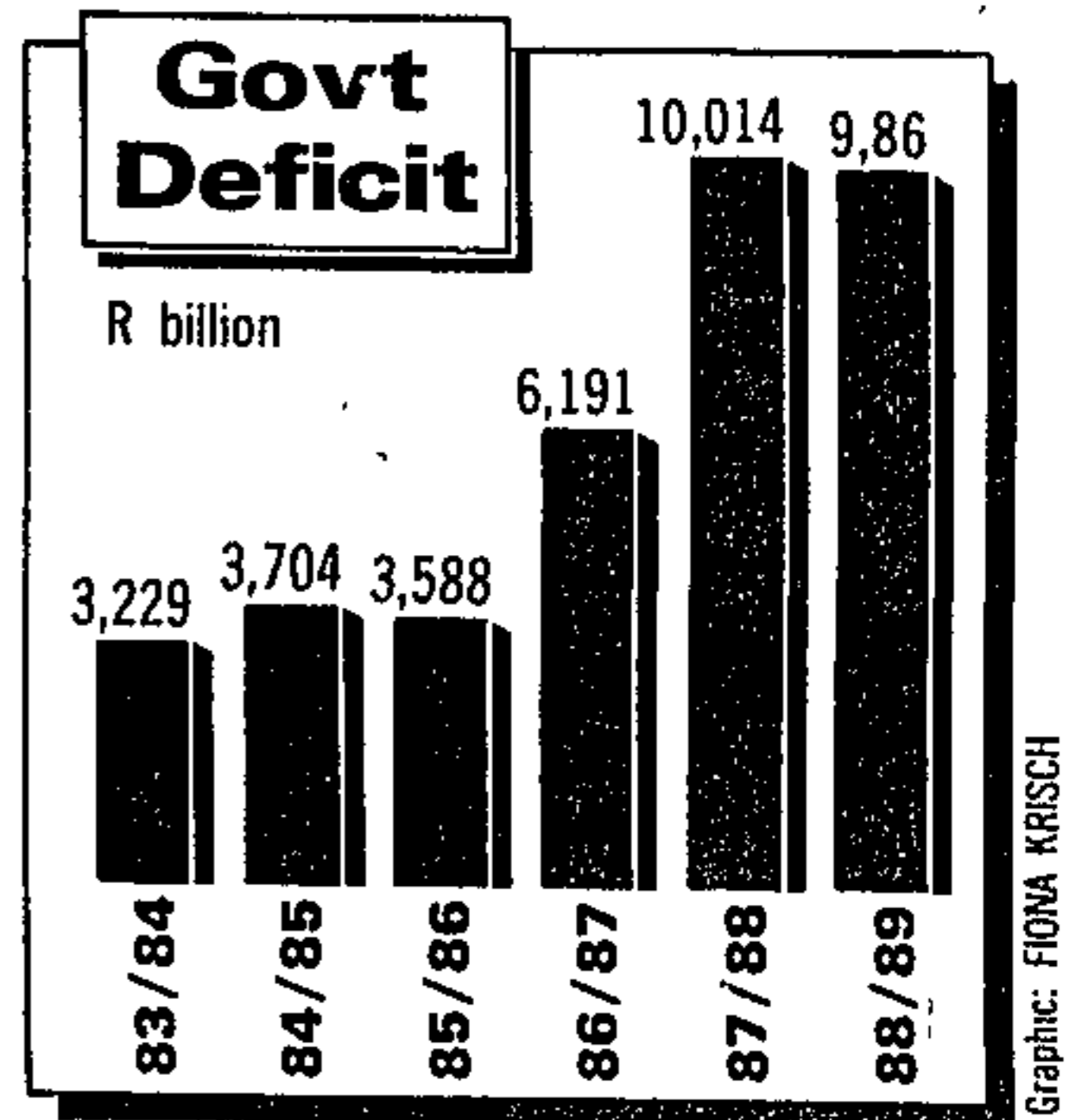
Last year's Budget was a far easier affair, coming at a time of substantial surplus capacity and low economic activity.

The Reserve Bank did not press the panic button when confronted with a government deficit before borrowing projected at 4,7% of GDP in the knowledge that the shortfall could be financed without excessive money creation. And with the private sector spending shy, there was room for government to fill in the gap.

That situation has altered fundamentally. While fixed investment has not yet responded strongly, government is now confronted with a

Government needs to keep working on implementing sustainable spending cuts

GERALD PROSALENDIS/Financial Editor



boom in consumption, construction and housing coupled with some inventory accumulation.

Monetary policy is now far less accommodative than a year ago. Interest rates have risen, and the Reserve Bank has been far more reluctant to accommodate banks short of cash.

Fiscal policy must necessarily also be neutral — at worst, or even better, slightly restrictive if interest rates are not to rise sharply.

The cue for this year's Budget was established earlier in the year when the Reserve Bank revised its money supply targets for M3 growth downwards to between 12% and 16%, compared with 14% and 18% the previous year.

It became obvious then that fiscal policy would need to operate in a manner that was consistent with declining monetary targets.

While rising public sector borrowing can be defended in times of recession for engaging the so-called "automatic fiscal stabilisers," in an

upturn it becomes a factor which destabilises interest rates and threatens growth.

Control of the money supply — and management of inflation and demand — requires control over the public sector's borrowing requirement. If the borrowing requirement remains unchanged — or rises in real terms — the only method of curtailing monetary growth becomes higher interest rates.

It is therefore imperative that fiscal policy and monetary policy act in harmony. Put another way, in order to achieve lower monetary targets without sharply raising interest rates, the deficit before borrowing needs to be reduced. It is that simple.

That this has not occurred to any significant degree is cause for concern.

The International Monetary Fund has set a ball-park figure for SA for a deficit before borrowing of 3% of GDP. This year's Budget sees it reduced to a projected 4,9% of GDP (R9,86bn) from last year's actual

figure of 5,8% (R10,01bn).

It is worth noting that in his Budget speech last year, Du Plessis projected a deficit for the year amounting to 4,7% of GDP.

The projected deficit remains too high.

And should government overshoot its deficit target, any expansionary effect of its higher spending will be offset by a fall in private demand resulting from higher interest rates.

In fact, the rise in interest rates necessary to maintain monetary control, in the absence of a reduced public sector borrowing requirement, will have a contractionary effect on the economy.

This would undermine any stimulus to demand from this year's minimal tax cuts, will depress fixed investment, and curtail inventory building.

One only needs to recall 1984, when the private sector bore the brunt of fiscal profligacy. While government was unable, or unwilling, to scale down both its spending and

borrowing requirement, it was left solely to monetary policy — via punitive interest rates — to curb demand.

The end result was a prime rate of 25% in August 1984 and the consequent disruptive effect on business activity.

Not that much has changed. Yes, we are running a current account surplus and the money supply has been kept within the target range. But current spending is still being financed by bank loans, which amounts to negative saving by the government sector.

The deficit is still too large. Government's share of the economy has risen.

Government needs to work on implementing sustainable spending cuts. The intention is there. Half-baked incomes policies will, in the end, achieve little if, in the broad sweep of things, monetary and fiscal policy are working against each other.

Sept 17-23/88
3/88

'Give and take' budget

By SPECIAL WRITER
THE Minister of Finance, Mr Barend du Plessis, this week tabled a "give and take" budget that will affect individuals and companies over a broad front.

In addition, the Government's white paper on the Margo Commission on tax reform confirms the introduction of a new value added tax (VAT) as early as next year with the eventual phasing out of GST and no immediate separate taxation for married couples.

The Budget, tabled in Parliament on Wednesday, will be to give to the individual and to take from companies and corporations.

It is intended to act as a bridging process to ease cash flow pressure as the country moves into an era of major attacks of fiscal policy reform.

Beneficiaries of the Budget are individuals and married taxpayers who score more than R1-billion in income tax payable while losing some concessions on medical aid, insurance and dependant rebates. Other beneficiaries on the expenditure side are the elderly, victims of floods, the unemployed and those who need skills.

Those who will feel the hardship of the Budget are smokers, drinkers, companies that now have to pay the minimum tax rate, insurers, and owners and users of heavy duty vehicles.

Life offices shocked by big tax hike

LIFE assurers reacted with shock and disbelief at the hefty tax rate increases announced by Finance Minister Barend du Plessis in yesterday's Budget.

With effect from years of assessment ending between April 1 this year and March 31, 1989, a life assurer's current taxable income — calculated at 40% of investment income and receipts from affiliated companies — will increase to 70% of investment income, and is expected to bring in an additional R170m for the 1988/89 financial year and R202m for a full year, Du Plessis said.

"In comparison with other sectors in the economy, and given the magnitude of the investment funds that have been and are being channelled to the insurance industry, it seems that the long-term insurance sector should make a bigger contribution to the fiscus."

He said government had accepted the majority proposal of the Margo Commission on taxation of life companies, but details of the application had still to be settled by the Commissioner for Inland Revenue and the companies.

Old Mutual MD and LOA chairman Mike Levett said: "For government to have increased the tax burden on the life industry by 75% in one fell swoop is completely inappropriate and out of line with the rest of the Budget, which tends to make sense."

He said it "staggered the mind" for the authorities to have acted so drastically in an area in which they freely admitted there was no consensus.

"We will be giving evidence to the

HELENA PATTEN

parliamentary standing committee on finance tomorrow, and hope government will reconsider."

Southern Life marketing GM Graeme Hill said the initial reaction was one of total disbelief that the Minister could act without consultation to increase the industry's taxation by 75%.

"We are outraged by the whole situation. What he is basically doing is using life offices to milk the public, which is totally unjustified."

An LOA spokesman said the industry was profoundly shocked at the increase, which had been completely unexpected.

He said life offices paid tax on behalf of policyholders so the rate should be appropriate to the individual. Actuaries had calculated this at just under 30% of life assurers' investment income — far below the current 40% and certainly under the 70% provided for in the Budget.

"There is no objective reasoning in this increase, which will nearly double

● To Page 2

Life insurers shocked by hefty tax increase

the taxman's takings. In 1986, the industry as a whole paid R236m. Now he wants another R202m a year.

"We are disappointed government did not recognise the trustee principle, in terms of which this tax is inequitable."

Liberty Life joint MD Mark Winterton said if the majority report of the Margo Commission was accepted in its entirety, as seemed to be indicated would happen, the effect would not be so severe, because dividends currently taxed at a high rate would become non-taxable.

But if this were not the case, and returns on life policies became unattractive, policyholders would undoubtedly change their funds to untaxed business, that of pensions and retirement annuities. In other words, tax revenue from the life industry would not increase drastically and the chief effect would be

distortions in the market-place.

The business economics department at Wits University said the effect of the tax hike would be:

- A loss of share of the savings market to other institutions such as building societies and banks;
- Possible further concentration of ownership in the economy due to tax savings resulting from more intensive ownership of low dividend paying firms;
- Possible loss of market share by long-term insurers oriented towards the high-income customer who invests with them for tax reasons; and
- Reduction in demand for government bonds, pushing up interest rates.

Life insurance shares on the JSE were hit by the news of the tax hike.

● See Page 10

17/3/88

← ● From Page 1

(49) B/day

ve
ve
or
a-
he
ht
ve
us

Der-
pm-
A tu-
may
isa in
ted
and a
ega in
de

by Ken
adlines
n All of
est. Jo-

Cape budget up R150m

Political Staff
 THE budget for the administration of the Cape Provincial Administration is to increase by R150 million, or 6%, during the new financial year.
 The total budgeted expenditure for the province is R2 721 million for the year, of which R1 385 million is to go to hospital and health services.
 However, the amount set aside for white school education is not included in this figure because it falls under the budget for Education and Culture in the vote for the House of Assembly administration.
 In a memorandum tabled in Parliament yesterday, the Cape Provincial

Administration said the 6% increase was not comparable with the 1987/8 figures because the comparative figures were not available.
 In the estimates for expenditure for the province, which were also tabled in Parliament yesterday, R82 million has been set aside for general provincial services, R1 385 million for hospital services, R397 million for roads and traffic administration, R91 million for miscellaneous services, R105 million for interest and redemption, R36 million for works, R96 million for capital, R19 million for improvement of conditions of service and R467 million for community services.

More funds for housing

Political Correspondent
 THE government was committed to increased spending on black housing and upgrading programmes, the Minister of Finance, Mr Barend du Plessis, said yesterday.
 Mr Du Plessis said one of the areas in which social spending "is bound to grow" was that of housing, and he made special mention of the South African Housing Trust which began operations early last year with an interest-free loan of R400 million from the Treasury.

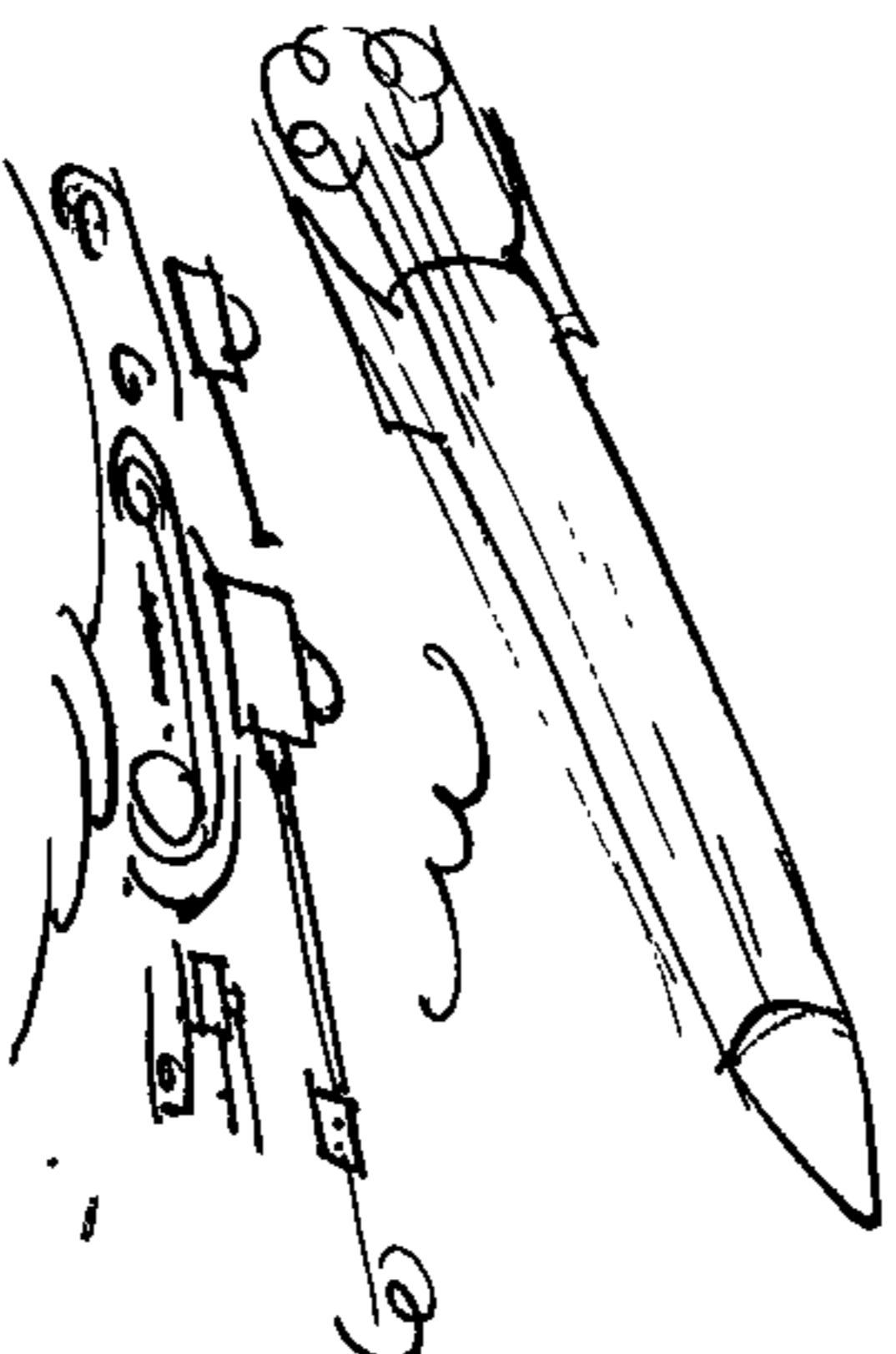
The Trust, a joint initiative between the public and private sectors, sought to motivate institutions to provide houses with "all urgency", as well as to facilitate the acquisition of land in the metropolitan areas for affordable serviced stands.
 "To date, expenditure of some R360 million has been approved, involving the construction of about 20 000 houses and the eventual production of about 38 000 stands.
 According to budget estimates for 1988/89, overall spending on

urban development and housing aid to blacks will increase to about R231 million compared with about R201 million for 1987/88.
 Spending to assist the financing of black housing and its infrastructure will also increase — from R255 million to about R282 million.
 In his speech, Mr Du Plessis said that between the 1985/86 and the 1988/89 financial years, R726 million had been earmarked for upgrading less developed black residential areas.

Political Staff
 A FURTHER R116 million has been allocated by the Department of Education and Training (DET) for primary school education for blacks in the 1988/89 financial year, bringing the total to R545,9 million.
 The total amount budgeted by the department for the 1988/89 financial year is R1 640 million.
 In addition, an extra R37 million is earmarked for state-aided primary schools, but the grants to primary and pre-primary institutions are dropped from R4,79 million to R2,77 million.
 Expenditure by the department on secondary education rises from R330,7 million to R410,6 million, while state-aided schools will get an extra R2,3 million, and private schools take a drop of R0,6 million.
 University and technician training expenditure for blacks will rise from R165 to R182 million.

Security services get 20% slice

Political Staff
 NEARLY 20% — of R12 151 million — of yesterday's total R53 billion budget has been earmarked for the security services with the Defence Force accounting for 15% on its own.



Defence spending rockets

Listed under the general heading of "Protection Services" the breakdown, (with last year's figures in brackets) is, Prisons and Justice — R1 126 389m (R917 047m), Police — R 2 116 235 m (R1 846 625m), Defence — R8 561 405m (R7 017 987m), Other — R347 253m (R288 433m).
 These figures do not correspond with the figure shown under the various department's actual votes because certain services are conducted on their behalf by other departments — such as the Department of Public Works which does building work and buying of property for other departments.
 The actual amount voted for Defence is R8 196 billion — R1 512 billion or 22,6% higher than last

year — but according to a memorandum issued with the budget there has been a structural adjustment in drawing up the budget.
 Finance Minister Mr Barend du Plessis said that in previous years only the SADF's estimated cash requirements were authorized for a large amount.
 "The reason for this was the long delivery time for SADF equipment as well as the uncertainty over the time

at which orders would be supplied," he said.
 "Experience had taught that Parliament should vote funds annually in the Finance Act to supplement the Special Defence Account to finance orders that had turned out to be above the cash appropriation.
 "This method of financing has elicited criticism from various quarters since it is incorrectly perceived by critics as an attempt to keep the main budget artificially low.

"It has therefore been decided to revert to the generally accepted method of budgeting whereby the total estimated expenditure of the Defence Force is included in the main budget."
 A further R100 million was included in the defence budget in anticipation of the withdrawal from state departments of tax-free imports.
 According to a memorandum this year's budget is only marginally higher than last year's in real terms. Working on a consumer price index of 159 and at constant 1988 values it says the increase amounts to only 1,1%.

As usual, the army and air force take the lion's share of the defence budget — "landward defence" getting R3 078m and "air defence" R3 040m.
 The navy gets only R590 169 000.
 The actual amount voted for the police is R1 799m — up by R266m. Most of this — R1 191m — goes on normal police work in the maintenance of law and order and internal security.

Political Correspondent
 The Trust, a joint initiative between the public and private sectors, sought to motivate institutions to provide houses with "all urgency", as well as to facilitate the acquisition of land in the metropolitan areas for affordable serviced stands.
 "To date, expenditure of some R360 million has been approved, involving the construction of about 20 000 houses and the eventual production of about 38 000 stands.
 According to budget estimates for 1988/89, overall spending on

urban development and housing aid to blacks will increase to about R231 million compared with about R201 million for 1987/88.
 Spending to assist the financing of black housing and its infrastructure will also increase — from R255 million to about R282 million.
 In his speech, Mr Du Plessis said that between the 1985/86 and the 1988/89 financial years, R726 million had been earmarked for upgrading less developed black residential areas.

Political Staff
 A FURTHER R116 million has been allocated by the Department of Education and Training (DET) for primary school education for blacks in the 1988/89 financial year, bringing the total to R545,9 million.
 The total amount budgeted by the department for the 1988/89 financial year is R1 640 million.
 In addition, an extra R37 million is earmarked for state-aided primary schools, but the grants to primary and pre-primary institutions are dropped from R4,79 million to R2,77 million.
 Expenditure by the department on secondary education rises from R330,7 million to R410,6 million, while state-aided schools will get an extra R2,3 million, and private schools take a drop of R0,6 million.
 University and technician training expenditure for blacks will rise from R165 to R182 million.

Political Staff
 NEARLY 20% — of R12 151 million — of yesterday's total R53 billion budget has been earmarked for the security services with the Defence Force accounting for 15% on its own.



PPF's Mr Harry Schwarz... 'cautious and unexciting'



GP's Mr Casper Uys... 'poorer groups worse off'



NDM's Mr Wynand Malan... 'part of a big bluff'

'Little relief' in cautious budget

Political Correspondent
 OPPOSITION political parties described yesterday's budget as a caution, holding exercise that offered little by way of real tax relief or assistance for lower-income groups and pensioners.
 The Conservative Party's finance spokesman, Mr Casper Uys, said Mr Barend du Plessis's "holding budget" was rather puzzling since it was "not clear what future pattern he is going to follow".
 Mr Uys said the net result of the "tax relief" announced would, as a result of take-backs, eventually result in a tax increase for most citizens.
 "Poorer income groups will be worse off than before and the once-off R60 payout to pensioners is way below the inflation rate," he said.
 Mr Uys said the mas-

sive decrease in the agriculture tax concessions announced were "inadequate" and "much of what is given is taken suffer further or that the bread price would be increased.
 The PFP's finance spokesman, Mr Harry Schwarz, said the budget was "cautious and unexciting".
 "It demonstrates that any upswing in the economy is likely to be of short duration and not very substantial. The chances of a boom are minimal."
 Mr Uys welcomed

The new levies and the acceptance of certain recommendations of the Margo Commission would "of necessity adversely affect the poorer man".
 Mr Douw said: "This is certainly not conducive to the policy of avoidance of salary increases. The positive attempts of the government to fight inflation may well serve to combat price increases, but there is a very real danger that economic growth will simultaneously be retarded."
 Mr Malan said the government's refusal to accept the Margo Commission's recommendation for separate taxation for married couples was "completely unacceptable".

Civil salary hike would up taxes

SALARY increases for the civil service this year would have meant "considerable and wide-ranging" tax increases, Finance Minister Mr Barend du Plessis explained yesterday.
 The government's controversial decision had been incorrectly branded by the "ill-informed and the ill-informed" as a wage freeze and had been dragged into the political arena.
 But he said the cut-back had been absolutely essential.
 He also said that no civil servants had been retrenched or had lost their jobs for similar reasons, as had happened in the private sector and job security with the state was therefore a "valuable asset".
 The government had tried in the past few years, which had been "extremely difficult ones", to achieve specific objectives through increased state expenditure on growth, job-creation, housing, disaster relief and other matters.
 Once the goals had been achieved, the government had to reduce its economic activity in favour of the

Budget briefs

Island's

More money needed

Lesotho

Govt rejects

49

chopped

Political Staff

LEGISLATION was already in the pipeline to increase the powers of "public watchdogs" such as the Competition Board and the Consumer Council, the Minister of Finance, Mr Barend du Plessis, said yesterday.

The government thus intends to grant these bodies sufficient powers to carry out their functions properly, and further legislation is already being considered," he said during his Budget speech.

However, Mr Du Plessis warned that a "stronger and more price-conscious" consumer council would be a futile exercise if the public were not itself price-sensitive and used its preferences to exert a stabilising influence on consumer prices.

R52m for Orange-Fish project

MORE THAN R1.1 million is due to be spent in the Eastern Cape and South-Western Districts by the Department of Water Affairs during the 1988/9 financial year.

And, nearly R6 million is scheduled to be spent on various schemes in the next few years.

Estimates tabled yesterday also earmarked a further R52 million for the Orange-Fish project of which R20.8 million is to be spent on agriculture on the Sundays River area.

Another R16.6 million is for the same purpose on the Fish River.

Aid for black deaf children

THE government has set aside R316 000, including R200 000 in capital costs, for a new school for deaf black children in Cape Town.

The Ndlovu School for Deaf Children will receive a R116 000 subsidy and a capital grant of R200 000.

Cape Town's Tembalethu School for Cripple Children is to get R675 000, including R400 000 in capital grants. Last year it received R413 000.

The assistance for both schools has been provided under the Education and Training Vote in the estimates of expenditure, which were tabled in Parliament yesterday.

Hospital completion date set

THE R207.7-million extensions to Groote Schuur Hospital are expected to be completed during the current financial year.

R19.7 million is due to be spent during the 1988/9 financial year on the extensions, according to the estimates of Cape Province, which were tabled in Parliament yesterday.

The new R18.7-million nurses' home at Groote Schuur is also due to be completed after a further R8.6 million is spent during the 1988/9 financial year.

The estimates also provide for the payment of R3.8 million for professional fees.

R436 000 for parliament staff

THE staff costs for running the new parliamentary complex are expected to cost an additional R436 000 a year, the Secretary to Parliament, Mr A J de Villiers, said in a memorandum tabled yesterday.

He said the R436 000 was required for the additional posts for the parliamentary complex — which cost R32 million — and the dining room for the House of Delegates.

R1.4m for electricity consumers

THE government has set aside R1.4 million to subsidize expansion costs of electricity consumers in the North-Western Transvaal border area.

R1 449 000 has been set aside in the estimates of expenditure for this subsidy under the Mineral and Energy Affairs Vote.

planned

Political Staff

NEARLY R500 million has been spent or set aside for relief work by the government, following the floods of the last six months, Mr Barend du Plessis, Minister of Finance, said yesterday.

Grahamstown's 1820 Settlers Reserve has also had its budget cut from R24 000 to R13 000. The Thomas Baines Reserve, however, gets an increase from R25 000 to R28 000.

The Andries Vosloo Kudu Reserve at Grahamstown has been allocated an increase from R124 000 to R130 200.

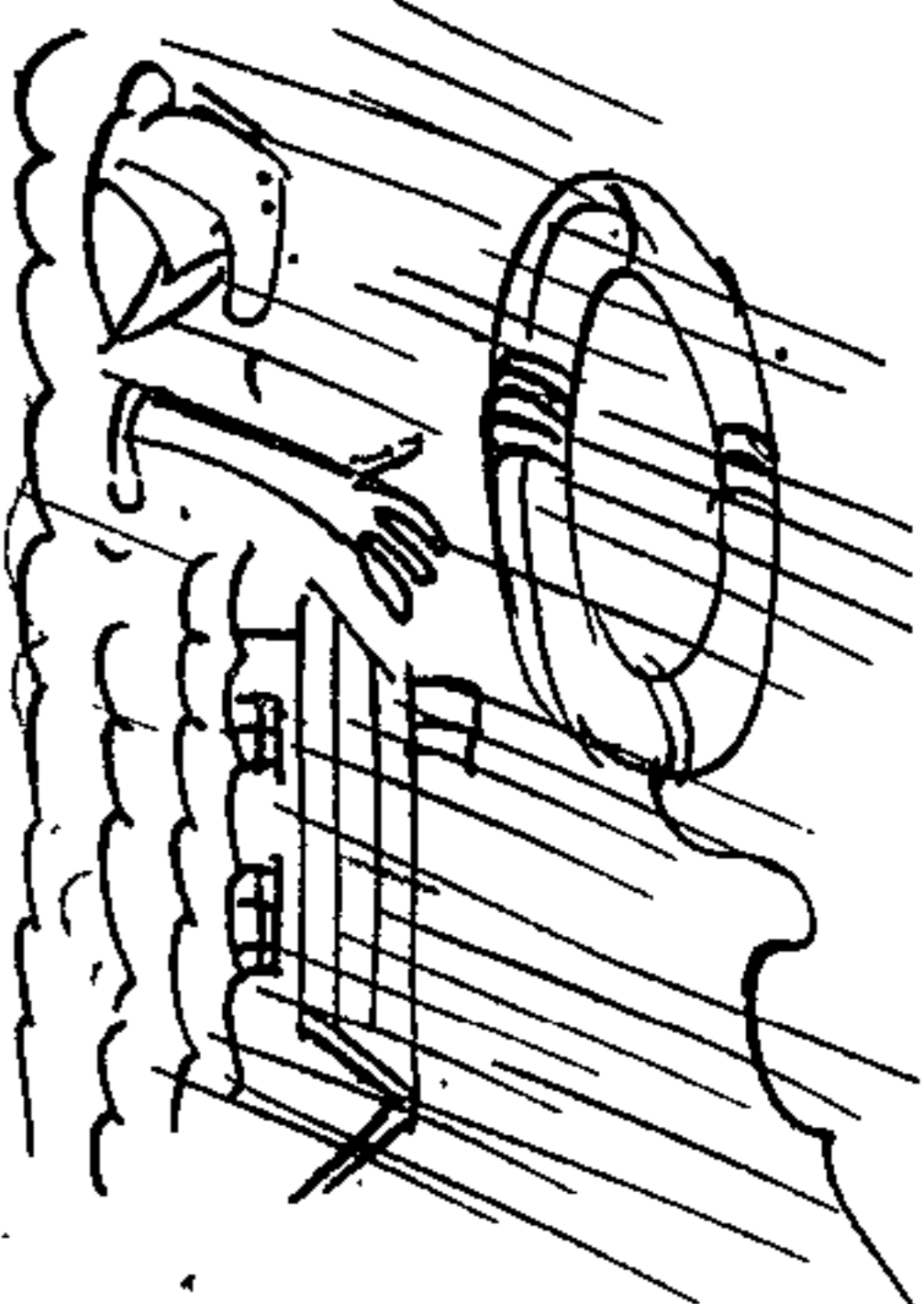
The Adelaide conservation station allocation of R20 000 remains the same, while the Karoo Nature Reserve will get R65 000 and the Com-mandrift Reserve at Cradock R50 000.

The total damage caused in last year's Natal floods alone has been estimated at R400 million, and the government is still assessing the damage caused by the latest floods in Natal, the Northern Cape and the Free State.

"The government is prepared to incur expenditure to repair the damaged infrastructure and to provide necessary financial aid to individuals and individuals," he said.

Some R124 million had been used for emergency aid to victims of last year's Natal floods and

Flood relief



for repairs to roads and essential services.

Another R140.7 million has been included in this year's budget and a further R200 million was being set aside for the recent floods.

Natal's R141-million is being used for:

- Natal Province (roads and bridges)..... 136
- Development Aid (works, agriculture, health)..... 62.1
- Transport (repair of Mazi Canal)..... 10.0
- House of Representatives (social emergency aid)..... 0.2
- Admin: House of Assembly (agriculture) 26.0
- National Health (Disaster Relief Fund), 10.0
- Water Affairs (emergency relief to water boards)..... 8.8
- House of Delegates (agriculture)..... 10.0

R18,7m for MP's facilities

R353m for public service improvements

Political Staff

IMPROVED facilities for Members of Parliament will cost an extra R18.7 million this year.

The budget vote listed under "facilities for MP's" goes up from R11 355 000 last year to R18 747 000.

The figure is ascribed to "payment of costs arising mainly from resolutions adopted by the appropriate committees of Parliament in respect of provision of clerical assistance, travelling facilities, telephone services and catering services, medical aid and insurance premiums."

The total vote for Parliament is R33 106 000.

DESPIITE the wage and salary freeze in the public service R353 million has been allocated for improvements in the conditions of service for the 1988/9 financial year.

A memorandum submitted by the Ministry in the State President's Office entrusted with Administration and Broadcasting Services says the amount has been made available to improve the service benefits package.

Dynamic

The memorandum states that R135 million will be used to further eliminate disparities in salaries between the various population groups and R218 million for the revision of "occupational-specific" dispensations and the adjustment of general service conditions.

Massive increase in strikes in '87

Political Correspondent

THE number of strikes last year jumped by 68% compared with 1986, the Minister of Finance, Mr Barend du Plessis, said yesterday during his Budget address.

Mr Du Plessis said strikes increased from 793 in 1986 to 1 148 last year, resulting in lost "man-days" soaring from 1.3 million to 5.8 million.

For the first time there were major strikes in the public sector, notably SACS, the Post Office and Iscor.

"Most disruptive was the strike in the gold mining industry, while the year was also marked by a continuation of stay-away actions on a large scale."

Mr Du Plessis said the real decline in mining production of 3.5% in 1987 and 3.5% in

proposal

Political Staff

THE government has turned down a Margo recommendation for an airport tax on air travellers.

It has accepted and rejected a number of recommendations on selective indirect taxes according to a White Paper published yesterday with the budget.

The government says that while it supports the principle of "user charges" at airports, it is against "the introduction of such levies for all individual users of airports."

Reacting to various proposals on excise duties and consumer levies, the government said they did not form an integral part of the broad reform package and had to be judged in their own right.

● Adjustment of excise duties: Commission — specific rates of customs duty must be adjusted regularly. Government — concurs.

● Natural wine and sorghum beer: Commission — should again be taxed at a moderate rate. Government — no tax should be imposed.

● Malt beer: Commission — should be taxed at a uniform rate. Government — smaller undertakings require a subsidy.

● Fuel: Commission — there should be a uniform tax on all forms of fuel usage with a refund of specific levies against proof of usage. Government — implemented in July 1987.

● Ad valorem duties: Commission — the list should be re-evaluated and the duties abolished as far as possible. Government — ad valorem duties are an important source of revenue.

● Heavy vehicles: Commission — cost of road maintenance increased by heavy vehicles and income from licence fees and fuel levies insufficient to cover costs. Government — Department of Transport to submit proposals.

At the same time, he said, the prospects for a recovery of the South African economy remained encouraging despite doubts about world economic developments.

Mr Du Plessis said a solid foundation had been laid for the upswing now in progress and for steady, if not spectacular, economic growth.

Assuming a modest recovery in the price of gold, a real growth rate in 1988 of 2.5% to 3% was possible.

Against this background, the government had adopted a remuneration policy in terms of which service conditions in the public service had moderate market competitiveness.

"This implies that improvements to service dispensations be brought about on a continuous and orderly basis by way of general salary adjustments, specific occupational adjustments and the improvement of general service conditions."

The amount allocated for the 1988/9 financial year is about one-third of that budgeted for last year.

Orderly

For the first time there were major strikes in the public sector, notably SACS, the Post Office and Iscor.

"Most disruptive was the strike in the gold mining industry, while the year was also marked by a continuation of stay-away actions on a large scale."

Mr Du Plessis said the real decline in mining production of 3.5% in 1987 and 3.5% in

1986, could be attributed chiefly to the falling export of coal and to strikes in 1987 on the gold mines.

"The beneficial implications of labour unrest emerged clearly in the fact that the volume of mining production in the third quarter of 1987 fell by 13.5% (at a real seasonally adjusted annual rate) as a result of strikes on the gold mines," he said.

● The expenditure estimates

for labour relations will jump from R6 270 000 in the 1987/88 financial year to R11 674 000 in the coming year.

The amount allocated for the settlement and handling of disputes has been increased from R1 727 000 to R2 898 000.

The amount allocated for experiments, appeals, objections, inquiries and complaints will increase from R329 000 to R3 628 000.

proposal

Political Staff

THE government has turned down a Margo recommendation for an airport tax on air travellers.

It has accepted and rejected a number of recommendations on selective indirect taxes according to a White Paper published yesterday with the budget.

The government says that while it supports the principle of "user charges" at airports, it is against "the introduction of such levies for all individual users of airports."

Reacting to various proposals on excise duties and consumer levies, the government said they did not form an integral part of the broad reform package and had to be judged in their own right.

● Adjustment of excise duties: Commission — specific rates of customs duty must be adjusted regularly. Government — concurs.

● Natural wine and sorghum beer: Commission — should again be taxed at a moderate rate. Government — no tax should be imposed.

● Malt beer: Commission — should be taxed at a uniform rate. Government — smaller undertakings require a subsidy.

● Fuel: Commission — there should be a uniform tax on all forms of fuel usage with a refund of specific levies against proof of usage. Government — implemented in July 1987.

● Ad valorem duties: Commission — the list should be re-evaluated and the duties abolished as far as possible. Government — ad valorem duties are an important source of revenue.

● Heavy vehicles: Commission — cost of road maintenance increased by heavy vehicles and income from licence fees and fuel levies insufficient to cover costs. Government — Department of Transport to submit proposals.

At the same time, he said, the prospects for a recovery of the South African economy remained encouraging despite doubts about world economic developments.

Mr Du Plessis said a solid foundation had been laid for the upswing now in progress and for steady, if not spectacular, economic growth.

Assuming a modest recovery in the price of gold, a real growth rate in 1988 of 2.5% to 3% was possible.

CAR AUCTION

Duly instructed by Financial Institutions, Attorneys, Companies and Private Vendors concerned, Mr Kenny Finberg will supplement and sell to the highest bidders

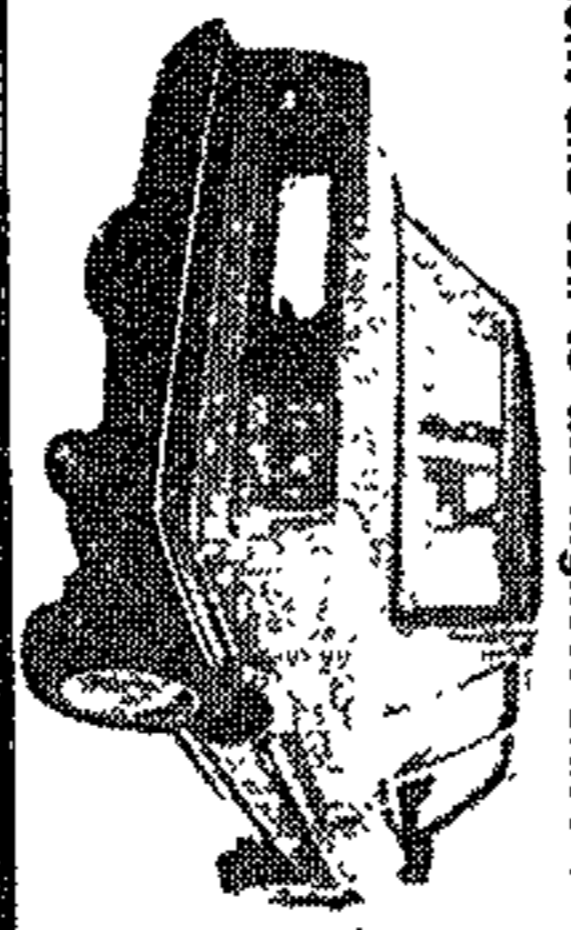
APPROX 130 QUALITY MOTOR VEHICLES

CARS — LDV's — VANS

STATION WAGONS, DECEASED REPOSSESSIONS, DECEASED AND INSOLVENT ESTATES

ON FRIDAY 18th MARCH at 7.30 pm

AT THE CARLISLE STORE (THE BLUE AND WHITE BUILDING) 14 CARLISLE STREET, PAARDEN EILAND



- | | | |
|------------------------------|------------------------------|-----------------------------|
| 1987 Nissan Pulsar 5-sp | 1984 Toyota Hi-Ace | 1981 VW Jetta GLS |
| 1987 Honda Ballade 1300 a/c | 1983 BMW 518i Exec | 1980 Ford Cortina 2.0 GL |
| 1986 Ford Escort 1600 sport | 1983 Fiat Gamma 1600 | 1980 Mazda 305 SR |
| 1986 Toyota Corolla 1.5L a/c | 1983 Nissan Terrano CLX | 1980 Toyota Corolla 1.6 a/c |
| 1985 Toyota Corolla S | 1983 Nissan 400 | 1979 Ford Escort 1.3 L |
| 1985 Opel Rekord | 1983 Datsun Sierra 1600 | 1979 Ford Escort 1.6 GL |
| 1985 Nissan Pulsar S | 1983 Ford Escort 1.6 GL | 1979 M/Benz 280 SE F/H |
| 1985 Ford Sierra 3.0 GLS | 1982 Datsun 1400 LDV | 1979 Datsun Laurel 2.0 L |
| 1984 Audi 5000 a/c | 1982 Renault XRS | 1978 Ford Cortina 3.0 LDV |
| 1984 BMW 528i a/c | 1982 Renault 5 TS | 1978 Chevrolet C10 |
| 1984 Alfa 33 5-speed | 1982 Toyota Cressida GLX a/c | 1978 Datsun 1900 |
| 1984 M/Benz 200E | 1981 Opel Kadett GL | 1977 BMW 525i AT |
| 1984 Ford Escort XR3i | 1981 Opel Kadett | 1977 Datsun 516 a/c |
| 1984 Ford Escort XR3i | 1981 Opel Kadett | 1975 Austin Minn GT5 |
| 1984 Suzuki VR6 16-seater | 1981 Ford 323 L3 | 1973 Ford Cortina 1600 LDV |
| 1984 Renault GTL | 1981 Toyota Corolla 1.6 GLS | 1970 M/Benz 220 |

AND MANY MORE (SUBJECT TO CHANGE WITHOUT NOTICE)

VIEWING: ON DAY OF SALE FROM 2 PM. OPTIONAL 24-MONTH GUARANTEE

Sea Point Auction Mart

AUCTIONEERS: KENNY FINBERG, AVRON GREENBERG, JOHN MARCUS

BUYING OR SELLING? PHONE 51 7157/8/9

(S13410109)

D/D 17/3/88

Budget details at a glance

49

- Duty on beer and spirits up about two cents a pint or tot and on cigarettes by four cents for 20;
- Concessions for married women who earn less than R20 000;
- A new system of tax collection for individuals earning under R12 000;
- New pension bonds introduced with strict limits for those over-65;
- Primary rebates up for couples from R920 to R1 100 and for individuals from R650 to R750;
- Modest tax concessions for individuals;
- A one-off R60 bonus for all social pensioners in October;
- A new levy for heavy vehicles and a heavier tax for company cars;
- R400 million for flood relief;
- New minimum tax for companies;
- Non-resident's tax on interest;
- Abolished dependents' rebates and insurance rebates;
- Abolished medical rebates system changed;
- All tax scales reduced with the ceiling for the maximum marginal rate raised from R60 000 to R80 000;
- Increased taxation on investment income of long-term insurers.

DID. 17/3/88

But drinkers and smokers cough up

CAPE TOWN - The Minister of Finance, Mr Barend du Plessis, yesterday introduced a Budget which brings mild tax relief to most taxpayers but loads smokers and drinkers with an additional duty burden.

The R53 billion Budget introduces tax relief for working wives, adjusts tax rates and rebates and launches the government's tax reform programme on the basis of the Margo Commission's recommendations.

Mr Du Plessis fully accepted just 10 out of more than 300 of the Margo Commission's recommendations and rejected the key proposals of an omnibus comprehensive business tax and separate taxation for married couples.

Other responses to the Margo report are still on the burner.

The Budget met with generally negative reaction from the finance spokesmen of opposition parties.

The PFP's Mr Harry Schwarz described it as "cautious and unexciting" and the Conservative Party's Mr Casper Uys stated that it was a "holding budget" and it was not clear what future pattern the government was going to follow.

For the man-in-the-street there was an approximately two cent increase in the price of a pint of beer and a tot of spirits — the wine lobby appeared to have triumphed again — and four cents duty on a packet of 20 cigarettes.

For married women earning R20 000 or less there was some relief.

It is, however, not quite as rosy as it appears because women falling into this category will pay 25 per cent PAYE, although their income will not be added to that of their husband for the purpose of taxation.

There is, too, a reduction in the tax rate and also an increase in the primary rebates offered.

The new SITE system Standard Income Tax on Employees — also sees an end to rebates for dependents and insurance premiums.

Pensioners, already struggling under the welt of inflation, will get a one-off bonus of R60 in October but races other than whites could receive an overall increase later this year as part of the parity programme, according to Mr Chris April, Minister of Health Services and Welfare in the House of Representatives.

A new "granny bond", this time involving banks, building societies and the Post Office, was also announced and there was nearly R400 million for flood relief and more money for upgrading and job creation.

Essentially, however, it was a cautious budget as Mr Du Plessis slowly introduced a new system in which the tax decks are to be re-arranged.

It was, too, a Budget in which at least to some extent the gloves came off.

The minister admitted that sanctions were hurting and he warned bluntly that unless the growth rate increased the government might have little option but to adopt a calculated approach to dropping standards of living.

Essentially, that means white standards of living.

He also indicated that

if the exchange rate of the rand dropped then the fight against inflation would be essentially lost.

He praised the situation in Israel where the opposition has agreed not to allow the economy to become a political football in the general election in the national interest.

Reaction page 4

Reaction page 4

P/D 17/3/88
**Millions
for East
Cape**

CAPE TOWN — More than R1.1 million is due to be spent in the Eastern Cape and South Western Districts by the Department of Water Affairs during the 1988—9 financial year.

And nearly R6 m is scheduled to be spent on various schemes in the next few years.

Estimates tabled in Parliament yesterday also earmarked a further R52 m for the Orange-Fish project of which R20.8 m is to be spent on agriculture in the Sundays River area

Another R16,6 m is for the same purpose on the Fish River.

This means that by the end of the 1988—9 financial year R754 m will have been spent on the giant scheme while another R499 m still has to be allocated.

Expenditure on water supply works now in progress will see:

- R180 000 spent at Burgersdorp.
- R250 000 at Despatch.
- R105 000 at Grahamstown.
- R150 000 at the J. C. Steyn Prison at Kirkwood, and
- R130 000 at Port Alfred.

In addition R120 000 is earmarked for Plettenberg Bay, the same amount for Mossel Bay and R10 000 for Oudtshoorn.

New water supply works will also start at Cradock, Graaff-Reinet and Queenstown. — DDC

D10 17/388

Liquor hike double tax?



CAPE TOWN.— The extra duty on beer and spirits announced in the budget yesterday will lead to an immediate increase in the wholesale price of spirits which will be passed on to the consumer.

The managing director of Gilbey Distillers and Vintners, Mr Peter Sleek, said that he was extremely disappointed at the substantial increase in excise duty on beer and spirits announced.

He regarded it as a major setback to the spirits industry in South Africa, particularly in the light of current inflationary conditions.

He said the increase of 1,8c a tot represented an increase of about 20 per cent and this price increase would be passed on to retailers with immediate effect.

The chairman of Fedhasa for Port Elizabeth and Uitenhage, Mr Trevor Lombard, said the increase in duty on spirits and beer would be inflationary because it would be passed onto consumers.

"Consumers will be paying double tax on spirits and beer because they will be paying sales tax as well as for the increased excise duty," he said.

Mr Lombard added that he thought it strange that wine had been excluded from an increase in duty yet again.

A spokesman for KWV said that management was obviously pleased that no increase in the excise duty on wine had been announced.

The regional director of Stellenbosch Farmers Winery in the Eastern Cape, Mr Willie du Toit, said he was pleased that wine would not be taxed because it was seen as a healthy drink associated with food, while spirits had always been regarded as a more taxable commodity.

The managing director of South African Breweries' beer division, Mr Graham Mackay, objected strongly to the increase in excise duty on beer but said SAB would only pass on the amount of new excise to recover costs.

He said the increase of 4,8 cents a litre represented a 12,6 per cent increase on the present excise rate and meant that 33 per cent of the price of beer was now composed of government excise duty.

The brewer's prices, he added, would go up approximately 4 cents a quart (750 ml), 2 cents a pint (375 ml) and 2 cents for 340 ml cans and dumpies.

"Beer is the working man's pleasure, but it is the most heavily taxed beverage. This R70-million has to come out of the working man's pocket," he said.

"If the minister was consistent he would put some excise on wine and sorghum beer which have carried no excise burden for some years," Mr Mackay added.

Experts warn against Budget euphoria

By David Braun and Staff Reporters

Cape Town

Personal tax was lowered in yesterday's "give-and-take" Budget but the benefit to taxpayers was eroded by other forms of taxation.

Finance Minister Mr Barend du Plessis said individual taxpayers were more than R1 billion better off after the Budget but tax experts have warned against euphoria, saying increases in wages and salaries will push people into higher tax brackets and heavier tax bills.

Mr du Plessis has reduced income tax but the main beneficiaries will be those in the lower and lower-to-middle income groups.

He has also announced major concessions for working wives. But again, those in the lower income groups will, proportionately, be the main beneficiaries.

Income tax payments by a married man with two children and earning R12 000 a year will drop by R225 or 37 percent. But payments by a married man with two children earning R18 000 a year will fall by only 11,6 percent, and a man earning R25 000 a year will benefit by only 8 percent.

Anyone earning R50 000 a year will see his tax bill fall by only 4,1 percent. Reductions for the upper income groups are slight when it is considered that a cut of about 7 percent in tax rates is needed to offset fiscal drag or bracket creeping.

A married man or single woman whose earnings are derived entirely from employment need no longer submit a tax return if earnings are less than R12 000. The same applies to married women earning less than R20 000 a year. The only tax such people will have to pay is PAYE. But should they not work for a full year, they will not receive any tax refund.

Greatest savings

Here again, the greatest proportional savings will accrue to working couples in the lower income group.

But the tax saving where the husband is earning R60 000 and the wife R20 000 amounts to 13,9 percent.

Pensioners have been given a R110 million bonus payment. Possible increases to State pensioners will be announced in "own affairs" budgets later this year.

Mr du Plessis said his Budget was designed to make companies relieve individuals of some of their tax burden.

It marked the beginning of major tax reform.

The biggest winners are working wives (who will gain R500 million a year when the full impact of the new collection system is felt), senior citizens, the very ill and the lower-income salary earners.

Among those who will feel the pinch are long-term insurers, profitable companies paying little tax, users of heavy road vehicles, beer and spirits drinkers and smokers.

The level at which the maximum tax rate will apply has been raised from R60 000 to R80 000.

Medical and insurance rebates are removed from certain individual taxpayers. Mr du Plessis said this principle was right because until now taxpayers were asking their fellows to share their insurance and medical costs. Besides, he added, it was an inevitable consequence of the Standard Income Tax on Employees (Site) system that these rebates should go.

In a post-Budget interview last night Mr du Plessis told The Star he had set out to achieve three objectives:

- To finance Government expenditure properly.
- To make a contribution to the overall state of the economy through the right fiscal and monetary policy.
- To help the man in the street who was reeling from the ravages of inflation.



Comment on Budget: Pages 4, 11, 12, 13, 6M and 7M. Full Budget speech on Pages 1M to 5M.



The main features of the Budget were:

- Modest tax concessions for individuals.
- Increased duties on beer, spirits and cigarettes.
- All tax scales reduced with the ceiling for maximum marginal rate raised from R60 000 to R80 000.
- Granny bonds to be reintroduced but with strict limitations.
- Company cars to be more heavily taxed.
- Primary rebates for taxpayers raised.
- New minimum tax for companies.
- Investment income of long-term insurers to be made more liable for tax.
- Heavy road vehicles to pay more tax.
- Estate duties and donations tax abolished but replaced by a transfer tax.
- R110 million for a once-off bonus for pensioners in October.
- Flood disaster relief of nearly R400 million.
- The start of a major restructuring of the tax system.
- Concessions to married women in certain income brackets.
- Dependents' rebates and insurance rebates abolished.
- Medical rebates system changed.
- Non-residents tax on interest abolished.
- Stamp and transfer duties on company rationalisation schemes abolished.
- New system of tax collection for those earning less than R12 000.



A very good Budget, says Justice Margo

Mr Justice Cecil Margo, chairman of the commission that investigated SA's tax system, said he thought the Budget was "very good".

Although some aspects of detail needed consideration, in general the tax commission's recommendations had been adopted.

The most important of these was the reduction of income tax and a correspondingly greater reliance on indirect taxes.

This was the route chosen by countries such as Canada, Australia, New Zealand and Britain.

The introduction of a Value Added Tax

(VAT) with as broad a base and as few exemptions as possible would bring benefits far greater than a continuation of general sales tax (GST) would do, he said.

Asked whether he thought Finance Minister Mr Barend du Plessis had gone far enough along the road of reform — for instance in granting relief to married working women — Mr Justice Margo said that without introducing a Comprehensive Business Tax (CBT) the Government would not have had enough money to bear the cost of separate taxation of married women.

Prestidigitation at the Treasury

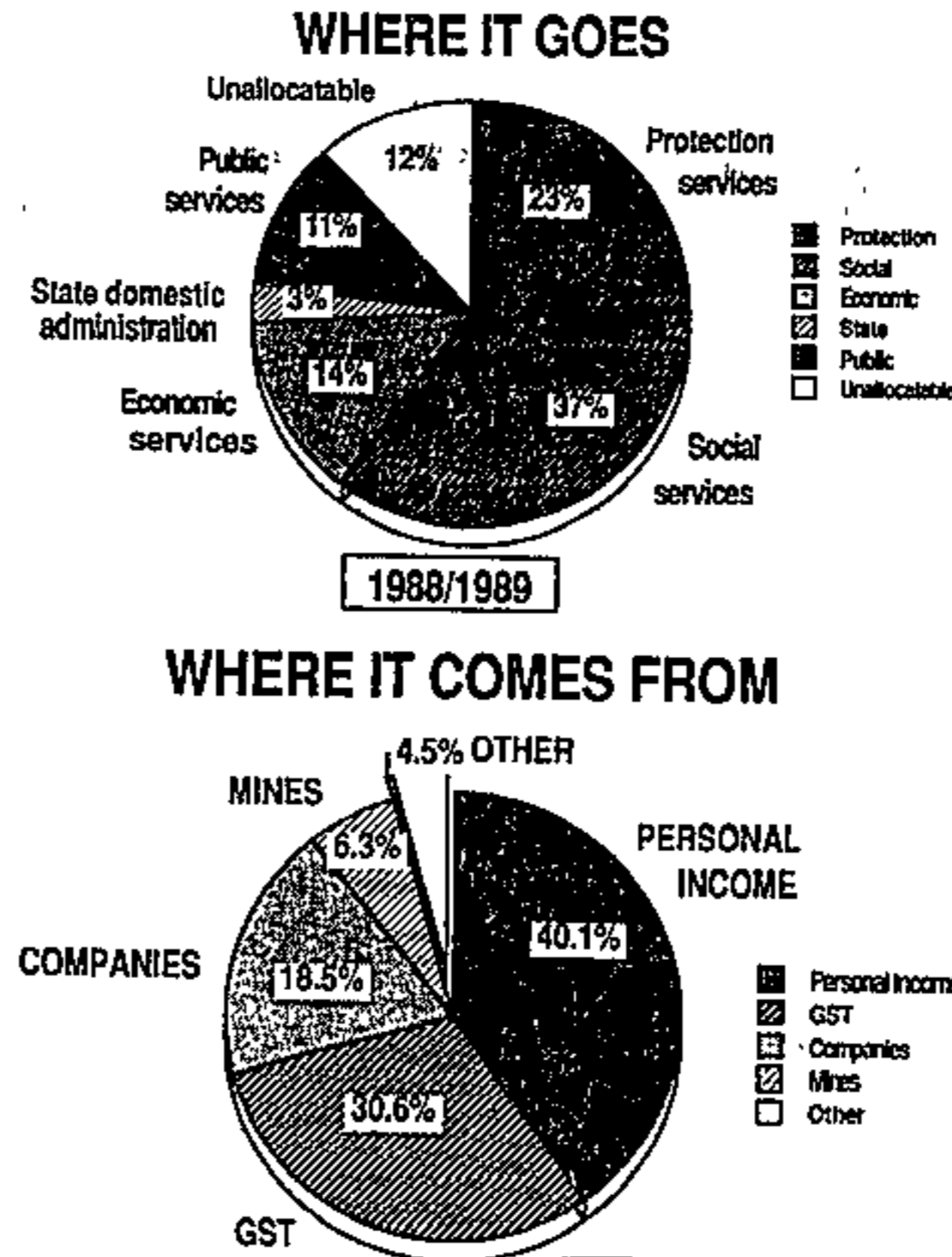
Finance Minister Mr Barend du Plessis had to do some tricky juggling to balance this year's Budget.

Spending on the State departments has soared 13 percent to a record R52,9 billion, with security services taking up more than ever before.

The overall increase in expenditure is a decrease in real terms, after inflation has been taken into account, but economists will be watching to see if the Minister can keep the departments to their budgets.

In addition to the R52,9 billion, Mr du Plessis has had to provide R1 billion for a number of items — including a R110 million bonus payment to pensioners, a R20 million subsidy on the new granny bonds scheme, R200 million for flood disasters and R550 million for the National Road Fund.

To make ends meet he has boosted income by taking R1,340 million from the National Road and Central Energy Funds, R70 million extra from beer drinkers, R50 million from spirits drinkers and R60 million from smokers.



149
 6/16/89 18/3/88

SOUTH Africa has virtually no option but to live within its means. That is the main signal from not only the Budget, but other statements on fiscal policy.

Economist Louis Geldenhuys, an expert on government finance, told the Afrikaanse Sakekamer yesterday that affordability was the key word in fiscal policy.

"SA has to cut its coat according to its cloth. Because our options have become limited, we have to exercise great caution to prevent excessive spending."

Factors such as the balance of payments constraint, the rising deficit and inflation had made caution imperative. Government had realised that SA had to live within its means — and that was why it had budgeted for a real decline in spending, Geldenhuys said.

"But I am not too ecstatic over the budgeted increase of 12,6%."

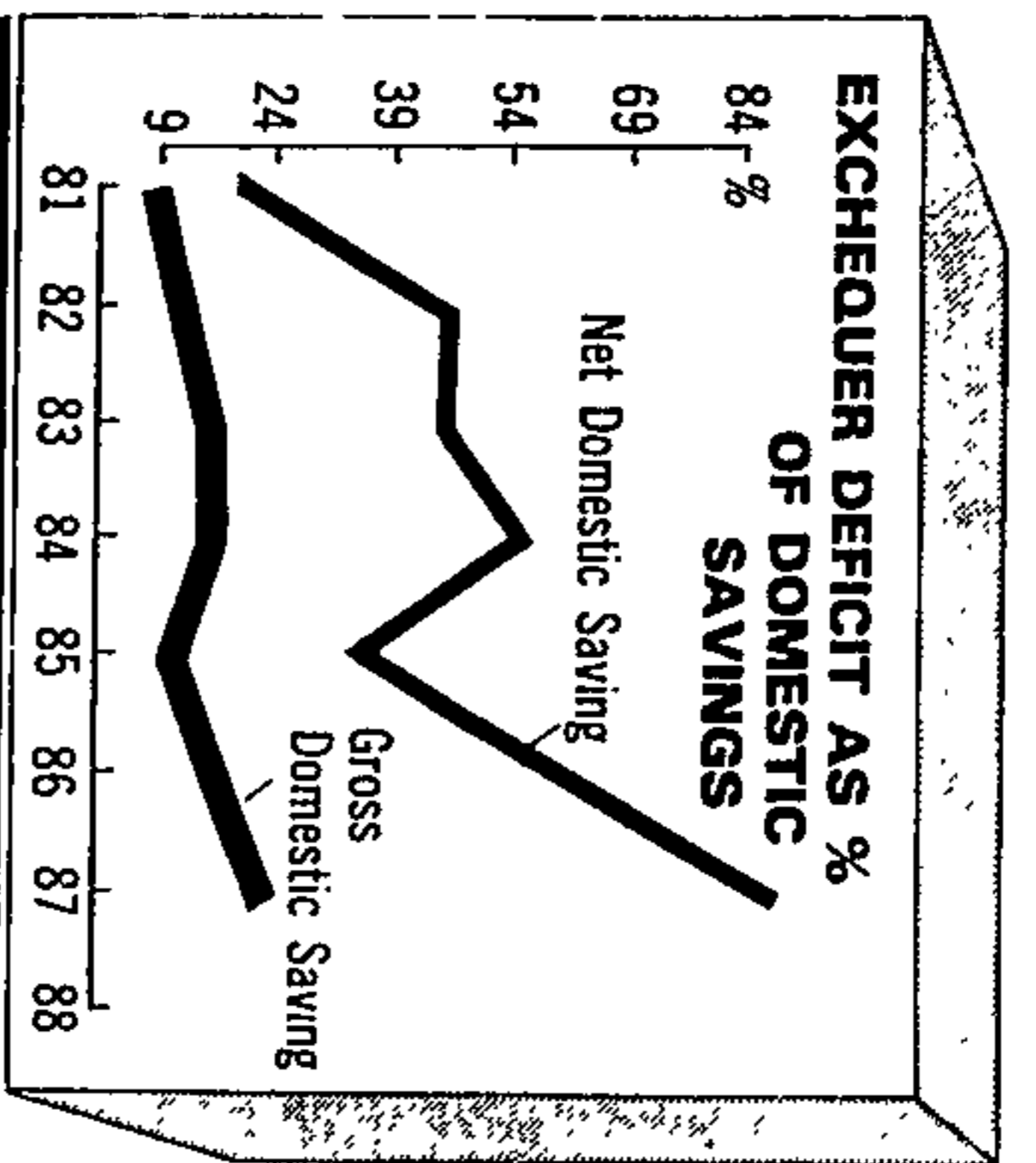
Government's track record showed it had made a habit of overshooting its budget targets. "It will be a major achievement should the actual growth rate for the next fiscal year be kept under 14,5% — implying marginal overspending of about 1,7%, or about R1bn."

What is Geldenhuys's verdict on the deficit of R9,86bn?

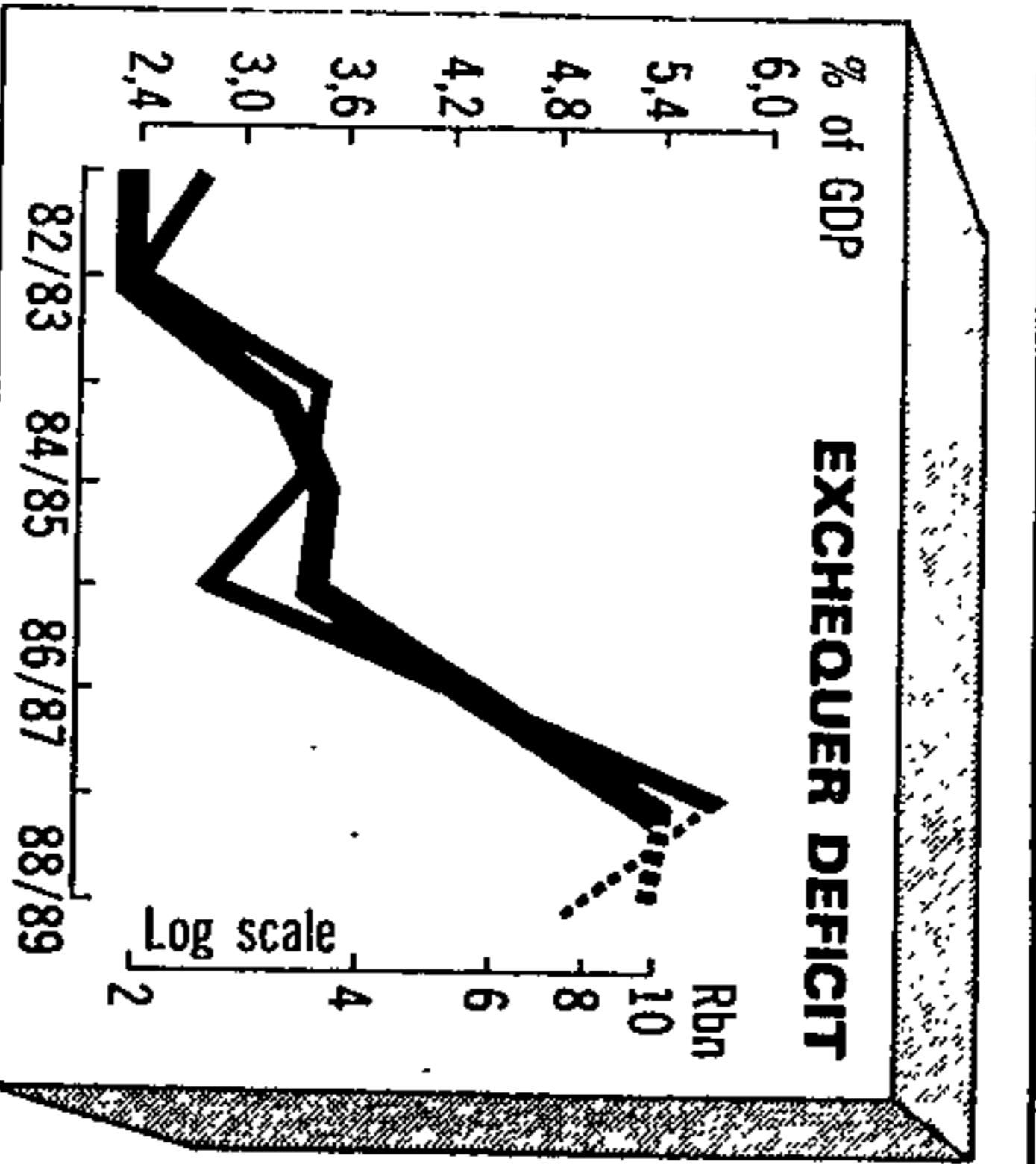
"It is still very large. The deficit has grown rapidly in recent years, which shows that government spending has reached a level where affordability is a genuine problem. SA painted itself into a corner."

One could argue that a Budget deficit of 4,9% of GDP was still expansionary, that it would still boost domestic demand, leading to an overheated economy.

"But despite the large deficit, the



Source: GEORGE HUYSAMER & PARTNERS Graphic: JOHN MCCANN



Source: GEORGE HUYSAMER & PARTNERS Graphic: JOHN MCCANN

'Boom and bust' days at an end

GRETA STEYN

Budget is restrictive. Exchequer spending is budgeted to grow at a slower rate, the financing mix does not mean a large monetary injection and there are higher taxes on business — all of which should dampen domestic demand.

had reached a level where it had to take drastic action. A restrictive Budget was appropriate under these circumstances.

Turning to real economic growth, Geldenhuys said the Budget should have a dampening effect on economic activity, which had been rather buoyant — growing at a rate of about 4% in the last six months.

Why will the Budget have a dampening effect on domestic demand, and thus on growth?

The dampening effect would be felt soon — perhaps sooner than other traditional policy measures to curb demand, such as interest rates. The growth in consumer spending was likely to have slowed significantly by the third quarter of this year because of the weak underlying position of the consumer.

The bottom line for growth this year was a rate of below 3%, probably not more than 2,5%.

This did not imply stagnation — only that SA's days of "boom and bust" could be over. The country was likely to see less dramatic swings in growth, with a reasonably good chance of the growth phase continuing for a longer period, at between 2% and 2,5%, Geldenhuys said.

"SA will do well if we can mark time for a while on our standard of living."

Management of economy essential 49

THE post of managing director of South Africa Incorporated is vacant – in fact, not yet created, said Dr Fred du Plessis in his chairman's address at Sanlam's annual general meeting.

The result is that quite a number of undesirable trends have developed in our national economy over the past decade.

He said that management of the economy meant the systematic pursuit of specific goals in a way that is continually adapted to suit changing circumstances.

"Any experienced entrepreneur will tell you that it is essential for someone to take direct responsibility for these actions."

The national economy is much like an enterprise. The State President should give the lead, but he cannot be expected to implement the strategic plan. Neither could it be expected of any of his ministers, as long as they had their own portfolios to look after.

Reform

According to Dr du Plessis, economic reform, better growth, greater prosperity and political stability are possible only if an expert on South Africa's national economy assumes responsibility for managing the country's economic strategy, answerable to the State President and his cabinet.

Quite a number of undesirable trends have developed in the national economy over the past decade:

- The share of the government sector in the national economy grew too rapidly.

- The taxation system inhibited productive initiative in the private sector.

- Personal savings dropped too much.

- Too little fixed investment occurred.

- A spiral of increasing inflation and a depreciating rand developed.

- South Africa's import propensity increased.

Dr Fred du Plessis said everyone agreed with Dr Gerhard de Kock when he said in his opening speech at the AHI congress in 1979 that the performance of our national economy during the second half of the seventies had been unacceptably poor.

Improve

Dr de Kock had then expressed the hope that it would improve substantially in the eighties with the new policy approach he had propagated and which the government had accepted.

"It is nine years later, and the country is several billions of rand poorer as a result of bankruptcies caused by following the policy. We cannot continue with this policy approach any longer," Dr du Plessis said.

"To cope with this crisis, demands crisis management. Just as the government deemed it necessary to dispense with the normal system of maintaining law and order and declared a state of emergency to be able to act more effectively, so it is necessary for the South African national economy to be managed through this crisis.

"Economic survival must be pursued with determination and resourcefulness in a systematic way. We have to manage our economic strategy."

W. Mail 24/3/88

Barend's '88 budget puts kragdadigheid before butter

(49)

THE budget reflects the government's failure to address South Africa's serious poverty problem.

This view is shared by the National Council of Trade Unions (Nactu) and Harry Schwarz of the Progressive Federal Party (PFP).

According to Nactu, in a statement issued shortly after the budget, "the ability of this budget to address fundamental social and economic problems is extremely limited. It tends rather to reflect the lack of solutions within the constraints of the present system."

Schwarz argued: "The budget has very little for the lower income groups and the poor, while the amount available for social pensioners is completely inadequate."

In fact Minister of Finance Barend du Plessis has sought to promote the forces of *kragdadigheid* — defence and the police — at the expense once again of social services. While he has increased the defence and police budgets by 20 percent, social service spending has only been increased by 12 percent, which means it has actually fallen in real terms.

To fully appreciate the meaning of this decline it needs to be placed in an international context. South Africa spends considerably less on social services than most other countries.

Only eight percent of South African government spending goes on social services and welfare, compared with an average of 16 percent in other developing countries and a huge 40 percent in industrial countries.

Du Plessis himself was quick to point out in his speech that this budget was crafted under severe constraints, including "a host of politically-motivated and internationally-orchestrated restrictions" such as "cynical sanctions". These constraints had forced him to "distort the optimal allocation of the resources with which our country is so richly endowed".

Du Plessis is of course right to point this out. One only hopes that he will therefore immediately instruct our UN representative to stop daring the world to do their damndest against us. While he is at it, he might just remind his colleagues in the cabinet that the best way of getting rid of "cynical sanctions" is to implement meaningful reforms.

Unfortunately, with its emphasis on increasing defence rather than social service spending, the budget hardly makes any contribution to this end.

In his comment on the budget, Jan Cronje, director of the South African Consumer Council, welcomed the "mild income tax relief for individuals" it contained. Other positive features which he identified included "the broadening of the tax base, stricter measures for tax evaders and help given to senior citizens".

However, he added that "the council was still perturbed about the continuing impoverishment of consumers caused by the high inflation rate".

Du Plessis devoted a considerable part of his budget address to dealing with the issue of inflation, asserting that it was "the duty of the government to intensify the fight against inflation so as to protect our people against its destructive impact."

"As is by now well known, everything possible is being done to contain state expenditure within affordable limits; and the increase in expenditure is thus negative in real terms".

While this is undoubtedly an important contribution to the fight against inflation, the problem lies in the way

Amid 'cynical sanctions' the government has crafted a budget that favours the security forces and neglects social services. DUNCAN INNES reports



Harry Schwarz

Du Plessis has achieved it.

The major saving was achieved by cutting improvements of conditions for public servants from last year's R1 074-million down to R353-million. Overall, Du Plessis has managed to save R1,7-billion by freezing public sector wages and salaries.

Yet at the same time he has increased the defence budget by R1,5-billion.

By switching his cuts from wages and salaries to defence he could have achieved virtually the same financial savings without cutting into living standards.

Du Plessis is at pains to argue that his wage freeze is not in fact a wage freeze. This, he says for the benefit of the "ill-disposed and ill-informed", is because public sector employees will still receive "the normal notch increases and occupation-specific adjustments".

But it is only those employed in permanent positions who benefit from these increases. Since very few blacks are employed in such positions, this means that large numbers of black workers will receive no increases at all.

For instance, 80 percent of the 23 664 black employees in the post office are not in permanent posts and neither are 67 percent of the 8 270 coloured workers. By contrast only 10 percent of whites are not in permanent posts.

Du Plessis also drew attention to the "success" Israel had achieved in bringing inflation down from over 400 percent to 16 percent. This, he said, came about because in Israel "they had reached an accord with their trade unions whereby all wage- and salary-earners were prepared to accept a drop of 30 percent in income as their contribution to the campaign against inflation."

These united actions, he added, "set us an example worthy of note".

One hopes the minister noted that the Israelis reached "an accord" with their trade unions, rather than simply arbitrarily freezing their wages.

That, after all, is the real lesson.

FM.

18/3/88

VENTURE CAPITAL (49)

Signs of life

A fledgling entrepreneur gets financial backing from friends or co-workers: that's venture capital. Now in SA, there are signs that

FM (49) 18/3/88

a formal venture capital market is financing risk-taking businessmen.

"Perhaps SA is at the threshold of a venture capital explosion," Johannesburg Venture Capital Association chairman Graham Rosenthal told a seminar this week.

He says the need to develop local industries and products and provide millions of jobs will spur investment in high-risk undertakings.

What sort of investment?

Nedbank Group CEO Piet Liebenberg says venture capitalists tend to invest in companies that apply existing technologies rather than developing radically new ones — computer peripherals, software, data communications, industrial automation, medical technology, health care and biotechnology.

In return they get stock, warrants, options or convertible securities.

Liebenberg outlines a plan for making venture capital take off.

Government could encourage investment by deregulating and offering a three or five-year tax moratorium for new businesses. Financial institutions and industrialists could form partnerships with independent venture capital firms. And business schools could offer courses in industrial venture capital.

Keith Munro, CEO of Standard Bank Development Finance (SBDF), explains risks and rewards. He says SBDF built up a portfolio of 50 investments, initially in industrial products, in its first three years.

Twenty failed. "Of the other 30, five have spectacular prospects, 10 are exciting and the remaining 15 are our nursery." He cautions: "With such a high attrition rate we would strongly recommend an individual investor to think twice before committing hard earned funds to any one project."

To help investors spread risks, SBDF's new holding company, Growth Investment, may seek a JSE main board listing this year if market conditions are right. This would be the first listing of a venture capital firm. ■

Border business has mixed view on budget

D/D 18/3/88
49
Daily Dispatch Reporter
EAST LONDON — Organised business in the Border region had mixed reactions to the budget, welcoming some of its proposals and criticising others.

The newly elected president of the East London Chamber of Commerce, chairman of the Border Metropolitan Development Corporation (Bomedco) and city councillor, Mr Errol Spring, said that the budget looks like a very cautious one and that financial discipline must be the order of the day in the year ahead.

"The attempts to address the problem of inflation in this country, by stricter control on government expenditure, limiting it to under 13 per cent, will succeed only to the extent that the government contains expenditure within the budget limits," he said.

Mr Spring said he hoped the government was serious about containing its expenditure, considering its "track record of consistent overspending".

"A positive proposal is the reduction of taxation of the individual.

"If the shakey upturn in the economy is to be sustained it is essential that all money be put into the pocket of the man in the street."

Mr Spring said he was

disappointed that pensioners were not getting a substantial increase to compensate for the erosion of the value of their income and said the R60 bonus in October "fell hopelessly short of any meaningful assistance".

The president of the Kaffrarian Chamber of Commerce, Mr Jack Patel, said he was glad that the man in the street



MR SPRING

was not being burdened with further tax, but said that the business man is going to pay more and ultimately this would affect the man in the street.

"This is because the government is spending more than it should on defence and unfortunately providing for flood damages," he said.

"The pension bonus in October is welcomed,

however, I feel more should have been done for non-white pensioners whose income is in comparison much lower than that of white pensioners."

Mr Patel said he hoped that the R183-million set aside for job creation would not be paid out as a one time thing.

He said it should rather be used for creating small businesses which have the ability to find ongoing employment for people.

"The fact that medical aid and insurance are not going to be totally deductible, coupled with increased tax for the insurance business is a pity, because it is one way of creating funds for later life," he said.

Mr Patel said more should have been earmarked to alleviate the backlog in housing and education.

An accountant and the British consul here, Mr John Fletcher, said that it was "quite a good budget" considering the constraints the government is under and a "reasonable balance" had been achieved.

"On the whole this budget should benefit the man in the street and help in the fight against inflation," he said.



"The broadening of the tax scales by moving the figure at which the marginal tax rate is applied from R60 000 to R80 000 and the reduction from 15 to 14 per cent in the rate charged on the first R12 000 will be of general benefit.

"It is particularly pleasing that recognition has been given to the impact of inflation whilst not ignoring the need to commence the introduction of tax reform as recommended by the Margo Commission," he said.

"The publication of the white paper and the promise of further consultation on tax reform are most welcome."

Mr Fletcher called the implementation of particular proposals by the Margo Commission, especially the replacement of donations tax and estate duty by a capital Transfer tax, "a satisfactory start".

The proposals for the separate taxation of married couples not being fully implemented was disappointing, he said.

"However, the vast majority of working couples will undoubtedly benefit from the introduction of SITE (Standard Income Tax Employees) since these proposals embrace married women earning R20 000 or less."

The worsening of the tax position of insurance companies without compensating relief on dividend income of individuals was another unsatisfactory feature Mr Fletcher pointed out.

THE ECONOMY

Fiddling with figures but the cash crisis stays

TAX reform and the need to curb inflation dominated this week's main budget.

Finance Minister Barend du Plessis tabled a budget which included some reshuffling of taxes and a projected increase in government spending significantly lower than last year's.

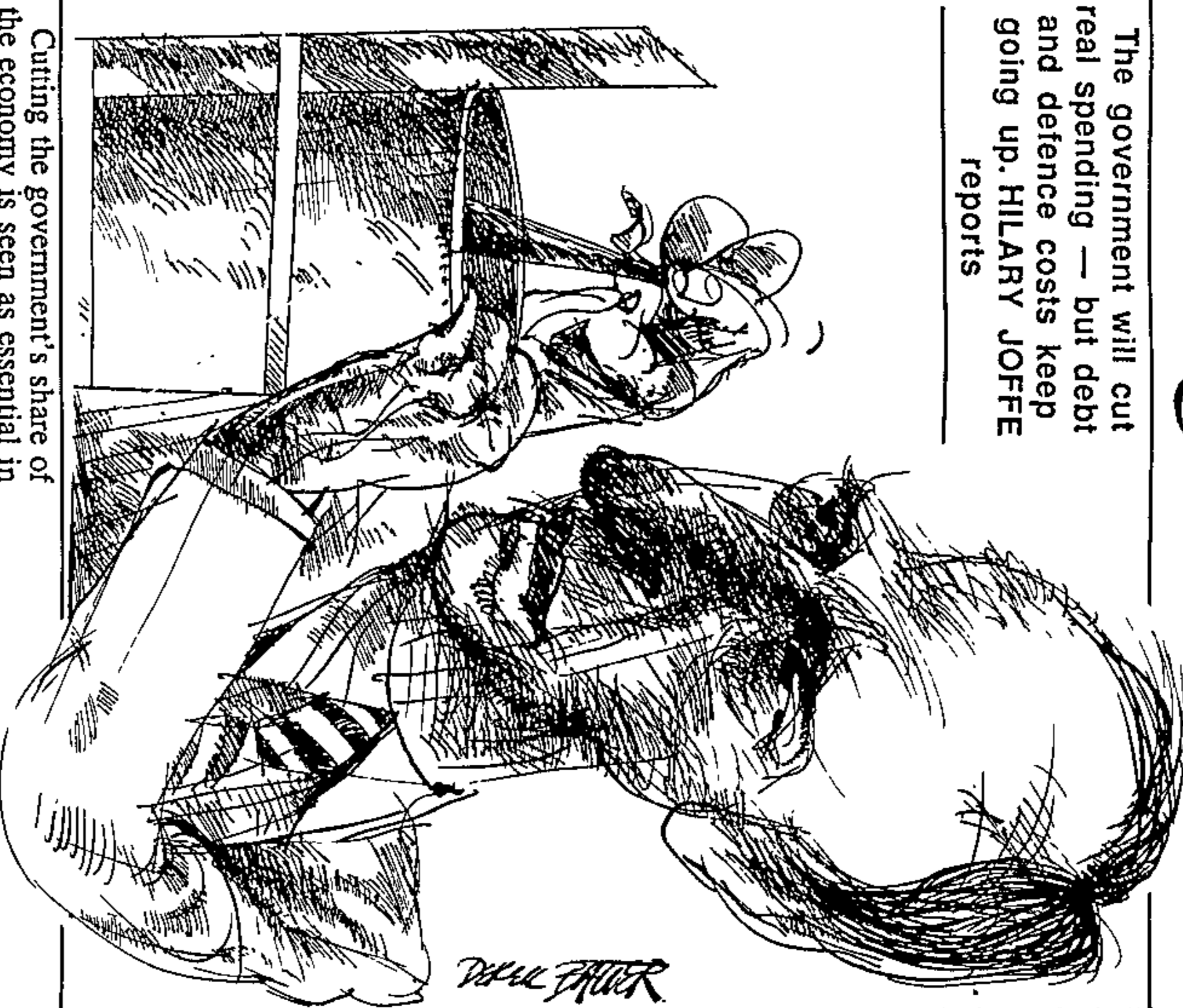
But the budget was little more than a holding operation. The longer term measures which the government hopes will cut-inflation, promote economic growth and solve its own financial crisis were not reflected in the budget figures: privatisation and fundamental tax reform will take a while longer, the minister suggested, and meanwhile the government will continue to have "cash flow problems".

Du Plessis was working on the basis that the economy is improving. He claimed credit for the success of his 1987/88 budget in stimulating growth, investment, consumption and employment. But this year's budget was to be a "less-expansionary" one, he said.

Last year's economic growth rate of 2,6 percent is not very high — certainly not high enough even to keep constant the unemployment rate, estimated at over three million. And economists are this year predicting growth of 2,5 to three percent.

But the government is trying to prevent the economy growing too fast, through its fiscal and monetary policy. A major reason is its concern to remain creditworthy in the eyes of the world. To pay its foreign debts it needs a substantial surplus on the foreign trade account. And economic growth in South Africa means more imports which, combined with bad export prospects, puts downward pressure on the trade surplus. Growth also puts inflationary pressures on the economy — and the government wants to curb those too.

The government will cut real spending — but debt and defence costs keep going up. HILARY JOFFE reports



Cutting the government's share of the economy is seen as essential in combating inflation. Du Plessis is trying to do that this year with a projected real decrease in government spending.

Central to the attempt is the freeze on public sector pay increases and the number of public sector jobs — the budget foresees a 72 percent cut in the allocation for improvement in conditions of service. The rise of government spending is also to be held down with, as Du Plessis put it, the spending of "virtually all" state

departments "drastically pruned".

Spending is to rise to R53,865-billion, an increase of 12,6 percent on revised spending estimates for 1987/88 and of 14,9 percent on last year's main budget figure. Last year's main budget provided for a 16,2 percent increase but the increase has turned out to be 18,9 percent.

Economists are sceptical about whether spending really will increase this coming year by only 12,6 percent — below the rate of inflation.

Du Plessis may well be sceptical too — but understating the spending increase and the inflation-beating rhetoric of the budget could be an attempt to discipline government departments. (He may also have stashed some away from last year).

On the revenue side, Du Plessis announced limited tax relief for individuals and tinkered with a variety of taxes in order to extract more revenue. He introduced a new minimum tax for companies designed to prevent tax evasion, raised life insurers' tax, raised customs and excise duties on beer, spirits and cigarettes and introduced a heavy vehicle levy.

With the new measures the government expects to bring in revenue of R44,005-billion, an increase of 16,3 percent on actual and 14 percent on the main budget figure for last year.

The bottom line of Du Plessis' budget is thus a deficit smaller than last year's: R9,86-billion compared with the R10,014-billion which the 1987/88 fiscal year has finally produced.

The coming year's deficit would thus represent 4,9 percent of estimated GDP, as opposed to 5,8 percent last year.

This year's budget was very different in tone to last year's. Du Plessis exhorted the population to help curb inflation by being more productive and more "price sensitive". And he stressed that the government would contribute by contracting its spending. He played up the tax relief aspect and apologised that the government couldn't afford more of it.

There was only passing mention of the social, political, economic and security needs of the country — rhetoric which had featured in previous budgets.

But budgets are statements of government political priorities and this year's is no exception. Spending is

being cut in virtually all departments. The exceptions reveal the government's priorities.

All categories of government spending are due to increase by less than the rate of inflation except "protection services", comprising prisons, police and defence; spending on these will rise by 19 percent to R12,1-billion.

Defence spending goes up by 22 percent (less than last year's 30 percent increase), prisons by 18 percent and police by 12 percent. There is also R72-million to cover the cost of transferring the municipal police to the SAP.

Only a small proportion of government spending, about R4-billion (an increase of only 2,1 percent over last year), is capital spending in investments which could create jobs and infrastructure. Du Plessis last year pointed to the investment in "human capital" the government was undertaking through its education spending: at R9,9-billion, education is the largest single item of government spending, making up almost 19 percent.

Defence is a close second at 16 percent. Third in line is the cost of the public debt and fourth is constitutional development, which is due to soak up R3,8-billion or seven percent of the budget.

The increase in education spending this year is likely to be just below inflation at 14 percent. Health spending will go up by only 11 percent. Housing gets slightly more priority — it is to rise by 13 percent to R842-million.

Overall social services spending increases by 12 percent. If the figures reveal the government's political priorities they also reveal its financial problems — the cost of the state's debt is one of the largest items in the budget at R7,6-billion, a 19,5 percent increase over last year.

More doubts

P W Botha's recent economic package continues to raise questions and warnings.

Joining the fray is the *March Standard Bank Review*, which is concerned about where both the partial freeze on public-sector wages and privatisation may lead.

It predicts government will save R1,5bn from the partial freeze, as its salary bill rises just 7% through notch increases and adjustments, rather than around 14% had no action been taken.

But it warns that labour trouble will arise if government extends the freeze to private businesses. For the past three years, most private-sector wage settlements have fallen short of inflation. That started to turn around late last year and there were hopes of real income gains this year.

FINANCIAL MAIL MARCH 18 1988

"Eliminating this prospect could raise the spectre of widespread employer-union confrontations, a development which would be most damaging to growth this year," Standard says. "In 1987, disruptions of production resulting from industrial disputes were the most serious retarding factors. The imposition of a private-sector wage freeze would only serve to further raise the temperature of collective bargaining."

If privatisation is to free resources from State control and promote growth, Standard says, proceeds must be used to pay off debt and reduce taxes, not fund more government spending. Also, government must be willing to yield control of State enterprises. Otherwise, privatisation just becomes a new way for the government to collect billions of rands while keeping control over the economy. ■

Meeting of minds

49



Deputy Finance Minister Kent Durr, who takes over as Minister of the Budget in the House of Assembly on April 1, talks to the *FM* about

government's economic reform initiative.

FM: What contribution should the private sector make to support the initiative?

Durr: Price increases should be kept to an absolute minimum and under the inflation rate if at all possible. There must be restraint on wage and salary increases. We are aware the situation varies from company to company, sector to sector and region to region. Some companies in recent years took the sort of measures government is now taking and it may be difficult for them, in the face of rising profits, to deny wage and salary increases. But, within that situation, there must be restraint. Increasing productivity is vital. My impression is the private sector is already lean but it must still do what it can. Do you perceive a tension, verging on suspi-

cion, between the public and private sectors over price and salary restraints?

No. In recent years the meeting of minds between the private sector and government on broad economic issues has been better than ever. But, clearly, a difficult situation could arise if people who don't make wage demands or get increases (such as civil servants) see wild price rises in the private sector, lowering their living standards.

What is government offering the private sector through the initiative?

Smaller government. If entrepreneurs are overtaxed and have too few rewards for their efforts, if there are too many obstacles to entering the economy, if government is allocating too high a share of each rand to itself to pay for the civil service, then things must change. That's what this initiative is all about. Government is not the most cost-effective route for creating jobs, while the private sector is. We are a capital exporting country, so strategies aimed at the most productive use of our existing capital base are an urgent priority both in terms of money spent and how we use existing infrastructure, including quasi-government bodies.

What is government aiming for?

Smaller government, lower taxes, healthier growth and expansion of private property rights to give us a chance of building a successful economic base on which to build a sustainable democracy that will meet the challenge of burgeoning population growth. What evidence is there of government's commitment to seeing the initiative through?

The State President's speech at the opening of parliament presented the broad outline of the programme. Courage and enthusiasm was demonstrated in the Additional Appropriation, which showed discipline had been maintained since the last Budget. It was followed up in the Sats and Post Office budgets, where there were no tariff increases. One can clearly see an encouraging pattern emerging that must and will accelerate. The initiative will develop its own impetus.

Government has shown, through the restructuring of Eskom, that it has the skill and courage to revamp intelligently to the extent that, this year, there will be only one electricity tariff increase of 9,2%, well below the inflation rate, plus a massive cut in capital spending without sacrificing one kilowatt of electricity.

A major change of gear



It is a comment on the structural changes we have suffered — over which, to be fair, Barend du Plessis has had no direct control — that after only one year of growth at a rate that would have

been considered modest in the Sixties, he has to switch the emphasis of policy to preventing overheating.

Recent changes in Reserve Bank policy — on which Du Plessis expands in his Budget speech — and restrictions on public-sector wage and tariff increases have already signalled this change.

Du Plessis calls it a "subtle change," but this is unduly modest. Last year, he was explicit that stimulating growth had to take priority over checking inflation. This year, precisely the reverse is the case. That is more than a subtle change: it is fundamental.

The objective this year is to *reduce absolute public-sector spending in real terms*. If

For the first time, Barend du Plessis has a Budget he could put his own stamp on. He's made most of the right noises, but only the results will show whether government policy has at last attained credibility.

this can indeed be achieved, it will surely be for the first time since the end of World War 2. Given the need — however regrettable — to combat the risk of overheating, this will also mean that the Budget should for once be counter- instead of pro-cyclical.

To this must be added tax changes that — bearing in mind that the bulk of Margo-related changes must wait until next year — are far more radical than might have been expected. Here, too, for the first time in many years, the effect of inflation has been offset — at any rate in global terms, though the benefits have been concentrated at the lower end of the income scale. Indeed, the

whole tenor of the Budget is aimed at the lower income groups, no doubt designedly to placate public servants and other defectors to the Conservative Party.

Yet again, there is an attempt to protect fixed-interest investments of the elderly against inflation. After the disappointment of the first Granny Bonds, judgment on this plan should perhaps be suspended. Ultimately, of course, capital can only be protected by eliminating the inflation that erodes the value of fixed-interest investments.

The better-off will not only benefit less from bracket and rate adjustments, as well as the impact of SITE on working wives, but will also tend to be hit by the increased (if as yet unquantified) tax on company cars and clamp-down on tax-avoidance schemes. Indirectly, they will also suffer more from the tougher tax treatment of insurance companies, while there is still no adjustment of the allowance on retirement annuities — not an instrument of saving that Margo particularly approved of, anyway.

Continued on P38

THE STATE OF THE ECONOMY

In spite of droughts and floods, the economy is showing healthy signs of overall recovery, Barend du Plessis said in his Budget speech.

He said the economy has moved into a "more vigorous cyclical upswing." In the fourth quarter of last year, growth in GDP, at a seasonally adjusted annual rate, accelerated to almost 5%. For the calendar year, real GDP grew by 2,5%, compared to 1% in 1986 and a 1% decline the year before.

Real GNP grew by 3,5% last year. Real GDE grew by nearly 5% and in the fourth quarter was more than 10% higher than the corresponding period in 1986, thanks to the continued steady expansion of real private-sector consumer demand.

Du Plessis warned that the growth rate last year must be seen in perspective. Though it was better than in the previous two years, it still fell far short of earlier upswings and was below potential.

The balance of payments on current account again yielded a large surplus last year, but declined due to a fairly stagnant level of merchandise exports, only a modest rise in net gold exports and rising merchandise imports.

The post-war record of surpluses in 12 consecutive quarters was attributable to a lack of excessive domestic demand partly as a result of the effective application of monetary and fiscal policy and the low value of the rand, which encouraged ex-

ports and discouraged imports.

Sanctions and other restrictive measures not only had a negative impact, but also harmed the economies of neighbouring states. The measures were successful to the extent that they retarded economic growth. But this only caused unemployment and did nothing to advance the process of political reform.

The Second Interim Debt Arrangement Agreement is a "great success," he said. "The remarkable balance of payments performance and the manner in which foreign debt has been serviced over the past two years is evidence of a buoyant economy possessing adaptability.

"The maintenance of surpluses on current account of 4% or 5% of GDP for three consecutive years, a net repayment of about US\$4,8bn of foreign debt in only three years and the more than doubling of the gold and foreign exchange reserves since June 1986 are notable achievements in a world where many countries grapple with massive debt problems." The Minister spoke with justifiable satisfaction.

"SA's action stands in marked contrast with those of many other debtor countries, for which the failure to meet even their rescheduled obligations is evidently an easy option."

Du Plessis said that after successive years of severe problems in the farming sector, there was a series of positive developments last year, including a 22% in-

crease in farming income — the fourth successive year of increase.

"Broadly speaking this indicates a gradual recovery in agriculture since the low point in 1983."

Since the 1986-1987 financial year, nearly R2bn in drought aid has been given to farmers. Now farmers have again suffered serious losses in the widespread floods and infrastructure of riverside towns has been severely damaged.

The mining sector was the only sector that did not grow last year in real terms. A real decline in production of 3,5% was attributable mainly to lower coal exports and strikes on coal and gold mines.

Mining's share of GDP fell from 24,5% in 1977 to 19,2% last year.

"Should real personal disposable income increase further as a result of a lower inflation rate and easily accessible credit (and if the cost of credit should not rise sharply), the demand for goods should improve in the coming months," Du Plessis said.

Indeed, he added, the first quarter of 1988 again showed typical signs of a continued upswing.

But, Du Plessis warned, even at present lower levels, inflation remains a major source of resentment and irritation, inefficiencies, inequities and distortions. A continuation in the downward tendency in the rate of inflation remains a major objective of fiscal and monetary policy.

COMPARATIVE STATEMENT OF THE STATE REVENUE ACCOUNT

| | Revised figure 1987-'88 | Budget figure 1988-'89 | Percent- age change |
|--|-------------------------------|------------------------------|---------------------------|
| | Rm | Rm | |
| Expenditure: | | | |
| Printed Estimate (R.P.2-'88: First Print):..... | | 52 933 | |
| Plus: Supplementary appropriations in respect of: | | | |
| Social pensions | 110 | | |
| Subsidy on savings instrument for senior citizens..... | 20 | | |
| Flood disasters | 200 | | |
| Municipal police | 72 | | |
| Municipal tax on State property | 80 | | |
| National Road Fund | 550 | 1 032 | |
| | | 53 965 | |
| Less: Suspension at SA Defence | | 100 | |
| Total Expenditure | 47 836 | 53 865 | 12,6 |
| Revenue: | | | |
| Printed Estimate (R.P.3-'88: First Print):..... | | | |
| Customs and Excise at existing rates: | | 3 800 | |
| Plus: Tax proposals in respect of: | | | |
| National Road Fund..... | 1 010 | | |
| Central Energy Fund..... | 330 | | |
| Beer | 70 | | |
| Spirits | 50 | | |
| Cigarettes | 60 | 1 520 | |
| | | 5 320 | |
| Total for Customs and Excise | 3 357 | 5 320 | 58,5 |
| Inland Revenue at existing rates:..... | | 39 040 | |
| Less: Tax proposals in respect of: | | | |
| Non-residents' tax on interest | 30 | | |
| Stamp duty | 2 | | |
| Transfer duty | 3 | | |
| Income tax on individuals: | | | |
| Standard income tax on individuals (SITE)..... | 117 | | |
| Rebate | 365 | | |
| Rate reduction | 782 | 1 299 | |
| | | 37 741 | |
| Plus: Tax proposals in respect of: | | | |
| Minimum tax on companies | 350 | | |
| Tax on long-term insurers | 170 | | |
| Stamp duty on debits | 15 | | |
| Levy on heavy vehicles | 200 | | |
| Income tax on individuals: | | | |
| Medical rebate | 144 | | |
| Insurance rebate | 65 | 944 | |
| | | 38 685 | |
| Total for Inland Revenue | 34 257 | 38 685 | 12,9 |
| Central Energy Fund | 208 | — | |
| Total Revenue | 37 822 | 44 005 | 16,3 |
| Deficit: (before borrowing)..... | 10 014 | 9 860 | -1,5 |
| Loan redemptions: | | | |
| Domestic loans: | | | |
| Stock | 1 855 | 2 425 | |
| Bonds | 295 | 100 | |
| Foreign loans | 442 | 146 | |
| Loan levy | 1 | — | |
| | 2 593 | 2 671 | 3,0 |
| Financing requirement:..... | 12 607 | 12 531 | -0,6 |
| Financing: | | | |
| Domestic loans: | | | |
| Public Investment Commissioners | 4 103 | 4 600 | |
| Re-investment of maturing stock | 4 785 | 2 425 | |
| New Stock | | 4 350 | |
| Bonds | 1 151 | 250 | |
| Foreign loans (Debt Standstill Funds)..... | 1 200 | 500 | |
| Short-term loans (net) | 582 | 410 | |
| Transfer from IMF Deposit Account..... | 352 | — | |
| Surplus from previous financial year | 451 | — | |
| | 12 624 | 12 535 | -0,7 |
| Balance: | 17 | 4 | |
| Less: Transfers to the International Development Association (IDA) and the World Bank | | | |
| | 17 | — | |
| Surplus: | — | 4 | |

Continued from P36

The only compensation is the abolition of estate duty on amounts below R1m, whose immediate revenue impact is small but potentially substantial in the years ahead.

If we allow for the higher rebate, introduction of SITE (see separate story) and bracket adjustments, totalling about R1,3bn, budgeted tax revenue from individuals is only 12,5% up. Few expect this year's average inflation rate to be less than that. Du Plessis himself expects the 12,6% increase in State spending to be a decline in real terms.

But the converse of this is that not only upper-income individuals, but also the corporate sector, will bear a heavier burden. The new minimum company tax is a case in point. Moreover, budgeting has been hampered by the declining profitability of the gold mining industry. Earlier in the Eighties, this generated R3bn-plus annually in tax and lease payments and was budgeted to do so again in the year just ending.

LIFE PROFITS SLASHED

Life assurers will see profits slashed by changes to tax rules. They will now be taxed on 70% of income, instead of 40%, which will effectively increase payments to the Receiver by 75%. Revenue is estimated at R170m for the 1988-1989 financial year and R202m for a full year.

Old Mutual's Theo Hartwig estimates the change will cost it R40m; Sanlam's Pierre Steyn puts losses at R50m-plus.

"We are shocked at the magnitude and arbitrary nature of the increase," says Hartwig. "This will definitely impact on bonuses to policy holders and will force us to reconsider the formula on which projections are based."

Steyn criticises the ad hoc basis of implementation.

"It will have a detrimental effect on long-term savings. And since SA is increasingly dependent on domestic and particularly long-term savings, it's a pity this source of risk capital and investment has been dealt a serious blow."

On the other side of the fence, building society executives who have long complained that tax concessions enjoyed by life companies distort the flow of funds, see the move as positive.

Says Association of Building Societies president Bob Tucker: "We welcome any redress in the imbalance of advantages between different types of institution."

"At the moment, insurers are able to offer a 15% tax-free compound growth. We can't compete with that. It is unlikely they will be able to continue to offer such growth. However, precisely what it means to us we can't say at this point."

Whether the change will mean a switch to other types of saving is debatable. It could just mean additional spending.

PSBR ON TARGET

The Exchequer can spend R3,9bn in March to hit target spending of R46,9bn for the 1987-1988 fiscal year. Spending for the 11 months to end-February amounted to R42bn against revenue of R34bn, giving a crude public sector borrowing requirement (PSBR) of R7,8bn (estimated: R8bn).

For the first 11 months of the fiscal year, the year-on-year increase for receipts is 10,7% (targeted: 13,8%); with spending increasing by 18,6% (16,3%). But PSBR remains below the targeted R8bn.

Private sector economists have predicted a final PSBR of R10bn-R10,5bn.

That would allow the Exchequer to spend an extra R2,2bn-R2,7bn in March, which seems unlikely.

The main, largely unused vote at end-January, R901m in Improvements in Conditions of Service, was debited a further R225m in February.

This leaves R510m in the account, well

within the spending constraints for March. But other large accounts, particularly Defence, Finance and Development Planning, are well within budget, implying the possibility of major drawdowns in March.

February's figures provide further evidence that Pretoria is exerting long-promised discipline over spending. The Exchequer has been particularly hit by low gold mine tax payments and also by a Christmas not so good in GST terms.

Financing of PSBR was in an excellent situation as the final month of the fiscal year took wings. The Exche-

quer balance of R663m at end-January increased to R752m at end-February.

These, of course, are all actual figures. The figures presented by Finance Minister Barend du Plessis in the Budget included estimates up to the close of the fiscal year on March 31.



(49)

When it comes to Economic Reform

ACTIONS SPEAK LOUDER THAN WORDS

The Words:

From President P.W. Botha's message to South Africa on February 14, 1988:

"Economic growth is imperative if we are to provide what every South African

The Actions:

No rail tariff increase. Your foodstuffs, clothing and fuel will not rise due to the cost of railage.

No postal or telecommunication

"Economic growth is imperative if we are to provide what every South African desires."

"We have to tighten our belts. We have to control Government expenditure. We have to tackle inflation."

"We have to exercise self-discipline with our demands and our prices."

"With a strong economic base, we will be able to go ahead with the social and political reform which we need."

"I have said that we will introduce economic reform. And we will."

"We can do it. If we want to."

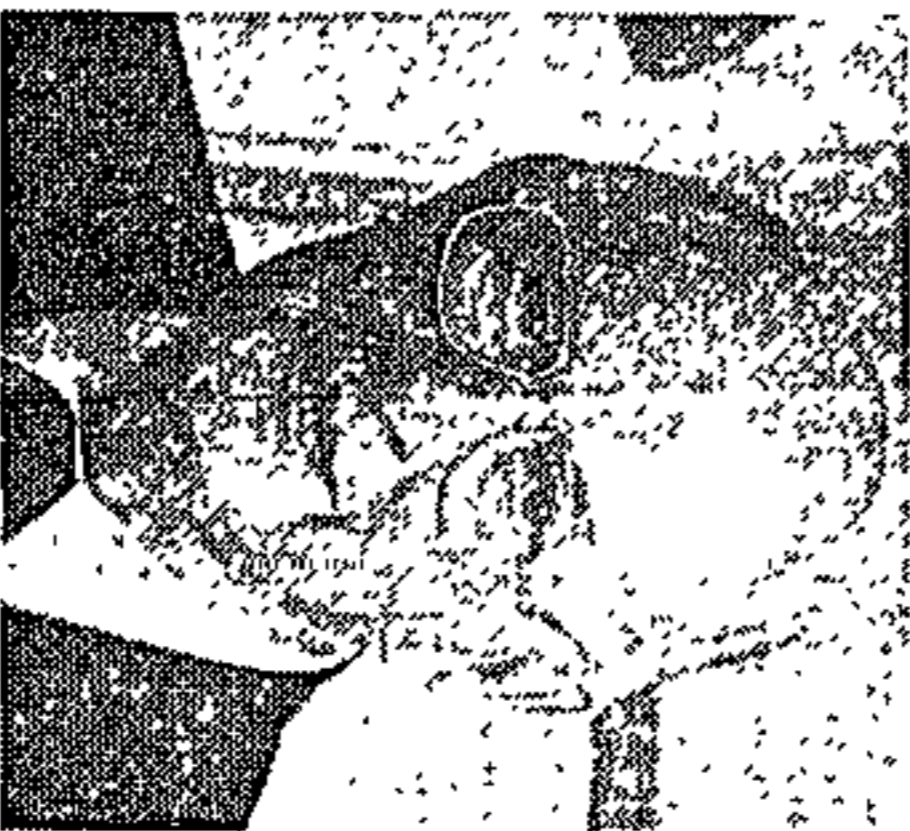
POSSIBLY, COMING AND GOING WILL NOT RISE due to the cost of railage.

No postal or telecommunication tariff increases. The cost of staying in touch will not rise. This will benefit you and businesses in particular.

The lowest Eskom tariff increase in many a year. Good news because you and all the factories use electricity daily.

Curtailement of government expenditure as is proved by the lowest Additional Expenditure Budget since 1983.

These steps form part of a comprehensive strategy. It is proof of meaningful progress towards our goal to reduce your tax burden and to preserve the value of your money.



Economic reform is essential in order to meet South Africa's other challenges. We can all contribute by exercising discipline with our demands and prices.

South Africa—let's fight to get it right.

ISSUED BY THE BUREAU OF INFORMATION

Capital rates rise in wake of Budget

Jan 19/3/88 (49)

Capital market rates kicked up after Wednesday's Budget, reflecting some concern over the Government's ability to spend within itself.

Both long and short-term rates should rise gradually over the next six months. But, says Mr Ray Lalouette, managing director of Natal Financial Services, increases will not be as sharp as they were three years ago because the authorities have moved early to curb excessive credit demand.

The long-term Eskom 2008 closed yesterday at 16,77 percent after falling to a close of 16,69 percent on Tuesday. On Thursday morning it was trading above the 16,90 percent level.

Mr Lalouette says the lack of any definite word on privatisation of major state functions creates the impression that the Government's borrowing requirements will be greater than the R12,5 billion envisaged.

And, he suspects, the raising of an additional R1,85 billion of stock this year — from R2,5 billion in 1987/88 to R4,35 billion this year to fund the deficit — will exert pressure on rates to rise.

To that influence can be added a va-

FINANCE STAFF

gueness about the Government's proposed exposure to massive capital projects such as Mossel Bay and the Lesotho Highlands water scheme, which are likely to result in massive demands for capital.

"We have heard that Eskom will be quoted on the stock exchange at the end of this year; will it, won't it and if it does, will it assist Government funding?" asks Mr Lalouette.

Economic growth of three percent would create credit demand and pressure rates upwards. Higher rates would cool demand and consequently any further rises in rates.

"I expect that the prime rate will be no more than 15 to 16 percent by the end of the year."

Rand Merchant Bank economist Rudolf Gouws believes the R4,35 billion new stock that is to be raised is well within the cash flow of the institutions and, as a result, will not put pressure on long-term rates to rise.

His opinion is that capital market rates moved up due to the lack of more detail in the Budget on privatisation.

Perspectives

FOR the first time since 1981, with the possible exception of 1984, a budget has been presented against the back-drop of an economy enjoying growth in spending.

This year Finance Minister Barénd Du Plessis plans for increased spending of just over R6-billion, while extra revenue from all sources is expected to be slightly more than this.

All this, then, suggests that in broad terms central government spending and taxing plans for 88/89 will not mean further demands for the economy's scarce resources.

Ever since mid-1984 total spending by consumers, firms and the Government has been too low, rather than too high, for the health of the economy. This year, there could be some danger of too much spending.

Too much, that is, to be supported by the balance of payments with the rest of the world.

The ability of South Africans to borrow more from overseas is being tested. Passing the test will mean a relatively strong exchange rate and lower interest rates and sustained growth combined with lower inflation.

Failing the test will mean the opposite, higher interest rates, inflation and slower growth.

How tough a test it becomes will depend on the growth in spending. A conservative budget is very much in order.

Vital

What is of absolute vital importance to the end of sustained growth with lower inflation, is that money supply growth be strictly limited to the target range accepted for it.

The monetary authorities will not be able to blame any failure to achieve such targets on fiscal policy.

Talking down inflation and the lower price increases emanating from the public sector itself will make, at best, only a temporary contribution to reducing the rate of inflation.

Indeed the lower tariff increases imposed by SATS and the Post Office and perhaps also Escom, constitute tax relief. In previous years consumers have been heavily over-charged by these enterprises.

They were over-charged to the extent that the State owned businesses were able to fund their investment programmes through the tariff, rather than by additional borrowing.

But temporary price and wage restrictions will not help much if the exchange rate continues to weaken as badly as it did in February, when the rand lost eight percent of its average value.

Barend goes for growth, we look for action

by **Brian Kantor**

of the School of Economics at UCT



Tight money and fiscal policy will help the rand.

A weaker gold price will make depreciation inevitable. The fight against inflation needs action of the kind promised; it also needs luck in the form of a stronger gold price.

Output

The Government expects total output (GDP) to grow by 16,8 percent over the financial year. Real growth is expected to be about three percent and inflation therefore approximately 14 percent.

Clearly the authorities themselves do not reveal a great deal of optimism about the success of their anti-inflation campaign.

Perhaps the most reliable index of the real cost of the Government is that of the ratio of total revenue to GDP.

If the Government's estimates of GDP and revenue are accurate, its revenues will have amounted to 21,9 percent of GDP in 1987/88 and 21,8 percent in 1988/89. Thus the overall tax burden has changed very little this year.

It has always seemed to me that

the particular ways in which the Government collects its money is much less important than in how much money it takes.

In particular the significance of shifting the mix of taxes from individuals to corporations, which this budget attempts, is much more apparent than real.

Most of the shares in corporations are owned directly or indirectly through pension funds and life insurance, by the same people who pay much of the income tax. What they lose on the swings they usually pick up on the roundabouts.

High marginal income taxes can and have been offset by low averages and proportional company taxes. The movement is now a little in the other direction.

One of the objectives of the Margo Commission was to treat income from all sources and especially all income earned by corporations in the same way for tax purposes.

These budget proposals would not have brought us closer to this idea.

The side-swipes at the "income" of insurance companies, or of non

tax paying, but dividend paying corporations, are not guided by principals of equality, but by the usual concern of the Receiver of Revenue for additional cash.

Some kinds of taxes will also be passed on to consumers.

Movement

For example, if corporate borrowers are taxed more heavily, this raises their costs of capital. If capital, that is savings, can move easily between industries or between countries, the borrower will have to offer improved returns to the lender to compensate for higher taxes.

Improved returns before higher taxes will mean that the consumer will have to pay more. Income taxes may also be passed on to consumers.

If the suppliers of skills are internationally mobile, as they are, they will move to avoid higher taxes or reduced benefits from the Government. Reduced supplies bring in turn higher prices

for which the consumer pays.

Such complications are a large part of the economist's case for indirect taxation.

The movement to indirect taxation, to taxes on output rather than inputs, will be enormously facilitated by VAT. Increases in VAT rates are much easier to effect than changes in sales tax rates. VAT is also much harder to evade.

The movement to VAT will make it easier for the authorities to reduce direct taxation.

Indeed it would be possible to collect all the revenues now to be collected, with a flat VAT tax rate of 22 percent.

Simple

The danger that the Government may spend more, because it is easier to collect taxes through VAT, is not a sufficient reason for denying our economy the advantage of a simple proportionate tax system.

It should be possible to control the Government's spending directly.

The movement to VAT and the privatisation programme announced in the budget could represent changes of absolutely fundamental importance for the economy.

Privatisation can generate truly vast sources of additional revenue. The budget therefore is more important for what it promises, than for what has been delivered.

Action in the form of a major shift towards indirect taxation, the implementation of the privatisation programme coupled with action to limit the Government's spending, plus regulation and money supply control, can help transform the economy into a much faster growing one.

The movement to indirect taxation could do everything necessary to encourage savings, and competition for them.

The authorities have clearly accepted the necessity for rapid growth and appear to understand the way to achieve such growth. I have no quibbles with the established agenda.

Indeed I regard the agenda as an intellectual victory. As the Government has itself put it, action speaks louder than words. We await vigorous action.

49 ST
20/13/88

DIP 2/3/88
449

Defence spending hike means figure doubled in 4 yrs

CAPE TOWN — Last week's 22,6 per cent hike in the defence budget to R8,19 billion has meant that spending on maintaining the security of the state has effectively doubled over the past four years, rocketing up from the R4,15 billion committed in 1984—5.

The defence vote now accounts for more than 15 per cent of South Africa's total R53-billion budget tabled in parliament last Wednesday by the Minister of Finance, Mr Barend du Plessis.

This, however, does not cover the total picture on the amount spent by the department of defence.

All construction and building operations and other services — as with other state departments — are diverted to public works. Last year this

amount totalled R143 million. This year the budgeted figure is R153 million.

Yet, despite this growth, the defence account remains "chronically under financed", according to the Chief of Staff: Finance of the South African Defence Force, Admiral Bert Bekker.

Admiral Bekker blames inflation for the sharp escalation in defence expenditure over the last few years.

He stresses that when compared to the growth

payments in the case of Bophuthatswana, Ciskei, Transkei and Venda.

The survey shows that with the exception of Venda, the highest amount budgeted for was for education.

● The 1986—87 education budget for all races amounted to over R6,7 billion.

About R3 billion for white education, R1,1 billion for blacks, R868 million for Coloureds, R607,5 million for the national states, R367 million for Indians and R6 million for the Department of National Education.

Bophuthatswana had the highest expenditure on education per capita by the homelands (R267,24), followed by KwaZulu (R241) and Kangwane (R239). —

in the consumer price index over the past year, the real increase in the 1988—9 defence budget only amounts to 1,1 per cent.

● The 10 homelands, including the four independent black states, received an estimated R3 billion from the South African Government in the 1986—87 financial year.

The South African Institute of Race Relations' 1986 survey released at the weekend stated the amount included customs union and rand monetary area

49

R5,818bn white budget introduced

HOUSE OF ASSEMBLY — A white Own Affairs 1988/89 budget totalling R5,818bn was introduced yesterday for Second Reading by Budget and Welfare Minister Dawie de Villiers.

This represented an increase of R19,8m on the total of R5,798bn approved for the 1987/88 book year

Before any comparisons were made however, the sum of R400m allocated last year to assist farmers, but which had not been fully used, was now being spread over a longer period.

"As a result the printed Budget shows a relative decrease of R224,9 million as far as Agriculture and Water Supply is concerned."

There was also a notable decrease of R152,4m as far as Improvement of Conditions of Service was concerned, and this because there was no provision for general salary increases in 1988/89.

Against these decreases, the printed Budget showed increases totalling R518,8m.

De Villiers said it was estimated that in the coming book year R106,091m would be generated from own income. — Sapa.

Budget deficit 'too large for comfort'

THE BUDGET deficit was too large for comfort, unless assumptions were made about a major fall-off in private demand, Anglo American economic consultant Aubrey Dickman said at an Asso-com conference on the Budget yesterday.

He said financing the deficit could become a problem if the economic upswing continued at the pace witnessed in the last quarter of 1987 — when gross

GRETA STEYN

domestic product was running at almost 5%.

The Minister had done as good a job as possible "in very difficult circumstances."

"But the stark fact is that he has not

49 B/day To Page 2 22/3/88

Budget deficit 'too large for comfort'

been able to cut spending adequately. We still await the fruits of the brave new policy."

Dickman said government spending — after subtracting spending on capital goods, wages and salaries and the national road fund — would rise by 17% in the next fiscal year.

"Thus a 17% rise in current spending is achieved at the cost of holding back salaries and wages. What tensions will arise within the system as a result even though the total increase is only 12,4%?"

Total capital expenditure of R4,7bn was much lower than the budget deficit

49 B/day From Page 1 22/3/88

of R9,86bn — which implied that the state was once again using long-term loans to finance current expenditure.

Could the fiscal policy measures outlined in the Budget work?

Dickman said: "We seem to have the inconsistency of maintaining demand, holding back public-sector earnings (but not numbers), exhorting the private sector to co-operate (at a time when competition for scarce labour is growing) and holding back certain tariffs."

SA's bottomless pit

HOUSE OF DELEGATES — The need to eliminate per capita disparities in the allocation of public funds to different population groups had high priority but was dictated by the availability of funds, Budget Minister Ismail Kathrada said yesterday.

In his own affairs budget speech, he said SA's resources were finite and its needs were a bottomless pit. The goals set for the next five years had to be based on the country's economic capability.

R461,127m voted to Education and Culture made up the lion's share of the total budget of R841,509m. — Sapa.

(49)

R9 000m own affairs budgets

CAPE TOWN — The three "own affairs" budgets tabled in Parliament yesterday amounted to R9 000 million — more than half of this going to the House of Assembly.

A breakdown of the figures for the three chambers is:

House of Assembly — R5 818m, which is R20m up on the revised estimates for last year.

House of Representatives — R2 341m, an increase of R150m over the revised estimates for the previous year, and,

House of Delegates — R841,5m, which is

R46,9m up on last year's revised estimates.

This is where the money will go:

House of Assembly: Chairman of Ministers' Council — R1,3m; Agriculture and Water Supply — R766,4m; Education and Culture — R3 750m; Local government, Housing and Works — R294,3m; Budgetary and Auxiliary Services — R21,7m; Improved service conditions — R45,5m; Welfare — R855,9m; Health Services — R82,2m.

House of Representatives: Education and Culture — R1 108m; Budgetary and Auxiliary

Services — R49,3m; Local Government, Housing and Agriculture — R429,4m; Health Services and Welfare — R735,9m; Improves services conditions — R18,5m.

House of Delegates: Budgetary and Auxiliary Services — R13,7m; Local Government, Housing and Agriculture — R187,8m; Education and Culture — R461m; Health Services and Welfare — R172m.

Mr du Plessis said social pensions and allowances were increased from October 1, 1987, which amounted to R63,1 million for a full financial year.

The amounts required for the promotion of welfare were intended mainly for the following services:

Care for the aged: R560m or 65,4 per cent of the total vote for Welfare; Care for the handicapped: R116,6 million or 13,6 per cent of the total; and Child welfare: R116,4m, or 13,5 per cent of the total.

Dr De Villiers said the R82,2 million required for Health Services represented an increase of 25 per cent when viewed against the revised estimates for 1987/88.

The Minister of the Budget in the House of Representatives, Mr An-

drew Julies, said backlogs had developed particularly as far as pensions and allowances were concerned.

Since the implementation of the new dispensation, pensions for the aged and blind had increased from R103 a month to R167 a month, a of 62,1 per cent hike.

Pensions for war veterans had risen by 110,8 per cent and parity had been reached.

Mr Du Plessis also said legislation for own affairs formula financing would be tabled in Parliament this sitting.

Hee said the statutory formulas would mean a great step forward for the financial independence of the own affairs administrations.

They also gave further expression to the principle that there should be a clear division in decision-making between own affairs administrations and general affairs departments.

Formula financing meant a statutory allowance would be paid over to each of the administrations every year.

A factor was built in to the formulas to make provision for movement towards parity in regard to the standard of services to all population groups. — DDR-Sapa

23/3/88
 19/1/88
 19/1/88
 19/1/88

Budget full of shortcomings, says Schwarz

CAPE TOWN — There is little chance of another instalment of the State President's economic package next year unless there is a massive cash inflow from privatisation, says PFP finance spokesman Harry Schwarz.

Addressing a meeting of the Institute of Credit Management in Cape Town yesterday, Schwarz suggested that the only options open to bolster state revenue next year, other than selling off state assets, would be a higher level of indirect taxation or a completion of a major tax reform package combined with cutbacks in other directions of state expenditure.

Describing last week's budget as one he would want to love, but which he was increasingly beginning to hate, Schwarz said the Budget's major problem was that many actions are once-off cash flow measures, to which are added cutbacks such as the ceiling on public service salaries.

Concessions

Growth, he noted, was in a brittle state, while business confidence continued to be balanced on a knife-edge. And the Budget did not provide a needed boost to the private sector.

Schwarz maintained that the so-called tax concessions granted by Finance Minister Barend du Plessis really did not amount to much when set off against the substantial increases in collections.

He noted that the net easing of tax and excise duties amounted to concessions of only R175m, which was reduced to R145m if no account was taken of the benefits for non-residents.

CHRIS CAIRNCROSS

In contrast, revenue collections on personal income tax were budgeted to increase by R2,8bn, so the R145m net reduction merely reduced this to R2,7bn.

Du Plessis was giving away only 5% of the extra tax he anticipated collecting.

Estimates

He said that if the estimates of GST collections were examined, it would appear there was a provision for an increase of R1,4bn. Excise duty was expected to increase by another R205m so, without other taxes which burdened the individual, this was another R1,6bn increase — making for a grand amount of R4,3bn extra to be collected in the coming year.

Schwarz said the *ad hoc* way in which the new taxes were to be collected had aroused concern.

He said the so-called minimum company tax (MCT) appeared to be based on no logic in its present form, as it meant that even capital profits declared as a dividend could result in the imposition of MCT.

"So, too, the new tax formula for insurance companies does not appear to have been thought through carefully. There is an illogicality about including dividend income which appears to be clearly contrary to the Margo recommendations."

Schwarz said that while it was clear the taxation of long-term insurers needed revision, this hasty reaction, apparently dictated purely by cash needs, was not the way to do it.

...wants casinos permitted

DID 23/3/88

Schwarz attacks logic of new company tax

CAPE TOWN — One of the causes of concern in the Budget was the ad hoc nature of the new taxes to be imposed, the Progressive Federal Party spokesman on finance, Mr. Harry Schwarz, said.

He told the Institute of Credit Management of Southern Africa (Western Cape division), that the new taxes showed a degree of "hastily contrived" measures to improve cash flow.

The new minimum company tax was not based on logic in its present form and meant that even capital profits declared as dividend could result in an imposition of this tax.

"It's retrospectivity also is inconsistent with the normal canons of taxation," he said.

The new tax formula for insurance companies also did not appear to have been thought through carefully.

Mr Schwarz said looking at the Budget more carefully, one could ask what the so-called tax concessions really amounted to when set off against the increases.

He said the net situation of tax and excise duties (without including the national road and energy fund assets) amounted to only R175 million. If the benefits for non-residents were

taken off, this would amount to R145 million.

"But, and here is the catch, revenue collections on personal income tax are budgetted to increase by R2,846 billion so the R145 million net reduction reduces this to R2,701 billion, that is Barend du Plessis is giving away only five per cent of the extra tax he anticipates collecting in the 1987/88 tax year. After all the great noises, 20 times extra will be collected than the so-called concessions," he said.

If the estimates of the GST collections were examined, it would appear that there was provision for an increase of R1 423 million.

Excise duty was expected to increase by another R205 million "so without other taxes which burden the individual, this is another R1,628 billion increase. Together with the net increase in income tax, the total is R4,329 billion extra to be collected in the coming year".

So much for tax concessions, he said.

The abolition of the medical expense rebate in certain circumstances would penalise the ordinary middle-class wage earner "and will certainly not affect those who have particularly attractive specially-tailored medical aid schemes". — Sapa

DID 23/3/88

Tradex opening: call for greater economic growth

49

Daily Dispatch Reporter
EAST LONDON — Local businessmen, politicians and officials should get together to form an effective body to strive for greater economic development, the immediate past president of the Sakekamer here, Mr Frans Meisenholl, said yesterday.

At the opening of the third Border industries trade fair, Tradex '88, Mr Meisenholl said the "wheels were turning far too slowly" for economic development in the area.

It had to be accepted that Transkei, Ciskei

and the Border region needed each other economically to develop to their full potential.

A body of politicians, businessmen and officials could get the wheels turning faster, which would result in a better life for all.

"Job creation is the prime task in this region," Mr Meisenholl said.

For the Border-Ciskei-Transkei region to survive, it was essential that businesses co-operated by buying from and selling to each other.

Tradex provided an opportunity for products

from companies in Transkei, Ciskei and Border to gain exposure.

"Despite complaints, East London is not doing too badly economically.

"If you look at industrial development in the Border region and Ciskei, there is still more scope for back and forward linkages."

Mr Meisenholl ended his speech by "giving a word of advise to businessmen".

"I would urge businessmen to take on the challenge and make a workable platform for future economic development in this area."



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)

Plaaslik **50c** Local
Buitelands 70c Other countries
Posvry • Post free

Vol. 273

KAAPSTAD, 23 MAART 1988

CAPE TOWN, 23 MARCH 1988

49

No. 11204

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 530.

23 Maart 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring gegee het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 15 van 1988: Addisionele Begrotingswet, 1988.

No. 530.

23 March 1988

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 15 of 1988: Additional Appropriation Act, 1988.

ACT

To appropriate an additional amount of money for the requirements of the State in respect of the financial year ending 31 March 1988.

*(Afrikaans text signed by the State President.)
(Assented to 14 March 1988.)*

BE IT ENACTED by the State President and the Parliament of the Republic of South Africa, as follows:—

Appropriation of additional amounts of money for requirements of State, excluding provinces

5 1. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated out of the State Revenue Fund for the requirements of the State, excluding the provinces, in respect of the financial year ending 31 March 1988, as a charge to the State Revenue Account, the additional amounts of money shown in column 1 of Schedule 1.

10 Appropriation of additional amounts of money for requirements of Province of the Cape of Good Hope

2. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated out of the State Revenue Fund for the requirements of the Province of the Cape of Good Hope in respect of the financial 15 year ending 31 March 1988, as a charge to the Account for Provincial Services: Cape, the additional amounts of money shown in column 1 of Schedule 2.

Appropriation of additional amounts of money for requirements of Province of Natal

20 3. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated out of the State Revenue Fund for the requirements of the Province of Natal in respect of the financial year ending 31 March 1988, as a charge to the Account for Provincial Services: Natal, the additional amounts of money shown in column 1 of Schedule 3.

Appropriation of additional amounts of money for requirements of Province of the Orange Free State

25 4. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated out of the State Revenue Fund for the requirements of the Province of the Orange Free State in respect of the financial year ending 31 March 1988, as a charge to the Account for Provincial Services: Orange Free State, the additional amounts of money shown in column 1 of Schedule 4.

ADDITIONAL APPROPRIATION ACT, 1988

Act No. 15, 1988

Appropriation of additional amounts of money for requirements of Province of the Transvaal

5. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated out of the State Revenue Fund for the requirements of the Province of the Transvaal in respect of the financial year ending 31 March 1988, as a charge to the Account for Provincial Services: Transvaal, the additional amounts of money shown in column 1 of Schedule 5.

Short title

6. This Act shall be called the Additional Appropriation Act, 1988.

Schedule 1

(AS A CHARGE TO THE STATE REVENUE ACCOUNT)

| Vote | | Column 1 | Column 2 |
|------|--|-------------|------------|
| No. | Title | | R |
| | | R | R |
| 2 | Parliament | 6 710 000 | |
| 3 | Bureau for Information | 1 600 000 | |
| 4 | Commission for Administration | 24 000 000 | |
| 5 | Improvement of conditions of service | 116 806 000 | |
| 6 | Development Planning | 8 000 000 | |
| 7 | Foreign Affairs | 27 000 000 | |
| 8 | National Education | 1 000 | |
| | Including— | | |
| | Grants-in-aid: | | |
| | Declared cultural institutions | | 1 773 000 |
| | Conservation bodies | | 263 000 |
| | Scientific institutions | | 145 000 |
| 9 | Administration: House of Assembly | 22 000 000 | |
| 10 | Development Aid | 46 000 000 | |
| | Including— | | |
| | Grant-in-aid to S.A. Development Trust Fund for development towards self-determination | | 19 216 000 |
| | Assistance to governments of self-governing national states | | 17 435 000 |
| 11 | Education and Training | 1 000 | |
| 13 | Manpower | 8 000 000 | |
| 14 | Public Works and Land Affairs | 1 000 | |
| 15 | Justice | 640 000 | |
| 16 | Prisons | 30 684 000 | |
| 18 | Trade and Industry | 9 300 000 | |
| | Including— | | |
| | Contribution to the Council for Scientific and Industrial Research | | 1 118 000 |
| 19 | Mineral and Energy Affairs | 58 820 000 | |
| 20 | Finance | 1 000 | |
| | Including— | | |
| | Secret services | | 7 845 000 |
| 22 | Home Affairs | 1 000 | |
| 23 | Transport | 80 000 000 | |
| 24 | Administration: House of Representatives | 50 000 000 | |
| 25 | Administration: House of Delegates | 7 630 000 | |
| 26 | National Health and Population Development | 31 873 000 | |
| | Including— | | |
| | Contribution to S.A.N.T.A. centres | | 272 000 |
| 27 | Police | 50 000 000 | |
| 28 | Environment Affairs | 15 100 000 | |
| | Including— | | |
| | Grant-in-aid to National Botanical Gardens | | 1 164 000 |
| 29 | Water Affairs | 1 000 | |
| | Total | 594 169 000 | |

ADDITIONAL APPROPRIATION ACT, 1988

Act No. 15, 1988

Schedule 2

(AS A CHARGE TO THE ACCOUNT FOR PROVINCIAL SERVICES: CAPE)

| Vote | | Column 1 | Column 2 |
|------|---|-------------|-----------|
| No. | Title | | |
| | | R | R |
| 1 | General administration | 1 000 | |
| | Including— | | |
| | Additional capital for the Provincial Capital Fund: | | |
| | Stores Branch and Requisites Depot. | | 3 750 000 |
| 3 | Hospital services and public health. | 52 431 000 | |
| 4 | Roads | 34 067 000 | |
| 5 | Miscellaneous services | 1 321 000 | |
| | Including— | | |
| | Grant-in-aid to the S.A. National Foundation for the | | |
| | Conservation of Coastal Birds | | 5 000 |
| 7 | Works | 1 555 000 | |
| | Including— | | |
| | Contribution to Council for Scientific and Industrial | | |
| | Research for building and water research | | 60 000 |
| 9 | Improvement of conditions of service | 41 063 000 | |
| 10 | Community services | 48 729 000 | |
| | Total | 179 167 000 | |

Schedule 3

(AS A CHARGE TO THE ACCOUNT FOR PROVINCIAL SERVICES: NATAL)

| Vote | | Column 1 | Column 2 |
|------|--|------------|----------|
| No. | Title | | |
| | | R | R |
| 1 | General administration | 362 000 | |
| 2 | Hospitals, medical and health services | 22 177 000 | |
| 3 | Roads and bridges | 35 322 000 | |
| 4 | Works | 1 000 | |
| 5 | Miscellaneous services | 16 760 000 | |
| 6 | Community services | 1 000 | |
| 7 | Improvement of conditions of service | 12 542 000 | |
| | Total | 87 165 000 | |

Schedule 4

(AS A CHARGE TO THE ACCOUNT FOR PROVINCIAL SERVICES: ORANGE FREE STATE)

| Vote | | Column 1 | Column 2 |
|------|---|------------|----------|
| No. | Title | | |
| | | R | R |
| 1 | General administration | 1 000 | |
| 2 | Hospitals and public health | 24 324 000 | |
| 3 | Roads and bridges | 5 146 000 | |
| | Including— | | |
| | General expenditure of the Metropolitan Transport | | |
| | Fund | | 3 000 |
| 4 | Miscellaneous services | 351 000 | |
| 5 | Works | 366 000 | |
| 6 | Community services | 1 867 000 | |
| 8 | Improvement of conditions of service | 9 935 000 | |
| | Total | 41 990 000 | |

ADDITIONAL APPROPRIATION ACT, 1988

Act No. 15, 1988

Schedule 5

(AS A CHARGE TO THE ACCOUNT FOR PROVINCIAL SERVICES: TRANSVAAL)

| Vote | | Column | Column |
|------|---|-------------|-----------|
| No. | Title | 1 | 2 |
| | | R | R |
| 1 | General administration | 1 000 | |
| 2 | Library and museum services | 105 000 | |
| 4 | Hospital services | 70 249 000 | |
| 5 | Nature conservation | 237 000 | |
| | Including— | | |
| | Grant-in-aid to the Federal Problem Animal Control Association | | 20 000 |
| 6 | Roads and bridges | 6 944 000 | |
| 7 | Community services: head office | 69 283 000 | |
| | Including— | | |
| | Grants-in-aid for essential services to and development of communities in need of aid | | 3 736 000 |
| 8 | Community services: regional offices | 62 368 000 | |
| 9 | Improvement of conditions of service | 21 755 000 | |
| | Total | 230 942 000 | |



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)

Plaaslik **50c** Local
Buitelands 70c Other countries
Posvry • Post free

VOL. 273

KAAPSTAD, 23 MAART 1988
CAPE TOWN, 23 MARCH 1988

49

No. 11205

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 531.

23 Maart 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring gegee het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 16 van 1988: Addisionele Begrotingswet (Raad van Verteenwoordigers), 1988.

No. 531.

It is hereby notified that the State President has assented to the following Act ~~which is hereby published~~ for general information:—

No. 16 of 1988: Additional Appropriation Act (Budget of Representatives), 1988.

ADDITIONAL APPROPRIATION ACT (HOUSE OF REPRESENTATIVES), 1988

Act No. 16, 1988

ACT

To appropriate an additional amount of money for the requirements of the Administration: House of Representatives during the financial year ending 31 March 1988.

*(English text signed by the State President.)
(Assented to 14 March 1988.)*

BE IT ENACTED by the State President and the House of Representatives of the Republic of South Africa, as follows:—

Appropriation of additional moneys for requirements of Administration: House of Representatives

- 5 1. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated for the requirements of the Administration: House of Representatives during the financial year ending 31 March 1988, as a charge to the Revenue Account: House of Representatives, the additional amounts of money shown in column 1 of the Schedule.

10 Short title

2. This Act shall be called the Additional Appropriation Act (House of Representatives), 1988.

Schedule

| Vote - | | Column 1 | Column 2 |
|--------|--|-------------|----------|
| No. | Title | | |
| | | R | R |
| 1. | Budgetary and Auxiliary Services..... | 15 999 000 | |
| 2. | Education and Culture..... | 45 000 000 | |
| 3. | Local Government, Housing and Agriculture..... | 1 000 | |
| 4. | Health Services and Welfare..... | 80 000 000 | |
| | Total | 141 000 000 | |



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik **50c** Local
Buitelands 70c Other countries
Posvry • Post free

VOL. 273

KAAPSTAD, 23 MAART 1988
CAPE TOWN, 23 MARCH 1988

49

No. 11206

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 532.

23 Maart 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 17 van 1988: Addisionele Begrotingswet (Raad van Afgevaardigdes), 1988.

No. 532.

23 March 1988

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 17 of 1988: Additional Appropriation Act (House of Delegates), 1988.

ACT

To appropriate an additional amount of money for the requirements of the Administration: House of Delegates during the financial year ending 31 March 1988.

*(Afrikaans text signed by the State President.)
(Assented to 14 March 1988.)*

BE IT ENACTED by the State President and the House of Delegates of the Republic of South Africa, as follows:—

Appropriation of additional moneys for requirements of Administration: House of Delegates

5 1. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated for the requirements of the Administration: House of Delegates during the financial year ending 31 March 1988, as a charge to the Revenue Account: House of Delegates, the additional amounts of money shown in column 1 of the Schedule.

10 Short title

2. This Act shall be called the Additional Appropriation Act (House of Delegates), 1988.

Annexure

| Vote | | Column 1 | Column 2 |
|------|--|------------|----------|
| No. | Title | | |
| 1. | Budgetary and Auxiliary Services..... | R 500 000 | R |
| 2. | Local Government, Housing and Agriculture..... | 7 660 000 | |
| | Including— | | |
| | Grant-in-Aid: | | |
| | Public Servants' Union..... | | 31 000 |
| 3. | Education and Culture..... | 15 989 000 | |
| 4. | Health Services and Welfare..... | 5 603 000 | |
| 5. | Improvement of conditions of service..... | 4 842 000 | |
| | Total..... | 34 594 000 | |



STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the Post Office as a Newspaper

Verkoopprijs • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik 50c Local
Buitelands 70c Other countries
Posvry • Post free

VOL. 273

KAAPSTAD, 23 MAART 1988
CAPE TOWN, 23 MARCH 1988

No. 11207

(49)

KANTOOR VAN DIE STAATSPRESIDENT

STATE PRESIDENT'S OFFICE

No. 533.

23 Maart 1988

No. 533.

23 March 1988

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 18 van 1988: Addisionele Begrotingswet (Volksraad), 1988.

No. 18 of 1988: Additional Appropriation Act (House of Assembly), 1988.

ACT

To appropriate additional amounts of money for the requirements of the Administration: House of Assembly during the financial year ending 31 March 1988.

*(English text signed by the State President.)
(Assented to 14 March 1988.)*

BE IT ENACTED by the State President and the House of Assembly of the Republic of South Africa, as follows:—

Appropriation of additional moneys for requirements of Administration: House of Assembly

- 5 1. Subject to the provisions of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975), there are hereby appropriated for the requirements of the Administration: House of Assembly during the financial year ending 31 March 1988, as a charge to the Revenue Account: House of Assembly, the additional amounts of money shown in column 1 of the Schedule.

10 Short title

2. This Act shall be called the Additional Appropriation Act (House of Assembly), 1988.

Schedule

| Vote | | Column 1 | Column 2 |
|------|--|-------------|----------|
| No. | Title | | |
| | | R | R |
| 1. | Health Services..... | 753 000 | |
| 2. | Agriculture and Water Supply | 1 000 | |
| 3. | Education and Culture..... | 64 795 000 | |
| | Including— | | |
| | Assistance to declared cultural institutions..... | | 35 000 |
| | Assistance to organizations for preservation of national memorials | | |
| | Board of Control: Huguenot Monument | | 30 000 |
| | Grants-in-aid | | |
| | Training, coaching and participation | | 8 000 |
| 4. | Local Government, Housing and Works | 18 061 000 | |
| 5. | Budgetary and Auxiliary Services..... | 1 867 000 | |
| 6. | Improvement of conditions of service | 32 323 000 | |
| 7. | Welfare | 3 845 000 | |
| | Total | 121 645 000 | |

AS an angry young man in the 1960s, Jackie Ntuane spent more than three years in prison for his political activism. Now, as a prosperous insurance executive, he says he is focusing on "economic independence."

Mr Ntuane is part of a growing black South African middle class who have found opportunities in the business world despite being locked out of national politics.

This emerging business class, though still small, sees black economic development as the neglected partner of black political advancement.

Both are viewed as necessary ingredients in dismantling apartheid, the Government's policies of racial segregation.

"Economics and politics are part of the same struggle for blacks," said Mr Ntuane, who manages a 50-person branch office for the Old Mutual insurance company.

"Blacks must succeed in both areas if they are to take control of their own lives," added Mr Ntuane, who was imprisoned for belonging to the outlawed Pan Africanist Congress.

Income

The South African economy, by far the largest and most advanced on the continent, requires an ever-increasing number of middle-class professionals.

Blacks have begun to fill that demand, and there are some clear signs of black economic progress.

- Black households earned an average of R406 a month in 1986, more than double the figure in 1981 and nearly six times higher than in 1975, according to Market Research Africa, a private firm. However, black households still earn less than 20 percent of the average white family income.

- The new Lesedi City shopping mall, east of Johannesburg, has more than 50 black-run businesses and is the largest shopping complex yet built in a black area.

- Black taxi drivers, banding together in a



Dr NTHATO Motlana



Mr GABRIEL Mokgoko



Mr RUEL Khoza

Blacks in search of economic liberation

Sowetan 23/3/88

FOCUS

Sapa — Associated Press

spokesman for the National African Federated Chamber of Commerce.

"Blacks still are not part of the economic mainstream."

Ridicule

The middle class remains a small fraction of the country's 26 million blacks. They make up about 75 percent of the population, but only 5 percent of the executives and managers. Black businesses account for only 1 percent of South Africa's gross national product, according to *Black Enterprise* magazine.

Black businesses face obstacles on several fronts, including hostility from their own community, where many younger blacks see the business world as an extension of apartheid and white domination.

"Capitalism has become a discredited system to hundreds of thousands of (black) South Africans," the editors of *Black Enterprise* wrote recently.

"To many of our younger students and graduates, even its name is an anathema... (that) earns thinly disguised ridicule and contempt."

Dr Nthato Motlana, a prominent anti-apartheid activist, said blacks

have become increasingly hostile to business and have failed to perceive black buying power as a political weapon.

"The attitude of young black activists and the unions is most unfortunate," he said recently.

"This message must go out to the political activists — blacks need to make money too. Blacks have no political power, but they should translate their consumer power into economic power."

A long-held theory in the white business establishment is that apartheid will wither as the economy develops and blacks are drawn into the middle class.

Business has proved less resistant to blacks than most other fields, and the workplace is the most frequent point of multiracial interaction in a country where neighbourhoods and public schools remain segregated.

Apartheid

Black leaders say white business has done far less than it could to assist blacks.

"White business climbed on the back of the apartheid political system years ago and that's where it remains today," said Mr Mokgo-

ko. "Business pays lip service to racial reform, but they have never exercised their power to help dismantle apartheid or assist blacks economically."

Blacks are the largest consumers of most basic necessities, such as food and clothing, yet most black businesses are relatively small operations limited to black townships.

There are no nationwide black-owned chains, and only one of the more than 500 companies listed on the Johannesburg Stock Exchange (a group of six bakeries) is run by blacks.

"Blacks have no credible representation in any of the major economic sectors such as mining, agriculture, manufacturing, the financial institutions, even retailing," Mr Reuel Khoza, the black managing director of Shareworld, wrote recently in *Leadership Magazine*.

"By whatever index we use, black economic activity is so insignificant as to be almost non-existent," he wrote.

Economic life in Soweto is typical of many black areas. Most shops are mom-and-pop operations and there also is a substantial informal business sector made up of street vendors.

Invest

There is no large, central business district or shopping area in a community estimated at 2.5 million people. Soweto residents are more likely to shop at white-owned businesses in Johannesburg than in their neighbourhoods.

By far the largest industry in Soweto is shebeens. There are an estimated 4000 of them in Soweto, outnumbering all other businesses combined.

Black businessmen say the townships will remain underdeveloped until bankers become willing to invest in black areas.

There are more than 50 banks in South Africa, but only one, the African Bank, is black-run and makes most of its loans to the black community.

"Regulation and statute have reduced us to a nation of small-time merchants running essentially one-man operations," Mr Khoza wrote.

"Our political spirit has never been crushed,

but our assault on the economic edifice of apartheid has been lamentable," he added.

"In the economic field, we must create a mythology of compet-

L9

THE year 1988 threatens to bring lower world economic growth than seen in 1987.

The US economy, which to a large extent determines the course of world economic growth, is expected to grow around 2.5% this year after registering a 3.2% growth rate last year.

The extent of the slowdown becomes more apparent when comparing it to the 4.5% growth rate in the US economy during the fourth quarter of 1987, before most of the after-effects of the stock collapse made themselves felt.

Under the influence of the slowdown in the US, the average growth rate in the advanced industrialised countries will slowdown from 2.3% in 1987 to around 2% in 1988 and in the Asian countries from 11.5% in 1987 to around 7% in 1988.

The economic ties of many countries to the US is clearly illustrated through the dependency of the Newly Industrialised Nations (NICS) as well as Japan and to a lesser extent the United Kingdom and West Germany, on the US to absorb their exports. About 37% of Japanese exports go to the United States. Korea, Hong Kong and Singapore send 41%, 29.3%, and 24.7%, respectively, of their total exports to the US. The US absorbs 9.6% of Germany's exports and imports 14.8% of the United Kingdom's total exports.

Real growth in Japan is expected to be around 3.2% this year as opposed to a rate of 3.9% last year. The distinguishing feature of Japan's economic growth in 1987 and so far in 1988, is the realisation of the fast growing domestic demand led growth which is being spurred on by a stimulatory fiscal policy as well as deregulation in many spheres of Japanese life.

The positive climate in domestic business in Japan is expected to continue as business has just entered a period of expansion where inventories are still relatively low whereas capital investment is moving upwards at a faster rate.

The favourable effect of the tax reductions as well as the public investment scheme implemented by the Emergency Economic Package is expected to fuel demand. Japanese exports have suffered due to the relatively higher value of the yen which made Japanese goods less competitive on international markets.

The growth domestically is thus to a large

BY AN ECONOMIST

extent compensating for the relatively harder foreign trade conditions due to the stronger yen.

The US is also undergoing a shift in its growth pattern from one that was led by domestic demand to one that is being led by foreign demand as US goods have become relatively cheaper due to the depreciated dollar.

Constraints

West Germany and France are not expecting a significant rise in their domestic demand which would help compensate for their sluggish exports. At best, West Germany can expect a growth rate of around 1.5% for this year.

With this world scenario in mind, South Africa's current growth rate of around 5% (fourth quarter 1987 annualised) does not

Fortunes governed by world economic scenario

Sowetan 24/3/88

49

look too bad. The perversity of our problem is that South Africa cannot afford a high growth rate due to other constraints.

The most mentioned and prioritised limitation we face is the balance of payments constraint where the current account (exports minus imports) must be kept in surplus at all costs.

Earnings from our exports, which reflect themselves on the current account, are used to repay our foreign debt commitments. Borrowing from abroad is no longer an option as South Africa has been ostracised from the world financial lending community.

On this score alone, capital sanctions have been extremely successful in harming South Africa's potential to

grow. The slowdown in the world economy together with sanctions will give South African exporters more than their fair share of headaches although the lower rand exchange rate and lower inflation will compensate to an extent by making our goods more competitive.

Gains

The world markets present a mixed picture. The only certainty seems to be the uncertainty which is manifesting in a directionless currency market and a non-performing stock market barring the Japanese stock exchange of late.

The bond markets have made some gains but nothing to write home about whereas precious metals have revised their prospects downwards following a lot of disinflationary talk

by politicians and central bankers.

All this indecisiveness comes in the wake of the stock exchange collapse on October 19, 1987 where the large fall in equity prices world wide dealt a major blow to the confidence of financial investors.

The immediate effect on the real economy was concentrated in the US. Throughout the world, central banks have eased their monetary policy by lowering their interest rates or at least by keeping those that they would have raised prior to the crash, steady.

At present most market participants are taking an optimistic view of inflation. This follows the huge loss of wealth that was wiped out due to the stock exchange collapse last year.

The anticipation of

slower world economic growth has brought with it a lowering of world disinflationary expectations. The inability of commodity prices to make substantial price gains together with a much lower energy price is serving to entrench this disinflationary view.

The lower oil price is due to the massive oversupply of oil on world markets due to Opec's inability to control its output as well as certain non-Opec nations supplying oil below the quoted market price. Oil producing Third World countries in an effort to solve their debt problem, have also stepped up their production in an effort to increase their revenue.

The price of oil recently fell below \$15 a barrel against an agreed upon \$18 a barrel late last year.

The fact that the US and other major economies have not lowered their discount rates (rate at which central banks make funds available to commercial banks) due to some concern about future inflation, despite some pressure to do so, is contributing to the allaying of inflationary fears.

Following on from the inflationary scenario, precious metal markets have taken a serious knock. Gold last month

fell to its lowest levels since April last year at \$428 before recovering to around \$440. The lower gold price will place pressure on our current account position as it will bring in lower export earnings given that the output of the gold mines is relatively inelastic even when the rand/dollar exchange rate depreciates.

South Africa seems to be in line with the rest of the world when it comes to reducing inflation, at least officially, but out of line when it comes to growth or interest rates.

Growth has picked up considerable momentum recently and interest rates have a tendency to move upwards in an effort to curb importer interest, both from a current account and inflationary point of view.

The effects of the current world economic scenario will have a lagged effect on South Africa.

Already we are feeling the squeeze in our current account and the effect of a slowing down world-wide together with increasing isolation that we face.

The latest current account figures which were released on March 3 indicate, when the services component is included, that we may have already moved into current account deficit.



Mr BAREND du Plessis ... Minister of Finance.

402
 WORKERS
 MILIT
 KER PLAY

THE most pertinent issue in the 1988 Budget is that it incorporates a real cut in Government expenditure. This means that overall planned Government spending should decline in real terms as it is expected to increase at a rate that is less than the rate of inflation.

When considering the basic needs of the majority of the South African population in terms of housing, health and welfare and education, the Budget is harsh and restrictive.

However, this very same budgetary restraint has been welcomed with caution by most economists and business people who see a tightening of our belts as the only alternative to current economic conditions.

The South African economy has been growing at a 4 percent to 5 percent rate over the past two quarters.

Our economic isolation in the world has made this relatively high growth rate both undesirable and impossible to sustain without severe internal and external consequences.

Moreover, it is necessary to understand that our current economic upswing, now almost 20 months old, is skating on fairly thin ice as it is almost completely dependent on domestic consumer demand to keep it going.

A more solid foundation to growth, which could be led by exports or long-term capital investment has been absent.

Inflation

Thus the authorities, who wish to slow growth for the reasons stated below, have a relatively easy job as consumer demand is very sensitive to both the fiscal (spending and taxes) and monetary policy (interest rates, money supply) tools at their disposal.

The principle aim in the Budget this year is to slow growth down to around 2.5 percent.

This is necessary as, especially in the face of sanctions, high growth leads to pressure on the current account (exports minus imports) surplus

FOCUS

By an Economist

as it stimulates the importation of goods that domestic production does not satisfy.

A surplus on the current account is vital in order to allow South Africa to repay its foreign debt commitments as we are banned from most foreign lending facilities.

Locally, slower growth would be beneficial for lowering inflation as the high cost of imports, which has been accentuated by the depreciating rand and the appreciating Japanese yen and German deutschemark, puts upward pressure on the producer prices which in turn impact on consumer price inflation.

The fiscal deficit, that is, the amount by which Government spending exceeds Government revenue (taxes) has been increasing rapidly over recent years.

To finance this deficit is problematic as both raising taxes and/or borrowing on the local money market is politically unviable.

The latter would push

Behind Barend's Budget

Sowetan 24/3/88

49



Mr BAREND du Plessis

Expenditure on defence and police is up 20 percent at R12 billion.

This compares to the 12 percent increase in social services and spending — including education, health, and housing — at R19,7 billion.

The guns or butter controversy becomes clearer when the allocation of the funds to specific areas is taken into account.

Housing subsidies, for example, was not so much as mentioned in the Budget.

The increase in spending on black education, from R1 487 billion in 1987 to R1 640 billion was the lowest increase in the last 10 years.

Relief

Furthermore, it is the first time in a decade that the percentage nominal increase in black education (that is 10 percent) was not higher than that for the total Budget.

In real terms, once the anticipated 14 to 15 percent inflation rate is taken into account, a 4 to 5 percent decline in spending on black education is in the pipeline for the 1988 fiscal year.

Nothing substantial was mentioned with respect to social pension increases or adjustments.

Just a statement concerning a new "granny bond" scheme, narrowly limited to people over the age of 65 to be introduced by financial institutions as well as a one-off handout of R110 million for all social pensioners was announced.

On the revenue side the Government announced some tax relief for the individual taxpayer to the tune of R1 billion. The main effect of the relief will be to marginally lower the basic rate for taxable income.

However, on the other side of the coin, the Government is expecting to pull in an additional

R3 billion from income taxes, in effect making the individual taxpayer R2 billion worse off.

Medical expenses, which were partially tax-deductible, has been scrapped and replaced with a new system in which the taxpayer pays all medical costs that add up to lower than five percent of his income. All amounts incurred for medical purposes above five percent are fully tax deductible.

Duties

Single people and married women who earn an annual taxable salary of less than R12 000 and R20 000 respectively, no longer have to submit an income tax return as they will now be taxed in accordance with the PAYE system.

When a married woman's salary is above R20 000 it will, less 22.5 percent, be added to her husband's income and thus taxable at his marginal rate.

Other tax issues centred on the introduction of marginally higher duties on cigarettes, beer and spirits.

A minimum company tax is to be introduced.

This will make the writing off of tax losses a lot harder to effect as companies will be forced to pay tax on a fixed proportion of their declared dividends.

The current insurance premium rebate has also been abolished as has the rebate for dependants.



Lest we forget

THE Sowetan today remembers journalists around the country who are in detention:

- Zwelakhe Sisulu, Editor of the *New Nation*, who has been in detention under the emergency regulations for 465 days;
- Brian Sokutu, Eastern Cape freelance journalist, has been



PARLIAMENT

ASSEMBLY'S BUDGET DECREASED BY 17% — CP

HOUSE OF ASSEMBLY — The white House of Assembly's budget decreased, in real terms, by 17% from last year, Ferdi Hartzenberg (CP, Lichtenburg) said yesterday.

The decreasing tendency of the past few years was continued in this Budget, he said in the second reading debate on the Appropriation Bill, House of Assembly.

When he cut spending, Finance Minister Barend du Plessis limited payments to the administration, House of Assembly, state employ-

ees, agriculture and social pensioners. Spending on unproductive social projects had continued.

Government's reform policy inhibited economic growth and was responsible for inflation.

"We have to pay the price of the reform policy of the government."

He also said government had no sympathy for agriculture, as it received 2% of own affairs and main Budget allocations.

The R400m grant to farmers last

year was a propaganda trick and an allocation system was created that would fail.

No provision was made for the processing of requests and the few farmers who applied had to wait for up to two months at one stage. More farmers went bankrupt than were helped.

Of the R17m allocated this year, a half or less would be spent.

He proposed an amendment that said the own affairs budget should not be accepted.



DENNVDINCHERS HOL DINGO

**Reserve Bank
dividend**

(49)

PRETORIA — The Reserve Bank has declared a final dividend of five per cent for the six months ended March 31 this year.

The bank said in a statement the dividend warrants would be posted at Pretoria on May 16 to persons registered in the bank's books at the close of business on April 29.

Sapa 2513186 DID

4
6
6
4
4
4
6
6
4
4
4
6

D.P. 25/3/88 (49)
Money supply up

PRETORIA — South Africa's broad money supply for February — M3 — is 2,5 per cent up on January and 19,9 per cent higher than the February figure of a year ago.

Preliminary figures released by the Reserve Bank show M3 for February at R95 854-million. On a seasonally adjusted basis the total is R96 056-million.

Compared with January the year-on-year increase has slowed, as the January M3 total of R93 501-million was 20,4 per cent higher than that of January 1987. The seasonally adjusted figure for January this year is R94 284-million.

The Reserve Bank has set a targetted increase of 12 to 16 per cent for M3 for 1988. —Sapa

Good intentions

The recurring theme of post-Budget seminars is that government has failed to cut spending adequately. Economists at the recent Assocom seminar saw inconsistencies between government proposals and strategy.

Says Anglo American's Aubrey Dickman: "We seem to have the inconsistency of maintaining demand, holding back public-sector earnings, exhorting the private sector to cooperate and holding back certain tariffs."

Another problem he highlights is that the private sector is asked to help at a time when competition for scarce labour is growing.

"Shortages of skills have already appeared, implying that financing the deficit could become a problem," says Dickman.

Dr Francois le Roux, chief director of public finance with the Department of Finance, points out that government has a tendency to exceed budgets, often by 5%-6%.

Last year's budgeted deficit before borrowing of 4,7% turned out to be 5,8%. This year's budgeted 4,9% may well result in another excess to be accommodated in the additional appropriation next year.

"The Budget is mildly stimulatory; room for this having been created by the freezing of salaries. But what of next year?" he asks.

Political and economic shocks will affect the consumer and investor, forcing the upturn to lose steam, forecasts Dickman. Substantially lower inflation in the short term is likely to be accompanied by lower growth and built-in distortions. ■

CHURCH AND STATE

Sermons of defiance

Relations between government and those churches within the SA Council of Churches could hardly be worse.

Last week, State President P W Botha challenged Archbishop Desmond Tutu to say whether he works for the Kingdom of God or the kingdom promised by the African National Congress. Tutu this week in effect challenged Botha to do his damndest and act against him, warning that government will "come a cropper" if it persists in trying to isolate individuals and divide the Church. "If they try to restrict me or ban me, they are just wasting their time, because I will not obey their orders. They will have to put me in jail," said Tutu.

Tutu was buoyed by the arrival of the Archbishop of Canterbury's special envoy, Bishop Keith Sutton, for a special meeting of Southern African Anglican bishops, called to discuss the threats of government action against Tutu. The challenge is likely to have raised Botha's hackles. If Botha indeed intends clamping down on liberation theologians like Tutu and Allan Boesak (who heads the World Alliance of Reformed Churches), Tutu's gauntlet might hasten such action.

Botha has the moral sanction of the white NGK behind him in warning Tutu to temper his approach and keep his nose out of politics. The NGK was dismayed by the February 29 march on parliament by Tutu, Boesak and 23 other church leaders protesting the ban of the UDF and 17 organisations, as well as by Detainees' Day services on March 11.

While not insensitive to the problems facing the church in SA, the NGK's general synod said in a statement that it was perturbed by the "language, attitude and veiled threats" reportedly expressed by Tutu and Boesak at the Detainees' Day service at St George's Cathedral in Cape Town.

Boesak (who, like Tutu, is a patron of the now proscribed UDF), said that the State had commenced a new phase of persecution of the Church. This came soon after Law and Order Minister Adriaan Vlok warned that he would not hesitate to act against clergy who promote the "revolutionary ideals of the

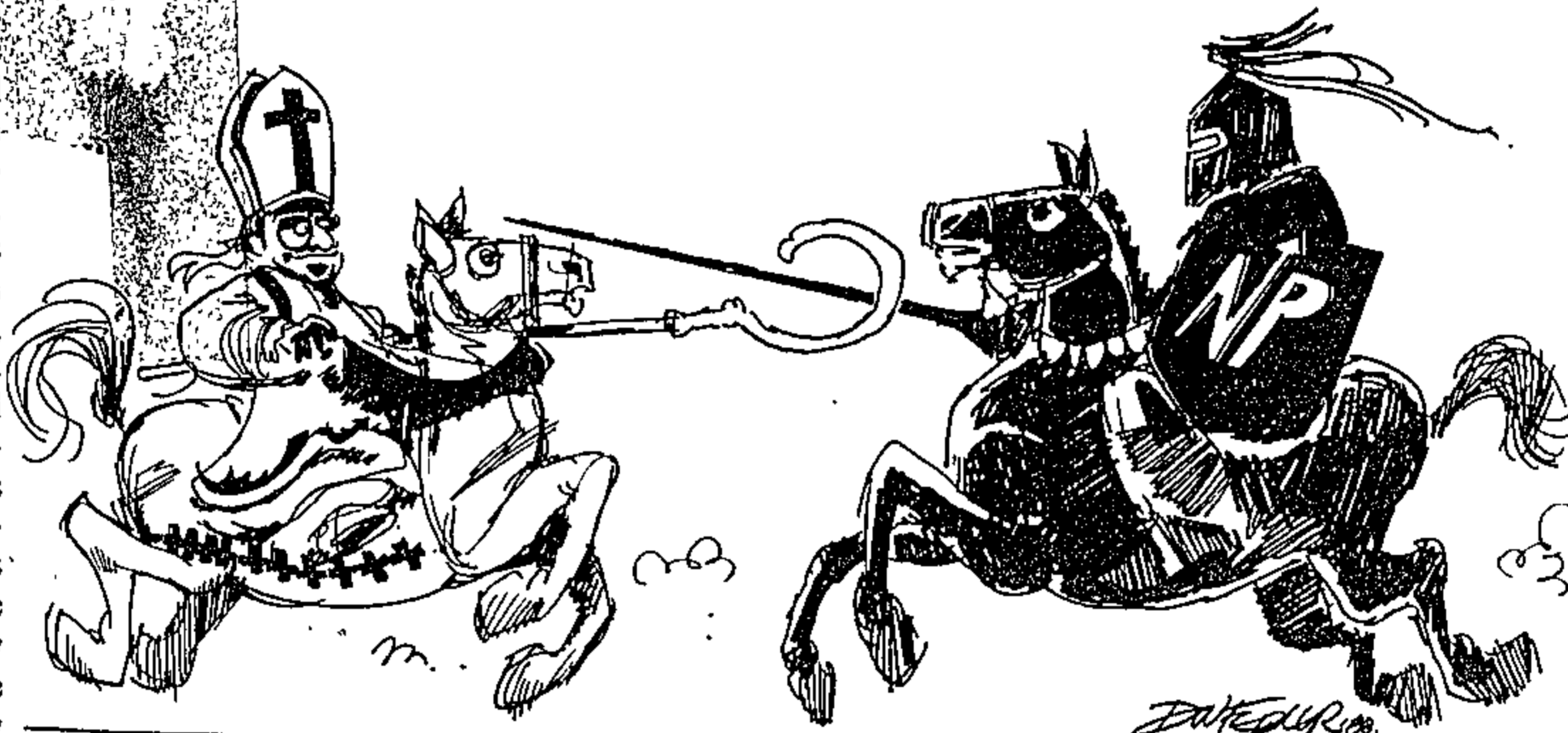
ANC." Vlok had earlier proscribed the fledgling Committee for the Defence of Democracy formed by Church leaders.

The NGK synod said that by their actions and statements, Tutu and Boesak were transgressing the boundary between Church

Church spokesmen also say that Tutu is doing nothing new, but acting in accordance with the Anglican Church's history in SA over 40 years. The depth of feeling against the silencing of government opponents should not be underestimated, they say.

They add that where it can, the Church will attempt to fill the gap within its mandate left by banned organisations. "About the only real opposition remaining is the Church," says Tutu.

It is further observed that there's been a closing of ranks behind Tutu by the Church locally, nationally and internationally,



and State. The two churchmen were, therefore, going against both God's word and the State, the synod argued. "They cannot thus equate actions of the State against them with actions against the 'Church' and a 'challenge to God.' The question is, for which Church do these persons speak? The Church of Christ is much bigger than single individuals who, under the cover of 'Church' and 'Word of God,' clearly want to promote personal and also political aims. The Church of Jesus Christ may not be used as a tool to replace by revolutionary means the government of the country with another."

The synod urgently called on Tutu and Boesak to desist from following this iniquitous path and to discuss freely and openly their problems with the relevant minister or even the State President, both of whom are practising Christians. It concluded by repeating that the Church, too, must abide by the laws of the land and work for conciliation rather than stoking lawlessness and revolution. "The NGK wants to be a partner of everyone who wishes to promote law and order, peace and righteousness."

The Anglican Church, meanwhile, has taken issue with the NGK's and government's singling out of Tutu and Boesak, which the bishops see as "a prelude to State action against them." It is pointed out that the protest outside parliament was made by an unprecedentedly wide spectrum of South African Church leaders, including Methodists, Catholics and African Independent churches.

as the presence at Tuesday's meeting of Robert Runcie's envoy seems to demonstrate. In fact, Bishop Sutton said the message from the Archbishop of Canterbury, the Anglican Church and the worldwide fellowship of Christian leaders, was clear: "You touch one of our bishops and you touch all of us."

KRUGERSDORP BOMB

Father and son

The parents of the alleged Krugersdorp bomber, Hein Grosskopf, twice tried to see their son while he was in exile in Swaziland and Botswana. On both occasions Grosskopf, who had joined the African National Congress (ANC), refused to see them. His father is Professor Johannes Grosskopf, and his mother Santie is well known in Afrikaans literary circles.

Hein Grosskopf was last seen by South Africans at the beginning of last year, while teaching at the Solly Mhlangu College in Tanzania. Soon afterwards he wrote to his parents insisting that they refrain from trying to contact him.

Grosskopf Snr first attempted to see his son in Swaziland three weeks after he had suddenly left SA, leaving his wife behind and his car at SAA's Rotunda in Johannesburg. Later, while his son was being detained in Botswana, waiting for political asylum, Grosskopf again tried to see him, but to no

1/D 26/3/88

Heed call to restrain hikes — Du Plessis

49

PORT ELIZABETH — The Minister of Finance, Mr Barend du Plessis, appealed here yesterday to businessmen to heed the State President's call for moderation in demands, price rises and salary and wage increases.

In an interview with the Daily Dispatch's Port Elizabeth correspondent, he said that the expected average salary and wage increases of 15% in the manufacturing sector projected by the Bureau for Economic Research at Stellenbosch University would stimulate growth.

"Salary and wage increases create a demand for goods and service which will help to stimulate growth, but what must be guarded against is creating demand inflation."

He said this would need discipline by the private sector to keep demands, price increases and salary and wage adjustments within reason.

The nation-wide survey of manufacturing firms, conducted after Mr P.W. Botha's appeal for private sector wage restraint, by the bureau involved more than 1 000 firms.

The bureau's director, Mr Ockie Stuart, said in 15 of 20 manufacturing

sector categories, most firms expected to pay average increases of 15% to 20%. This expectation was highest in the food, footwear, textile, plastics and paper sectors.

In five categories — clothing, knitwear, transport, basic metal and fabricated metal — most respondents expected to pay increases of 14% or lower.

Mr Stuart said many firms had committed themselves to paying increases in advance of Mr Botha's call, and were now unable to lower these increases.

Another important finding was that productive capacity was increasing through an increase in employment. A further positive aspect was, in spite of the rise in the number of employees, the average labour cost per unit of production remained roughly unchanged and was not expected to increase in the next quarter.

Mr Stuart said this could point to higher productivity.

"Unfortunately, it should be noted at the same time that the manufacturing industry in general is now handicapped by a disturbing shortage of skilled labour," he concluded.

Thomas lauds Western Cape growth potential



Mr Thomas

By DEREK TOMMEY,
Finance Editor

YOUNG go-getters who believe that the Reef might offer them a better future than the Cape should not be in too much of a hurry to pack their bags.

One of the Cape's most prominent economists, Mr Wolfgang Thomas — in a survey of the Western Cape's prospects prepared for a Cape Town-based advertising agency — strongly refutes claims that the Cape is stagnating and has no future.

Mr Thomas, a former professor of economics at the University of the Western Cape and now deputy general manager for the Western Cape region of the Small Business Development Corporation, contends that far from stagnating, the Western Cape has shown significant growth in recent years, though the absence of flashy new industries had tended to conceal the achievements.

Furthermore, he believes the Western Cape possesses a development potential as promising as any other area. Its resources just needed to be harnessed in an appropriate way. He believes the area may actually be better prepared for some of the structural changes which all regions and metropolitan areas in the country

will have to face in the coming years.

The growth of employment in the Western Cape in the past 10 to 15 years has been relatively high in a number of sectors.

In the 18 years ended 1982 it grew on average by 2,6 percent a year which, he says, is remarkable given the widespread belief that the Western Cape's industrial sector is lagging behind other regions.

A recent study by the University of South Africa concluded that the employment base in the Western Cape was relatively stronger than that of other metropolitan areas as its economy was less dependent on sectors with a declining job creation trend. Looking ahead, Mr Thomas estimates that the area's population is likely to grow from its present 3-million to about 3,8-million by the turn of the century and could reach 4,6-million by the year 2010.

On these figures about 35 500 jobs have to be created a year in metropolitan Cape Town to keep the unemployment rate rising above the present estimate of 26,8 percent of the population.

Surveying the area's potential, Mr Thomas says that the

most visible weakness of the area is the lack of mineral resources. But in international perspective this was not especially significant as there was no direct link between mineral riches and regional income — an obvious example of this was California in the US.

The Western Cape's population was rapidly increasing, and the impact of the region's more than 3-million coloured and white inhabitants on product markets should not be underestimated.

While the Western Cape missed all the important linkage effects of industrial and services expansion on the Reef, it still had enough other 'growth sectors' or growth stimuli to maintain and improve the living standards of its growing population, he says.

Diversification

Agriculture, forestry, fishing, some important industries, construction, trade, financial services, the education and health infrastructure, public administration, tourist and recreation and a potentially buoyant informal sector were all significant sectors and each one displayed a distinct potential for expansion and diversification.

W/L- ARGUS 26/3/88

49

I
V
I
C
f
N

p
oi

E
g
t
c

S/T 27/3/88

Joel Stern's success recipe

By Robyn Chalmers

G O V E R N M E N T spending, employment and tax rates must be slashed before SA can see any economic growth, says an American economist.

Joel Stern, former president of financial policy at Chase Manhattan bank, and now director of Stern Stewart in New York, says the measures taken by the Government in the budget are "not nearly enough".

"Not only is Government spending still far too high, the amount of people they employ counteracts any measures they take to cut back on it. It is pointless to impose a wage freeze on civil servants — they should not have to pay for a situation they did not create.

"It is the Government's attitude to spending which is important, as well as the proportion of its spending as opposed to the gross domestic product."

Apartheid

Company tax rates should be brought down to 20% and personal tax rates slashed; capital movements in and out of the country should be free; and apartheid should be phased out, says Professor Stern.

"Once regulations on capital movements are done away with, money will flow into SA. If personal tax rates are reduced there will be a huge increase in investment.

"The private sector invests money far more efficiently than the Government, and increased investment will create employment which blacks will be the first to benefit from."

It is also vital to create incentives to cultivate black enterprise, says Professor Stern. In America all forms of incentive have been removed from blacks as the Government has made it more attractive for them to go onto welfare than to work.

Professor Stern is a regular visitor to SA, and spoke at a three-day conference in Johannesburg this week on corporate finance in relation to management development.

Govt cautions business not to expect 'miracles'

By Michael Chester

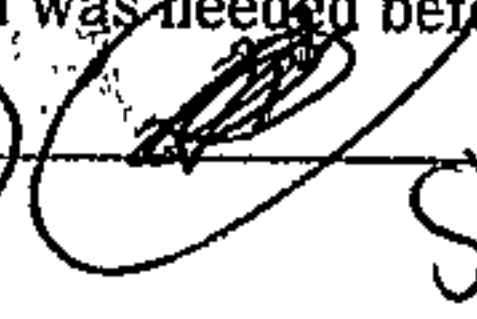
The Deputy Minister of Economic Affairs and Technology, Dr Theo Alant, cautioned business leaders last night not to expect instant miracles from the privatisation programme launched by the Government.

Nor should there be unrealistic expectations about the speed of the removal of regulations that controlled business operations in the private sector, he told the Steel and Engineering Federation of South Africa (Seifsa) at its annual banquet in Johannesburg.

Even so, he said, the State's direct stake in the economy, and its prescriptive role, had become excessive and needed to be cut to an absolute minimum.

But while quick results were possible from Government pledges to reduce its involvement in the economy in certain respects, changes in other aspects could take years to achieve.

The complexity of regulations made it difficult to do away with large sections at once. Careful consideration was needed before alternatives were selected.

44  Stud 30/3/88

PRESIDENT P.W. Botha has written letters to a number of top businessmen as part of the campaign to win support for the wage and price restraint envisaged in the Budget.

A spokesman for the President's office said yesterday they could not disclose how many letters had been sent out as it was policy not to give information on Botha's correspondence.

In the letter, Botha says SA is experiencing a gradual economic recovery, as indicated by higher company profits, but monetary and fiscal discipline is needed to combat inflation.

"I, therefore, appeal to you as an influential businessman to exercise the utmost discipline and caution in decisions

PW letter pleads for pay restraint

8/day 30/3/88
ROGER SMITH

pertaining to increases in salaries, wages and especially prices."

He appealed for companies to use increased profits to keep prices down.

"The purpose of my appeal is not to increase profitability by curbing salary and wage increases, but to minimise price increases."

The letter follows controversial Bureau for Information advertisements placed in the national media.

ROLE OF SEIFSA

31/3/13
Somefan

THE prosperity and success of the metal industry was dependent on the sustained growth of the South African economy, the Deputy Minister of Economic Affairs and Technology said in Johannesburg this week.

Dr T G Alant said many other industries were also linked to and dependent on the metal and related industries. He was addressing the annual banquet of the Steel and Engineering Industries Federation of South Africa.

Industries

"Seifsa members are indispensable and an integral part of the South African economy and their activities affect the quality of life of millions both inside and also outside our borders," Dr Alant said.

There were close on 3 300 companies affiliated to Seifsa and provided employment to more than 300 000 people in the metal, engineering and electrical engineering industries throughout the country.

ECONOMY - 1988

April - May

Upswing 88

- DID 1/4/88

Climate best in 4 years — bank

(49)

PRETORIA — The strengthening trend in domestic output and expenditure was still "substantially intact", says the Reserve Bank in its latest quarterly bulletin.

This was despite several developments which had occurred since the start of the fourth quarter of 1987 which had made it necessary to scale down earlier growth rate expectations for 1988 of 3,5 to 2,5 per cent.

These factors were:

The worldwide stock market crash of mid-October.

The weakening of the gold price since mid-December which "appears to require some downward revision of the expected average dollar price of gold in 1988".

The likelihood that the broad uptrend in world commodity prices from late 1986 through 1987 would not be sustained throughout this year.

The succession of drought and floods in recent months in most parts of South Africa's summer rainfall areas "has given rise to a scaling-down of summer crop estimates".

The Reserve Bank says however that developments in the fourth quarter of last year — compared with the modest growth occurring in the two previous quarters — presented "a considerably more favourable picture of an economy in the ad-

vanced-revival stages of a moderate cyclical upswing".

The marked strengthening of aggregate output growth partly represented a rebound to more normal production levels in the primary sectors.

It was attained despite a levelling-off of real output in manufacturing industry.

"Firm rates of output growth continued to be displayed, however, by most other secondary and tertiary activities," the bank says.

The seasonally adjusted and annualised rate of increase in real gross domestic product of nearly five per cent in the fourth quarter marginally exceeded the quarterly growth rates that had been recorded in the second half of 1986 and was the highest such rate to be attained since the closing stages of the "mini-boom" of 1983-84.

"It would also appear to have been accompanied by a generally more positive climate of business and consumer sentiment than had been experienced in the South African economy at any stage in the preceding three to four years.

"Comparatively strong and rising levels of both domestic production and domestic expenditure would appear to have persisted into the first few months of 1988." — Sapa.

Rise in Treasury Bill confirms imminent Bank Rate increase

Daily Dispatch Correspondent (58)

JOHANNESBURG — Confirmation that a higher Bank Rate is imminent was given by the 13 point rise in the Treasury Bill (TB) rate to 10,65 — 15 points above the Reserve Bank's re-discount rate.

The impression in the money market is that the Reserve Bank has now reached the point at which it is prepared to give the market its head and let rates find their natural levels.

Market opinion is that the central bank has been influencing the TB tenders, maintaining the rate fractionally in line with the Bank Rate.

The tenders have been small and influencing the rate has not been difficult, particularly as TBs have not been regarded as a good investment in the current climate.

Bidding for TBs in the weekly tender, R55 m for R40 m bills, was the lowest for weeks past which suggests that neither the Bank nor the Corporation for Public Deposits (CPD) tendered.

The higher TB rate also influenced the rate for 90-day Bankers Acceptances (BAs) which have risen by 40 points on the week and by five points on Friday to 11,50 per cent.

This is a peak since May 1986 when rates were steadily moving down as the Bank Rate was being reduced, step by step, from its punitive peak of 21,75 per cent in January 1985.

Rates are now in reverse, moving up across the board as liquidity, exacerbated by the forthcoming monthend, is drying up.

From last week's surplus of R379 million, the market did a turnabout last week and fell into a shortage of R513 m, possibly more because the Reserve Bank came to its aid with a repurchase offer (repro) of R200 m.

The extreme tightness in the market is reflected by the bidding for the repros, R480 m was offered for the R200.

And the rate of 11,87 per cent is the measure of anxiety about liquidity.

The repro rate is well above the call rate for overnight money which has risen during the week by nearly a full percentage point to a band of 10,75 per cent — 11 per cent.

As repro will probably be rolled over — and possibly be increased as the week progresses — all short-term money will become more costly, squeezing bank margins.

Bankers and discount house managers attribute much of the pressure on market liquidity to the building societies' desperate bidding for cash to fund their mortgage obligations.

The societies, restricted in the amount of short term deposits which they may hold, are trying to attract 12 months investments — and they are being held to ransom by investors aware of their plight in a climate of rising rates.

INTEREST RATES

Economy on a roller coaster

13/5/88 (S) FM

Jet lag and culture shock are states of body and mind usually associated with rapid movement from one environment to another. South Africans, however, can experience both by standing still — and watching the economy whizz by. Since the final quarter of 1987, it has leapt to life, apparently transforming the landscape within months.

The role credit extension has played in this is reflected in selected banking statistics published by the Reserve Bank which show that between last August, when consumer spending began to revive, and February, the latest month for which figures are available, total bank credit extended to the domestic private sector increased more than 18% to R65,3bn. And, according to Reserve Bank Governor Gerhard De Kock, total credit extended by monetary institutions to the private sector increased at an estimated annual rate of 26% during the first quarter of 1988.

So we have moved from low demand and high liquidity into a period of rapidly accelerating demand and retreating liquidity which pushed up interest rates at a speed that few would have believed possible.

Not least, the authorities, who still appear disorientated by the speed with which events

have overtaken them. Last week's measures (see box) hardly seem to meet the needs of the situation. Having inexplicably delayed the increase in Bank rate, they have now failed to increase it adequately.

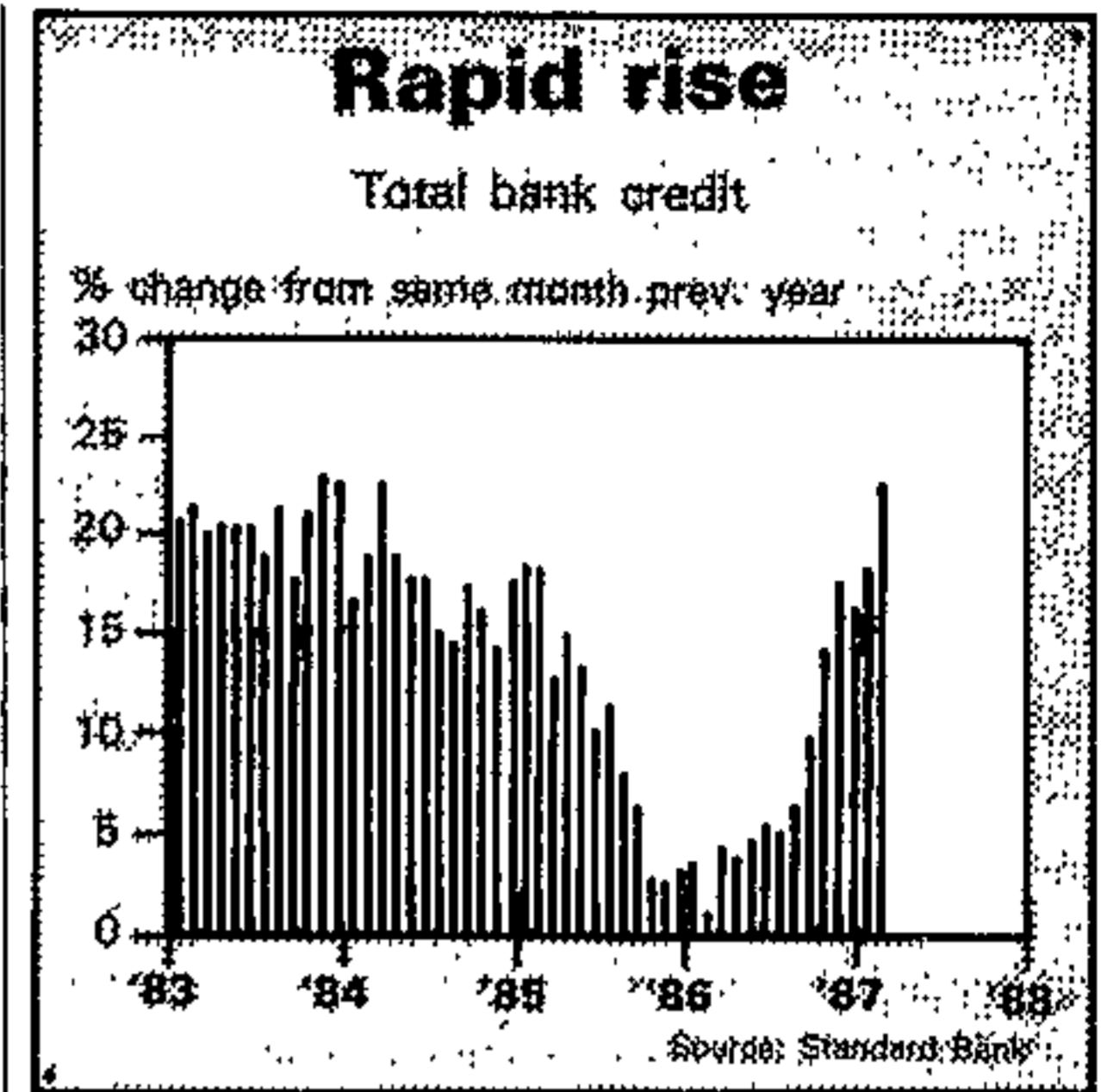
It will be two months before the situation is reviewed. Finance Minister Barend du Plessis tells the FM (see *Face to Face*) the measures' effects will only be felt in June; the first figures reflecting this will be available in July.

However, the money market this week made its own assessment of the future as the BA rate, which had paused at 11,85% since last week's announcement, resumed its climb. It stood at 11,9% on Tuesday.

The perception among dealers is that the measures were "mild", that rates will rise and the situation will be exacerbated by a money market shortage.

So we can only ask, as we have so often this year: when will Bank rate rise again?

Why did policymakers not respond appropriately? Were they that slow to realise the dimensions of demand — despite the early warning signals? These included sharp hikes in money and capital market rates at the start of the year and an increase in first-



quarter money supply (M3) at a seasonally adjusted annual 24% — well above the Bank's 12%-16% target.

Or did they yield to political pressures? The rise in prime rate to 25% in 1984 coincided with a period of social and political instability and the combined effect was economic paralysis. Since then, interest rates have been a highly controversial issue, many people advocating direct control.

So could tardiness in implementing adequate monetary policy spell a return to direct intervention?

Firm action will certainly be needed, because the economic recovery is not entirely good news. The bad news is:

- It has been generated largely by high levels of debt;
- It has not yet produced any significant growth in fixed investment (except housing) or a decrease in unemployment (see below);
- It has led to a surge in money supply; and
- It has sharply increased imports, probably eliminating the surplus on current account at a time when there is little inflow on the capital account of the Balance of Payments (BoP).

On the last point, De Kock hopes that the new accommodation restrictions will "encourage importers and exporters to make relatively more use of foreign trade-related credits and relatively less of domestic credit," which would "strengthen the capital account and support the gold and foreign exchange reserves."

However, this form of relief could never meet our need for foreign capital and concern about BoP continues.

This reflects a fundamental constant in the economy — despite the appearance of change. With credit sanctions slashing foreign loans and trade sanctions cutting deep into export earnings, significant growth in the foreseeable future seems unsustainable.

DU PLESSIS-DE KOCK PACKAGE

Governor Gerhard de Kock last week announced a rise in Bank rate — the rate at which the Reserve Bank rediscounts Treasury bills (TBs) for discount houses — from 10,5% to 11,5%.

Also, the Bank will "provide considerably less accommodation through repurchase agreements, CPD tender funds or other open-market operations" and this only "to smooth out unduly large month-end and other seasonal fluctuations in money market conditions.

Which means the banking sector's cash needs will be met largely through the discount window and, apart from exceptional circumstances, only against the security of liquid assets such as TBs, Land Bank bills, liquid bankers' acceptances (BAs) and short-term government stock.

Also to rise are rediscount rates on Land Bank bills and liquid BAs for discount houses to 11,65% and 11,8% respectively. Rates for banks on these assets and TBs will be 0,5 percentage points higher than for discount houses.

Overnight loans to discount houses will be up one percentage point to 13% (against short-term government stock

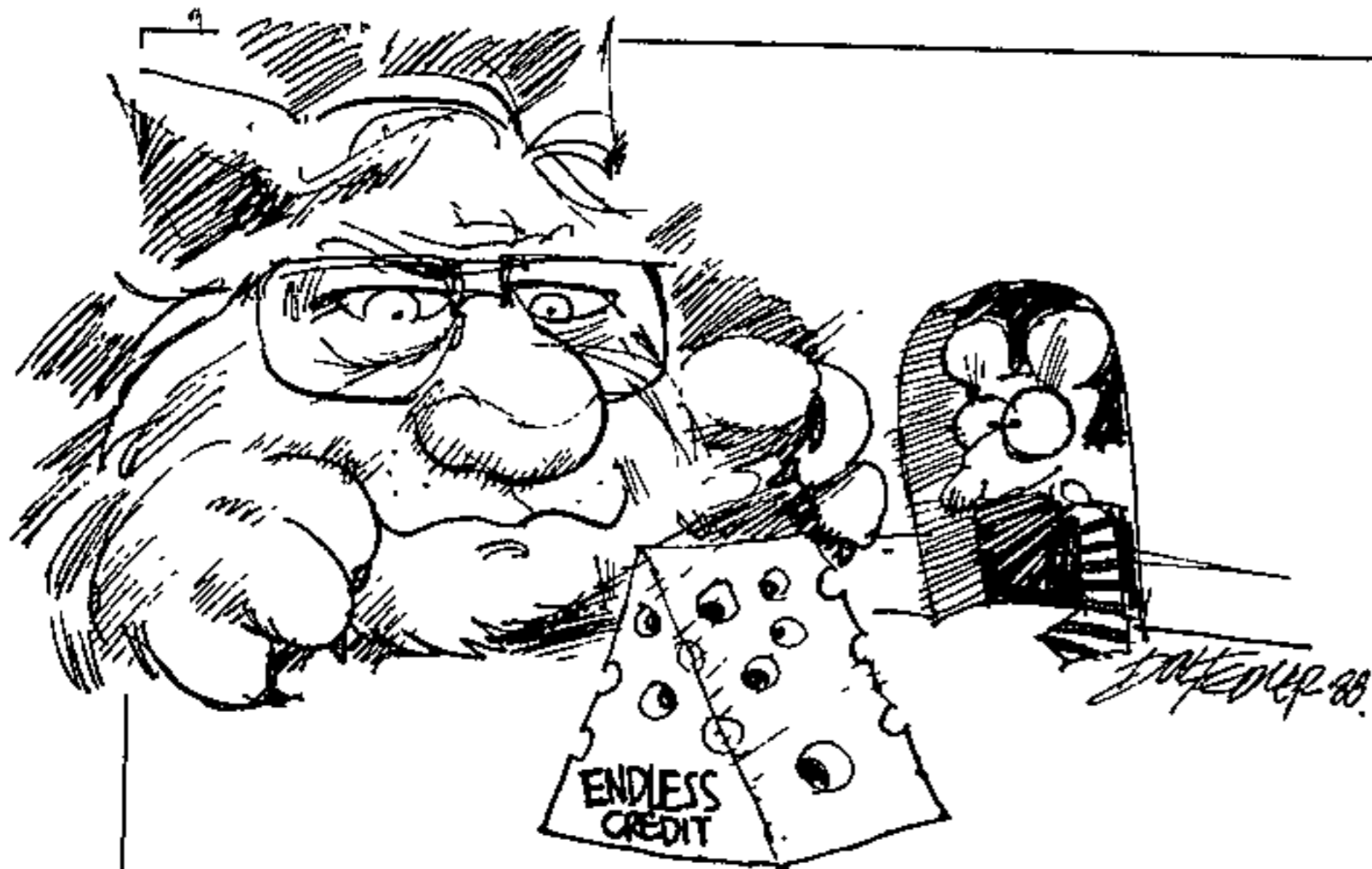
and TBs), 13,25% (against liquid Land Bank debentures and bills) and 13,75% (against liquid BAs).

To banks, these rates will be 13,75%, 14% and 14,5%.

Loans made to banks in exceptional circumstances against non-liquid assets will be at 16% for the first day, possibly increasing progressively "for any bank deemed to be making excessive use of the facility."

The same day, Finance Minister Barend du Plessis announced:

- The phasing out of debtors' allowance on Sales Tax;
- Valuations on company cars in the Seventh Schedule of the Income Tax Act will be adjusted closer to market values;
- The maximum on credit transactions covered by the Usury and Creditors Acts will increase from R70 000 to R500 000;
- A one-fifth increase for minimum deposits on transactions subject to the Credit Agreements Acts; and
- Amendments to the Usury and Credit Agreements Acts "to make it clear they cover rental transactions" of longer than three months.



below the inflation rate towards the end of 1985.

Now they have resources everyone wants and, with expectations of further rises in rates, are not prepared to commit themselves. Institutions report that savers are still sitting on the sidelines, waiting for the offers to become attractive enough before locking themselves into long-term deposits.

To tempt them, institutions are hastily putting together packages.

First National Bank will offer a toll-free number for potential investors in Senior Citizens' Saving Deposits from Monday when the bonds come on the market.

Says senior GM Jimmy McKenzie: "We

will set up a bank of numbers and clients will be able to make application by telephone."

Last week, the Perm launched the Prime Link Deposit, designed to tempt those who are waiting for rates to rise further.

This 12-month savings vehicle yields interest rates pegged to 80% of prime, the rate banks charge on top quality loans. Also, interest is to be paid monthly. And should prime move down in-

stead of up, as expected, there is a floor rate of not more than half a percentage point below issue rate.

Trust Bank, too, has just announced a new savings product which provides for an upfront payment of 5% of the total interest to accrue over the full term of the investment.

This is available to individual investors placing funds on 12- to 36-month fixed deposit. The initial payout can be separately invested, earning its own interest.

Meanwhile, the United Building Society has reintroduced Bonus Deposits, last on offer between February and December 1986.

Interest can increase by as much as two percentage points when United fixed deposit

rates — offered to new investors — move, while entry constitutes a floor rate.

Whether or not they are introducing new products, all institutions are aggressively going for deposit growth. And with medium- and longer-term funds much in demand, rates in these categories should climb considerably over the next few months. ■

PERSONAL FINANCE

16pc ceilings forecast

Star 21/1/88

Higher prime interest rate will hit jobs, warns Syfrets director

The banks' prime overdraft rate is unlikely to increase to more than about 16 per cent in view of the slower growth rate anticipated in the second half of the year.

So says Mr Leon Camphor, director of Syfrets Managed Assets.

At the same time, he said at a seminar in Durban this week, the stock exchange could surprise many investors by firming in the face of higher interest rates and inflation.

Mr Camphor said interest rates had already risen to cool the economy and protect the balance of payments.

A further step in this direction was likely — and the prime rate could move to 16 percent within the next couple of months.

However, further increases in rates could hit the economy too hard and slow job-creation.

He therefore did not think prime would rise much beyond 16 percent.

While the second half of the year would see a slower growth rate, it also would be marked by increased inflation.

He warned that an alteration in the weightings a year ago in the cost of living index and imported inflation as a result of the lower rand would lead to higher inflation.

For structural reasons, he believed it was impossible for inflation to drop below 10 percent in South Africa.

He said problems were low productivity, scarcity of resources — which were wrongly allocated — and the difficulty of controlling

money supply in the informal sector.

Mr Camphor said he expected fairly big civil service pay rises in the next two years.

He believed there was a good chance of another big drop on overseas share markets. This, with higher local interest rates, would be negative for the JSE.

However, he thought higher inflationary expectations would increasingly lead institutional fund

managers to worry about obtaining real returns on investments.

They, therefore, would turn back to the JSE, which could surprise many.

On the political front, Mr Camphor said there were three possible scenarios — but he believed South Africa would eventually opt for the one which would prove best for the economic health of the country, a negotiated dispensation.

This would create uncertainty in markets for a few years and have a number of implications, including high inflation and government spending, shorter economic cycles, a weak currency and (apart from sanctions) a favourable outlook for exports.

Fiscal balance is not the same as fiscal responsibility

Balanced budgets are the flavour of the year

In his recent budget Mr Nigel Lawson, Britain's Chancellor of the Exchequer, said that in future his government would aim to balance its budget. Even excluding the proceeds from selling state assets, Britain will have a deficit of only 0.5 percent of GDP this year.

Mr Lawson is not the only finance minister to develop a taste for old-fashioned fiscal conservatism: this year no fewer than nine OECD governments plan budgets that are either in rough balance (a deficit of under 1% of GNP) or in surplus.

Classical economics were almost unanimous in condemning public debt. Governments used to run deficits only in times of war or deep depression. Then along came Keynes, who made respectable the idea that budgets should be used to keep the economy at full employment. Now matters have come full circle. Balanced budgets are back in vogue because of three fears about deficit.

- (1) The monetising lure: sooner or later, governments may be tempted to finance their deficits by printing money, which would fuel inflation. Expectations of inflation will, in any case, raise interest rates.
- (2) The debt trap: if the rate of interest is higher than the rate of growth, then either interest payments and debt will rise as a share of GDP or the non-interest part of the budget will have to be squeezed.
- (3) Crowding out: To induce the private sector to hold more public debt, interest rates must rise, thereby queezing private investment.

The first argument is empirical (many governments have preferred to print money to cover their borrowing); the second is arithmetic; the third is controversial.

Some economists argue that it makes no difference whether public spending is financed with debt rather than taxes, so a balanced budget with high taxes has the same results as a budget deficit.

Individuals will realise that government borrowing today implies higher taxes tomorrow to repay interest and principal, and so they will save more; this will offset the impact of government borrowing and leave interest rates unchanged.

The flaw in this is that ordinary

As the financial authorities in industrialised countries continue to strive for a balanced budget, government expenditure in South Africa remain worryingly high.

The actual deficit before borrowing last year constituted 5.7 percent of the Gross Domestic Product (GDP) and it was planned that the deficit this year would constitute 4.9 percent of GDP. The country's total financing needs, including rolled over loans, constitutes 6.2 percent of the GDP — twice what the IMF considers reasonable.

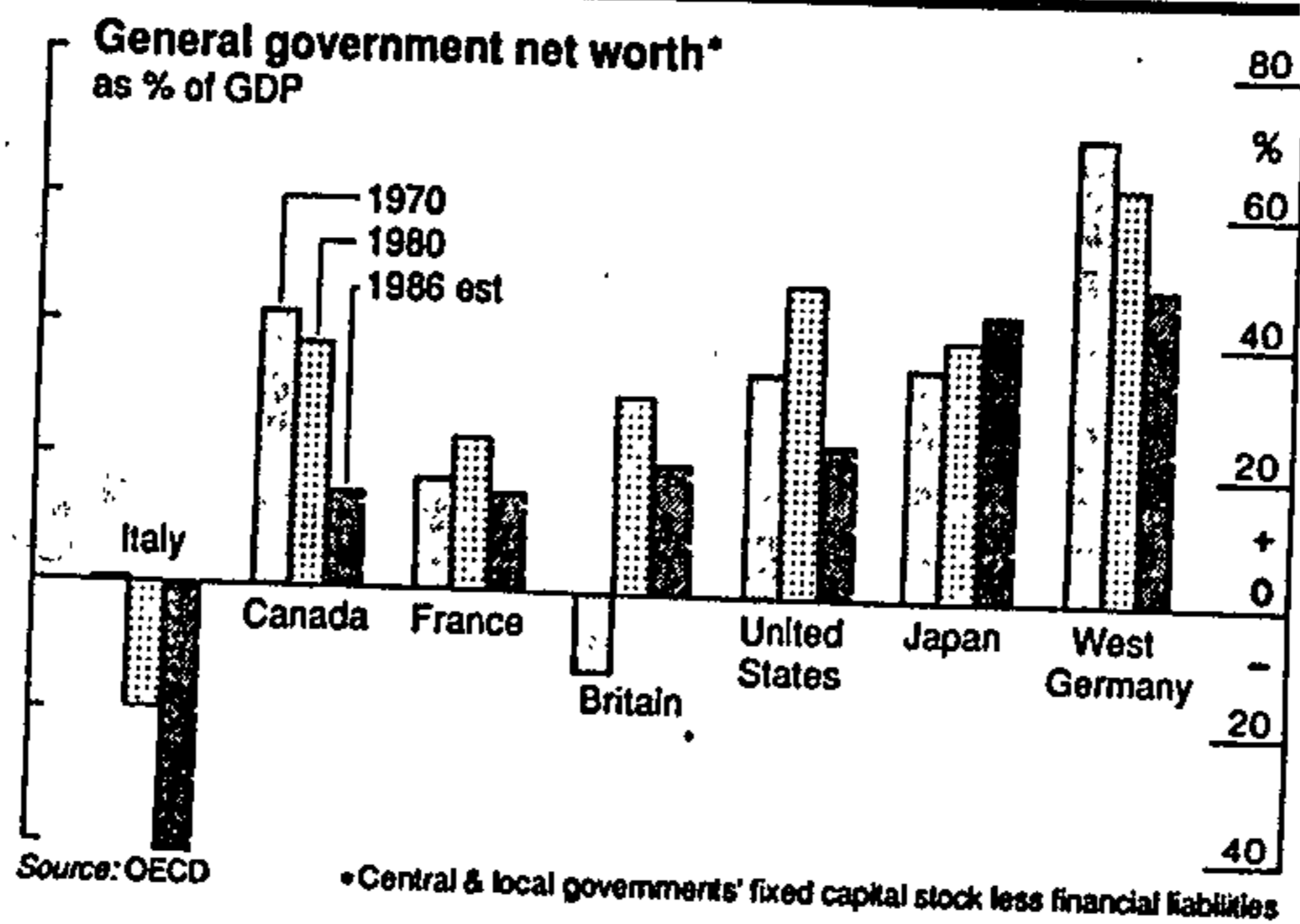
As long as this trend continues, South Africans can only admire budgets such as that achieved by British Chancellor Nigel Lawson last month.

ratio should be the right one. Countries with heavy debts ratios might need to run a budget surplus for a while in order to repay some of it. Conversely, governments in high-saving countries, such as Japan, can probably borrow more than governments in low-saving ones without crowding out private investment.

The best guide is to look at what governments are borrowing for. Just as it would be a short-sighted company that looked only at its liabilities and ignored the other side of its balance sheet, so a government must consider whether it is borrowing for productive investment, which generates revenue to service the debt, or just for paying civil servants.

What matters is net worth — assets less liabilities.

Some economists argue that budgets should be steered by the rule that public-sector net worth must not fall. Higher investment could justify higher borrowing. A deficit might even be more prudent than a balanced budget if more spending goes into investment.



mortals are unlikely to be indifferent as between present and future taxes: future taxes will be paid by future taxpayers, so enjoy yourself today.

These three concerns do not add up to an unanswerable case against running a budget deficit. For one thing, deficits vary automatically with the economic cycle.

Most economists therefore prefer to think in terms of a cyclically-adjusted budget balance. The snag is that adjusting for the state of the cycle is dodgy; economists' different views about how the economy works and the trend rate of growth will produce different results — not just in magnitude, but also in direction.

If the main worries concern insolvency and pressure on interest rates, then the ratio of public debt to GDP might be a better target than the budget balance. A possible rule is that a government can run a deficit so long as its debt rises no faster than GDP — ie, the ratio of debt to GDP remains constant. A balanced-budget rule would imply a falling debt ratio.

But a constant debt-to-GDP target produces some bizarre results. Simple arithmetic shows that the deficit which will leave the ratio unchanged will be determined by the debt ratio multiplied by the growth in nominal GDP.

So the higher a government's existing debt and the higher a country's inflation rate, the more a government can borrow.

On this rule, West Germany with a debt ratio of 30% and nominal GDP growth of 3% should be running a deficit of 0.9% of GDP; Italy with a debt ratio approaching 100% and nominal GDP growth of 8% should be running one of 8% of GDP. Any rule that encourages governments to stoke up inflation and allows the spend-thrift to borrow more than the thrifty is a daft rule.

If a government's main concern is to end inflation, then its target for nominal GDP growth should be, say, 3% (3% real growth, zero inflation). Feed this into the equation and Italy should be running a deficit of only 3% of GDP, not 8%. Also, there is no reason why a country's existing debt-to-GDP

The chart shows the OECD's stab at calculating net worth using a narrow definition — the government's capital stock less its net financial liabilities.

The figures should be handled with care. National accounts value assets at current replacement cost even though some — eg, loss-making steel works — are unlikely to be rebuilt if destroyed by an earthquake tomorrow. The figures should be used to monitor changes in net worth over time, not to compare levels between countries.

The figures suggest that net worth has fallen everywhere except Japan in the 1980s. Net investment has often been insufficient to maintain the value of the capital stock.

In America the government's capital stock fell from 67% of GDP in 1980 to 54% in 1986, Britain's fell from 79% to 68%.

Mr Lawson argues that a balanced budget provides "a clear and simple rule". There is no virtue in simple directions if they are leading you down the wrong path. — The Economist

MEASURES announced last week to tighten credit and raise interest rates highlighted the impact of the *de facto* "bankers' sanctions" imposed on South Africa since 1985.

The measures, announced by Reserve Bank Governor Gerhard de Kock and Finance Minister Barend du Plessis, were aimed at "cooling down" the economy. Much was heard of the "overheating" of the economy and the need for South Africa to live within its means.

There was something bizarre about all this in the context of an economy which has grown by 4,6 percent in the 1980s while the population has grown by 13 percent, with deep-rooted problems of unemployment and poverty.

Most economists are forecasting a growth rate of about 2,5 percent this year while the more pessimistic (such as the United Building Society's Hans Falkena) are now expecting only two percent.

Boom conditions dating back to the latter half of last year have really been little more than a boomlet, and a rather fragile one at that. Growth last year was based in part on government spending, and the rapid improvement in economic conditions in the last six to eight months has been fuelled primarily by consumer spending — and on credit, at that. Hire purchase credit increased by 18 percent in 1987 and by April had been going up at an annualised rate of 32 percent for three months.

Total credit extended to the private sector expanded at a 29 percent rate during the second half of last year. Consumer demand for durable goods such as cars, appliances and furnishings has soared.

As credit expanded, money supply increased by 23 percent in the year to February, way over the 16 percent targeted maximum considered desirable by the Reserve Bank.

Private sector fixed investment — which had declined consistently in real terms throughout the 1980s — has risen, but not enough to have an impact on joblessness or to ensure future growth.

But the boomlet has been enough to bring the economy sharply up against limits to its further expansion. The main limit is the state of South Africa's balance of payments. The other is inflation.

Top of the list of economic priorities for the financial authorities is that South Africa keep up its foreign debt repayments, negotiated at the time of the debt standstill in 1985. Since international bankers are not keen on debt defaulters, overseas loans have been hard to get ever since.

No new long-term foreign capital is coming into South Africa and very little in the way of even short-term loans.

The chosen path now is that South Africa must prove its international creditworthiness in the hope that it will once again be able to raise foreign money. That means sticking strictly to the terms of the debt package, even if it means the unemployed will just have to stay that way and business' investment-shyness will have to continue.

South Africa is a net capital exporter so it runs a surplus on the current account of the balance of payments to pay its debts.

The current account is estimated to have run into a small deficit in the first two months of this year. Its major component is the trade balance between exports and imports.

Export prospects are not good, given a slowdown in the world economy, and even without the possibility of further sanctions. Imports have risen sharply with the improvement in economic conditions: volumes increased by eight percent in the first quarter of this year.

Most economists have been predicting a current account surplus for this year of about R3-billion. This is lower than last year's R6-billion. But it is

**A bizarre society indeed:
Unemployment up, growth
declining, yet the fear is of
'overheating' the economy.
By HILARY JOFFE**

still more than enough to cover repayment of foreign debt.

The installment owed foreign creditors in terms of the agreement (the so-called debt "in the net") this year is apparently R400-million.

The at least R2,5-billion current account surplus which economists estimate is necessary to cover the foreign debt repayment is needed so the debts can be repaid without the value of the rand falling through the floor.

As trade figures have indicated a declining current account surplus and the value of South Africa's gold and foreign exchange reserves has declined, the rand's value has fallen — by 14 percent (against the dollar) since January.

Last week's measures were an attempt to curb credit and so curb demand. They included a rise in the bank rate from 10,5 to 11,5 percent and limits on Reserve Bank accommodation of the banks' cash needs. De Kock appealed to the banks to be more cautious in granting loans. Du Plessis announced measures designed to limit credit granted through leasing facilities and hire purchase agreements.

The financial authorities reacted to a similar scenario of rapidly expanding credit, increasing money supply, inflation and rising imports in 1983/84 with steep interest rate rises which took the prime overdraft rate to a peak of 25 percent and plunged the economy deep into recession.

They don't plan to repeat the exercise, so the measures were cautious ones which took a while in coming.

They have not been enough to halt the rand's slide: one banking source believes the April current account looks "horrific" and believes the rand is bearing the full burden of the balance of payments constraint on the economy.

A rapidly falling rand leads to inflation, as the cost of imports rises. It also has an adverse effect on business' attitudes to investment. Businesses can "cover forward", insuring themselves against foreign exchange losses resulting from a drop in the rand, for only a year in advance. Initiating longer-term investment projects requiring imported plant and machinery becomes very risky in the context of a fast falling rand.

But rising interest rates too could affect confidence. Demand for certain kinds of goods — cars for example — could fall as a result of the new measures. And businesses fear the impact of increasingly expensive borrowed money.

So even after the credit measures, the economy remains caught in the vicious cycle which has become entrenched over the past few years.

It's a cycle in which there are not enough financial resources and no prospect of more from outside. The government's deficit is a central aspect of it (being equivalent to practically the entire net saving figures for the economy, Volkskas economist Adam Jacobs points out). And the credit curbs are in an important sense an attempt to cut demand by consumers, freeing up goods and resources for the government.

The problem with the balance of payments is not just a matter of repaying foreign creditors.

It fundamentally reflects the nature of the South African economy, which despite government policies on import substitution dating back some decades and the newer rhetoric of "inward industrialisation" has managed to become neither very self-sufficient nor internationally competitive. It is an economy vulnerable to all kinds of sanctions — as well as to inflation.

The Board of Trade pointed to some of the key problems in its report this week (see story).

(Handwritten initials)

How to boost SA's income: Oppenheimer

Star 24/8/6

(9)
4

WITBANK — Capital intensive and labour intensive industries are equally necessary and important when thinking of the best way to organise industry in order to maximise the national income, former Anglo American Corporation chairman Mr Harry Oppenheimer, said in Witbank yesterday.

Mr Oppenheimer was speaking after an extraordinary meeting of the Town Council at which the honorary freedom of Witbank was conferred upon him, in recognition of his contribution — through investments made by corporations under his control — to the growth of the town.

"At a time when unemployment among black workers is the most serious problem facing South Africa, it naturally should be said that in economic development, the country should concentrate on labour intensive as distinctive from capital intensive industry," Mr Oppenheimer said.

"Generally speaking the fact is that capital intensive and labour intensive industries are not alternatives, one of which can be preferred to the other.

"Certainly, it is to the development of comparatively small industries generally working exclusively for the home market that we may look for the greatest growth of employment opportunities, but large scale, sophisticated capital intensive industries are the ones likely to be the major earners of foreign exchange and providers of tax receipts for the Government."

In the past, Mr Oppenheimer said, his business career used to be concerned almost exclusively with mining. At Witbank, however, particularly with the formation, development and diversification of Highveld Steel and Vanadium Corporation, he had become involved in quite a different way with the economic development of South Africa.

The Highveld project was an important factor in the necessary movement in large scale industry away from primary products, for sale in the world markets, to the use of the country's natural resources as raw materials to be transformed into sophisticated products — partly for export and partly to meet the needs of an expanding market.

"The manufacturing industry must be developed to play an increasing part in earning the necessary supplies of foreign exchange," Mr Oppenheimer said. — Sapa.

DID 5/4/88

First quarter Treasury borrowing to be R3,5bn investment demand up 49

Daily Dispatch Correspondent

PRETORIA — The Reserve Bank is to issue, on behalf of the Treasury, R1,2 billion of the RSA bond 13 per cent 2005.

This will take the Treasury's first quarter borrowing to R3,5 bn — 80 per cent of the R4,35 bn new money which the Minister of Finance, Mr Barend du Plessis, planned to raise during the current fiscal year.

Last week, the Reserve Bank offered the new stock to the market on a bid basis and institutions snapped up the bonds within 24 hours.

The rates at which the stock was issued have not been disclosed.

The authorities, apparently, misread the institutions' appetite for long-dated bonds now that the yields in excess of 16 per cent were positive with the inflation rate showing promising signs of reducing.

At the beginning of March the official view was that investors were interested only in the shorter end of the medium range, and issued bonds maturing in 1990, 1991 and 1992.

But when a merchant bank bid the

Reserve Bank for R740 000 worth of 1991 stock with options to convert to 2005, the authorities became aware of a revived investment demand to go long.

This option deal has been severely criticised in capital market circles on the grounds that the Treasury was in a no-win situation and the merchant bank involved stood to make a handsome profit no matter which way capital market rates moved during the next year.

Bond market analysts claim that Reserve Bank officials were so keen to meet the Treasury's funding requirement that they did not pause to examine the implications of the deal.

"The Bank's problem," said a market trader, "is that the people in their tower block in Pretoria are not only too remote from the market but they also lack the experience and feel of the market place.

"The Reserve Bank should not only be a seller of bonds; it should also job in and out of the market as a market-maker like Eskom and Sats. This would give its officials a skin-feel, if not a gut-feel, of market trading."

BUSINESS

D10 7/4/88 (49)
**R200m deficit for
SA current account**

JOHANNESBURG — A deficit of about R200 million was registered on South Africa's current account of the balance of payments after the first two months of this year, a rough estimate shows.

There was an estimated deficit of R1,4 billion on the services account while the trade surplus for the two months, according to customs and excise, was R1,2 bn — leaving a negative balance of R200 m.

Estimates for services — such as freight insurance, dividends, interest and travel — are based on historical figures published in the latest Reserve Bank Quarterly Bulletin.

Figures for this year's services payments and receipts are not yet available. Last year, payments for services amounted to R15,4 bn and receipts for services were R6,5 bn.

At the end of 1987, economists predicted a current account surplus of about R4 bn for 1988. While their predictions could still be realised, alarm bells are ringing.

If South Africa is to meet its foreign debt commitments, it cannot allow the current account to swing into deficit. — DDC

Will govt stick by Budget? — Schwarz

HOUSE OF ASSEMBLY — It had to be asked whether government had the determination to carry through its new economic package in spite of sniping from all sides, PFP Finance spokesman Harry Schwarz said yesterday.

If its resolve was going to weaken, there was no point in its having introduced the measures in the first place.

He questioned the determination of Finance Minister Barend du Plessis to stick by the Budget and the cuts he had proposed, and asked whether the set of accounts at the end of the financial year would be similar to those in the Budget as presented.

He also asked whether there was going to be real tax reform, or merely changes in who paid the taxes rather than a reduction in the amount of tax levied from the private sector.

The Budget had clearly been intended as the second round to the economic package announced by President P W Botha at the opening of Parliament.

But it contained too many stopgap measures for it to be effective in attaining the long term goals set for it.

Schwarz moved an amendment calling on the House to decline approval of the Budget until government:

- Made adequate provision for military and social pensioners and other people dependent on the state;
- Took steps to remedy the serious situation developing in the country's health services and to ensure the maintenance of the standard of education;
- Took further measures to protect the public against crime; and
- Removed from its tax proposals those which were ineffective and inadequate.

It was clear that if free enterprise was to succeed it had to be uncoupled from apartheid and had to be seen as having a caring face.

If this was not achieved, the end result would be economic conflict which would spill over into the political sphere.

It had been said free enterprise was

seen as the preserve of whites. If this was true, it had no prospect of success in the long term in SA.

Government had been unable to provide gainful employment for a tremendously growing population.

Of the 30-million people in SA (excluding the TBVC countries), fewer than 5-million were employed.

"We are sitting on a population and employment time bomb," Schwarz said.

The reality was that GDP growth targets of 3% would do very little to deal with the situation. They did even less when they followed years of negative per capita growth.

It was accepted that SA was a prisoner of the balance of payments. This was a reality that needed to be faced and therefore new approaches had to be adopted.

In the light of this reality the need for more inward industrialisation, the creation of demand for locally produced goods and therefore more jobs, was vital. — Sapa.

R135 502 in loans had no approval

THE defunct Oranje-Vaal Development Board granted loans totalling R135 502 to 29 black town councillors without approval from the Department of Constitutional Development and Planning, Auditor-General J H de Loor said yesterday.

He disclosed on 12 of the loans, no, or irregular, payments were being made.

The board, which was abolished on July 1 1986, also proceeded to purchase a car for R14 866 and water tankers for R96 384 for use in the QwaQwa homeland, although the Department of Con-

stitutional Development and Planning was not prepared to approve this.

"The resultant expenditure is consequently reported as unauthorised," De Loor said in his report on the board's accounts for the 1985/6 financial year.

The board's 29 loans to black town councillors — as far as is known, this is the first time the existence of such loans has been disclosed publicly — were in the previous financial year from its Capital Development Fund."

The approval of the Department of Constitutional Development and Planning to these loans had still not been submitted.

"The amount due on nine of these loans amounting to R45 737 has not yet been confirmed by the borrowers.

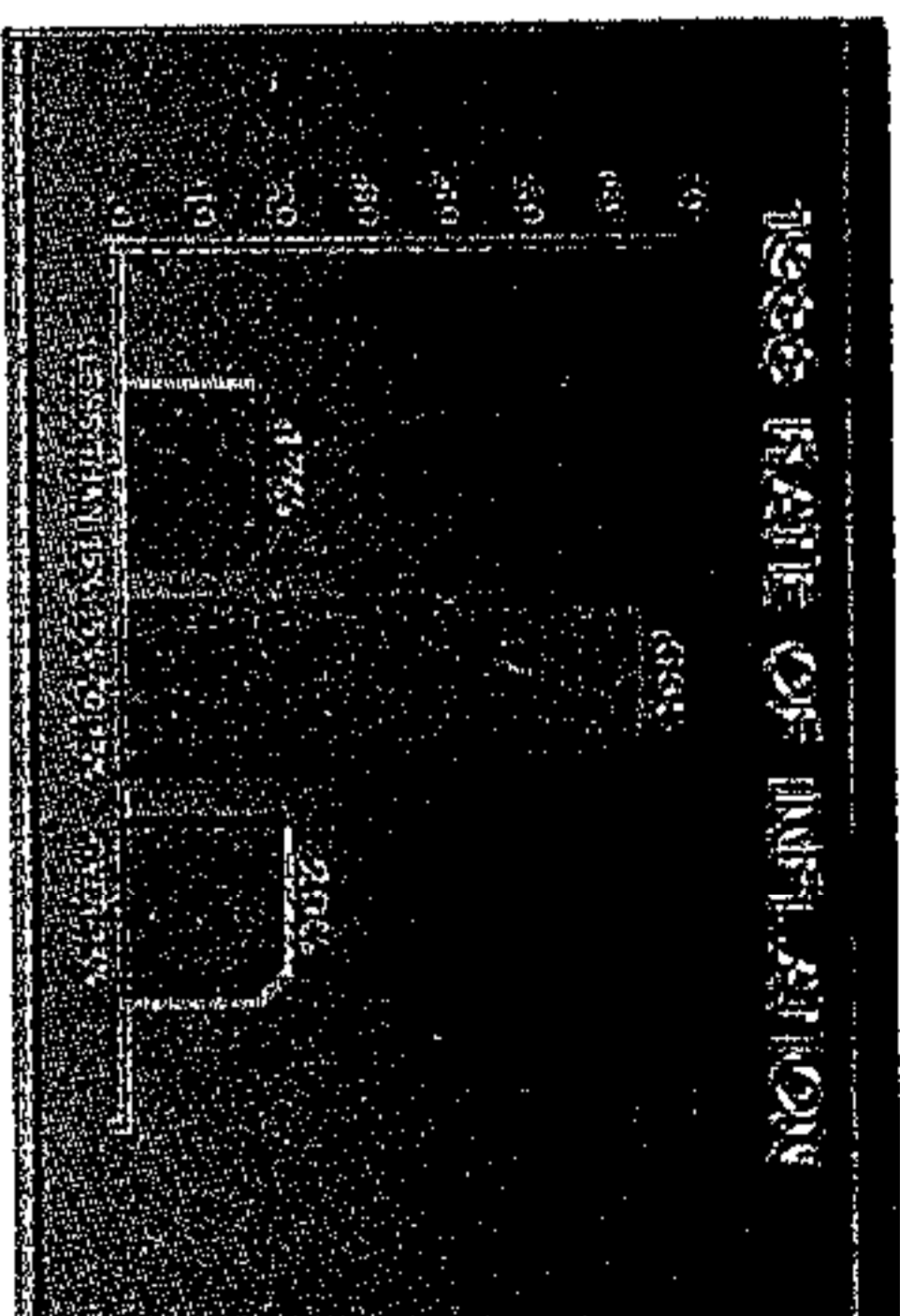
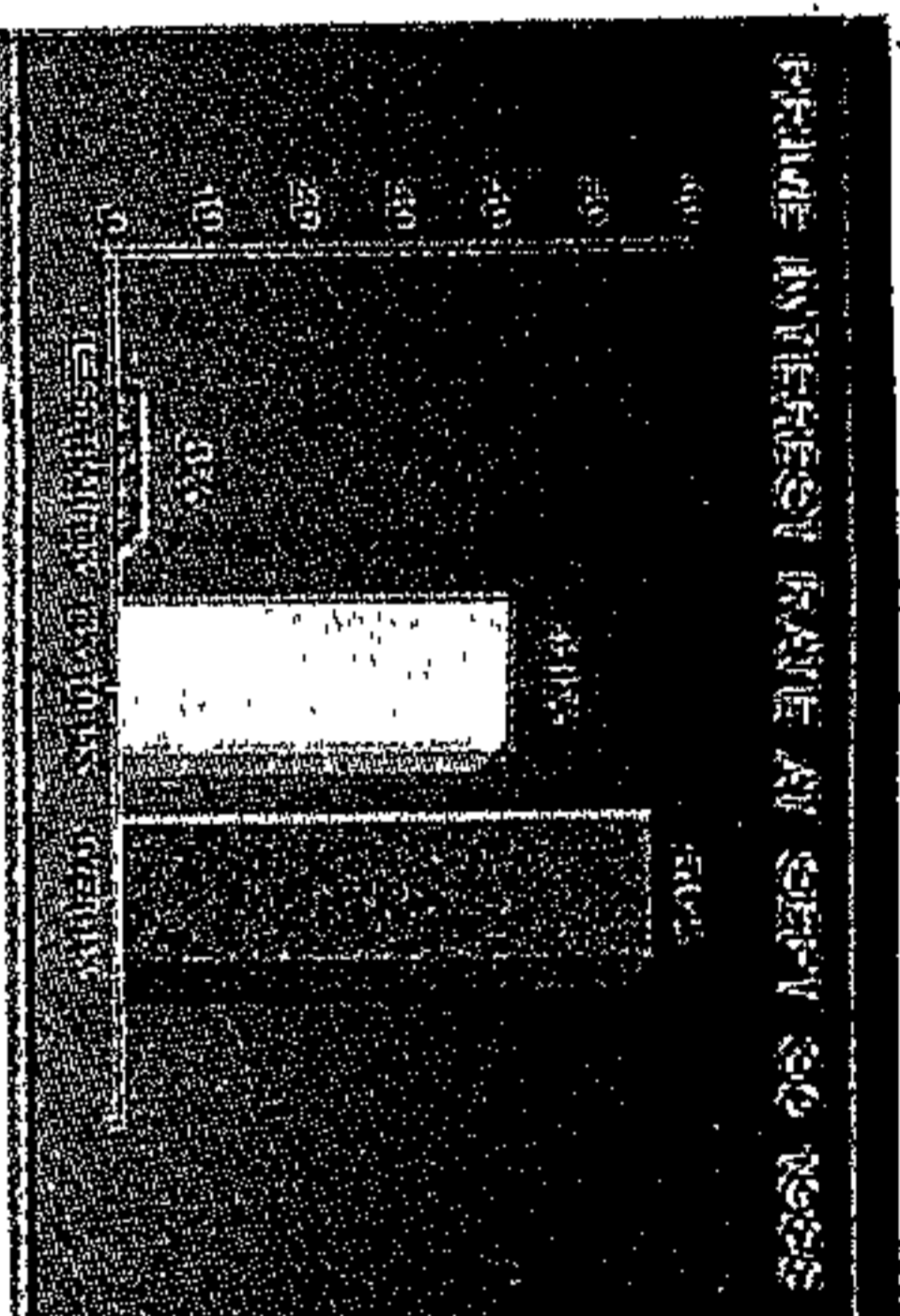
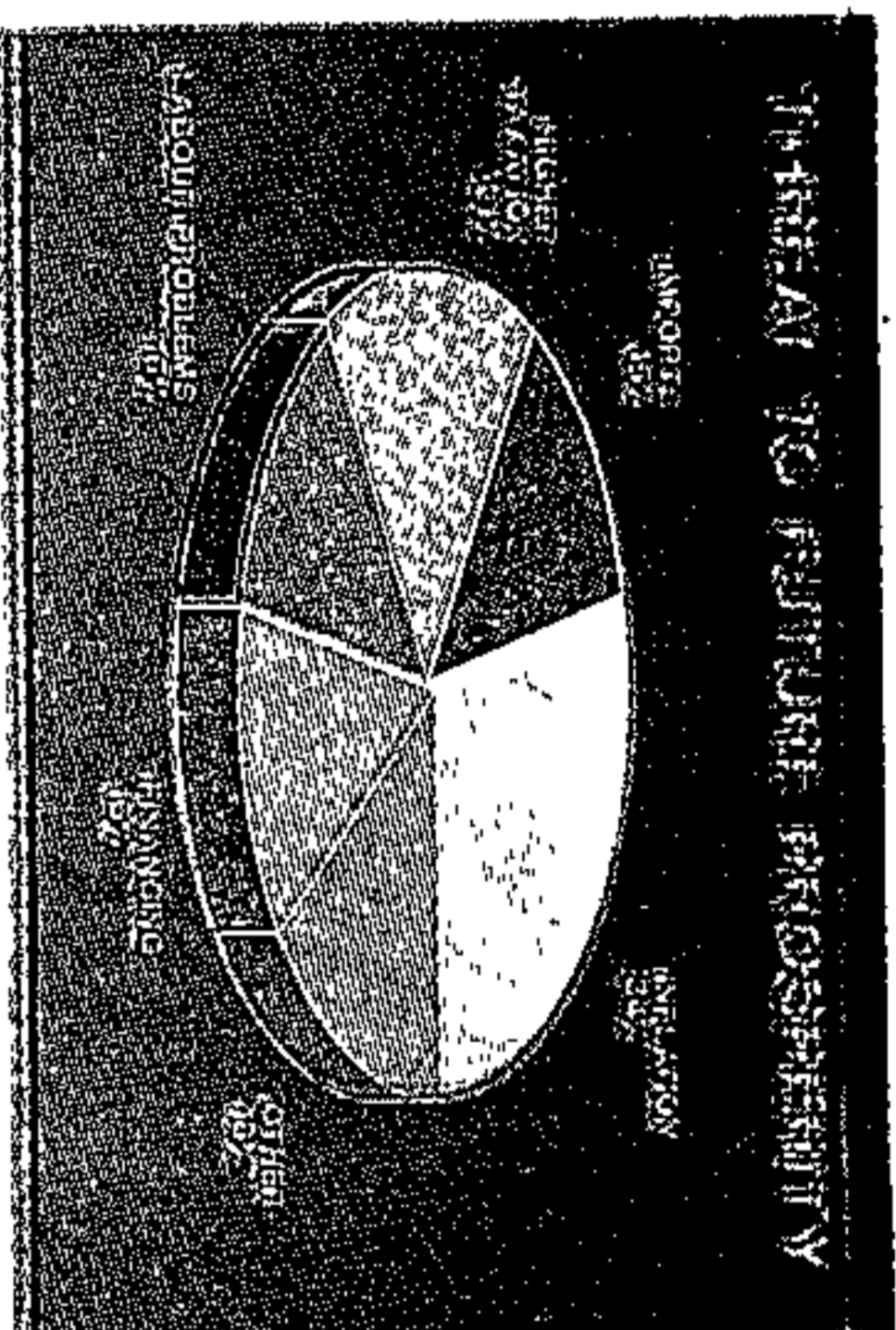
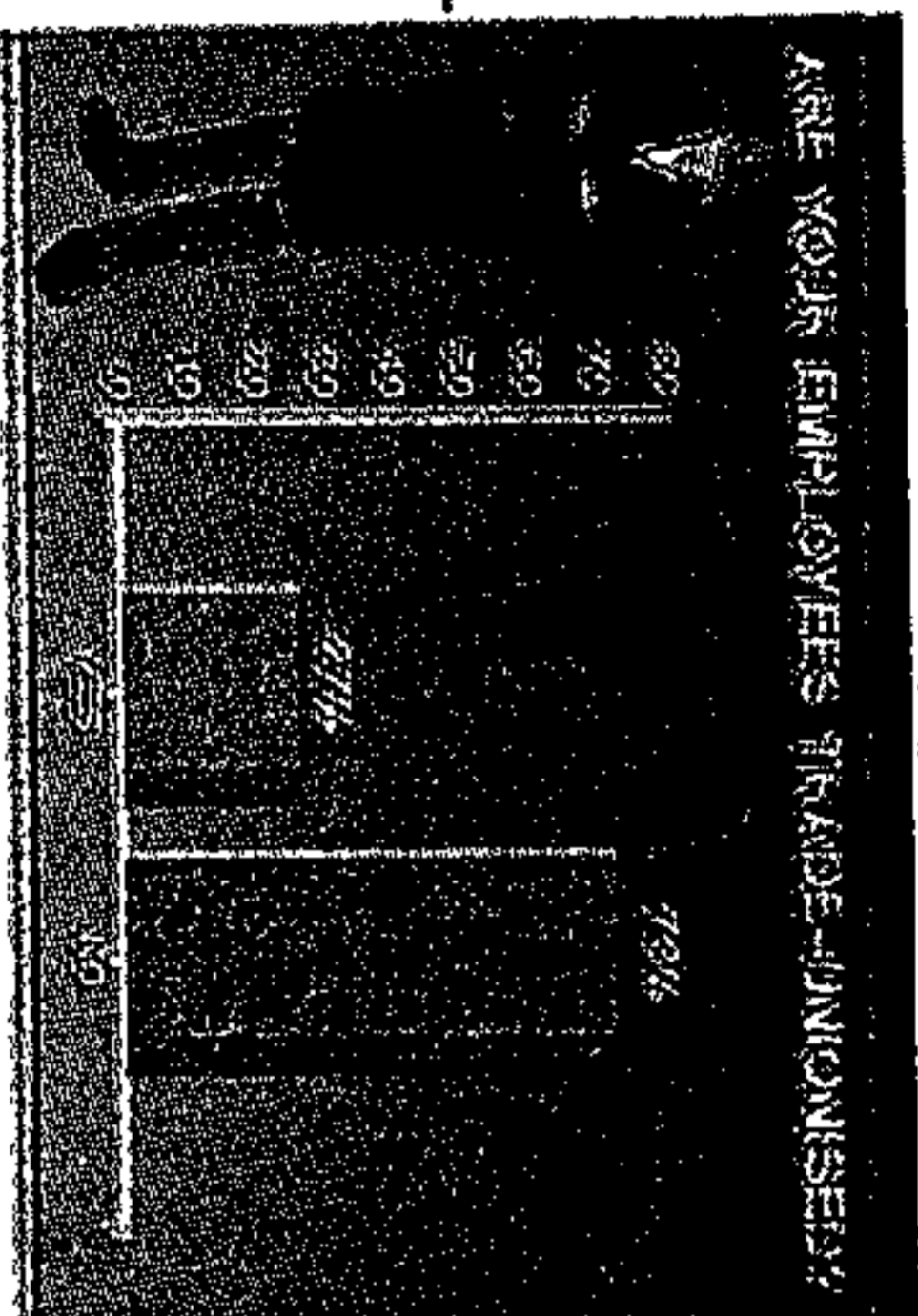
"On 12 loans amounting to R56 646, no redemption or irregular redemptions are being made.

"During the year, an amount of R4 580 was redeemed. The outstanding loan debts amounted to R130 922 at 30 June 1986," De Loor said.

Political Staff

12/19/86

49
B/day



Business is booming in the Western Cape, says survey

By TOM HOOD, Business Editor

BUSINESS is clearly booming in the Western Cape, for almost 77 percent of business executives taking part in a new survey say they expect their sales to increase in rand terms this year.

This is one of the key points brought out in the 1988 Western Cape Business Survey sponsored by The Argus, Arthur Andersen & Co and the Graduate School of Business at the University of Cape Town.

The survey is the first for owner-managed businesses undertaken in South Africa.

About 83 percent of executives said they expected the current upturn to last at least another 12 months while as many as 28 percent thought it would last beyond two years.

About 22 percent of executives taking part said sales would remain unchanged in money

terms while only one percent expected a decrease.

Thirty-six percent of firms see sales jumping more than 15 percent in rand terms while 41 percent see sales increasing by up to 15 percent.

However, a breakdown of these businesses' sales showed only 15 percent were in the Transvaal — the country's main market — while 69 percent were in the Western Cape.

Natal accounted for only five percent of sales, SWA/Namibia only four percent and the Free State only three percent.

The vast majority of businessmen in the Western Cape — 79 percent — believe their remoteness from the Transvaal is a serious business handicap, according to the survey. A mere 21 percent say remoteness is no handicap.

On the other hand, only 20 percent of competition comes from outside the Western Cape.

Most (53 percent) believe the Western Cape

economy is in an expansionary phase, but a significant 37 percent say it is stagnant and four percent believe it is declining.

But more than half of the firms also believe there will be a downturn within 12 to 24 months — and 63 percent say this will be caused by political issues rather than inflation or higher interest rates.

After political issues, inflation (26 percent) and interest rates (20 percent) are perceived as the major causes of a downturn.

Only two percent reported a labour strike last year, possibly reflecting the fact that 73 percent of firms say their employees are not trade-unionised.

Major sources of finance are clearly bank overdrafts (40 percent) and creditors (33 percent) with the next source — hire purchase or leasing — a poor third at six percent.

For the distribution/retail sector, the two main forms of finance are rated as important

by 68 and 77 percent of respondents respectively, while for the manufacturing and service sectors the figures are somewhat lower at 54 and 66.

Chief reasons for selecting a source of finance are interest rates (39 percent) followed by flexibility (35 percent). Only 10 percent are influenced by professional services.

Inflation emerges as the greatest threat to their business's prosperity, say 34 percent of respondents. Threat No 2 emerges as higher taxation, with labour problems No 3.

Most respondents said they favoured privatisation, although 36 percent did not believe the Government was committed to the programme.

Wasted time is a sore point and 16 percent of the working week is "wasted", according to the survey. The biggest time-waster is Government bureaucracy, say 27 percent, followed by excessive paperwork (25), staff problems (21), equipment breakdowns (five) and excessive meetings (five).

Inflation seen as major threat

By MIKE PAGE, senior lecturer in the Graduate School of Business at the University of Cape Town

DIVIDING the respondents by kind of business disclosed that three main business sectors were represented in the sample — manufacturing, service and distribution/retail.

The results showed that the manufacturing sector tended to consist of large companies in terms of both number of employees and annual sales turnover.

All sectors perceive inflation and increasing costs of employee benefits as the major threats to business prosperity.

The manufacturing sector in particular, probably because of the higher degree of unionisation, is mainly concerned with the issue of employee benefits, but is also significantly more concerned about possible labour problems than the other sectors.

Imports

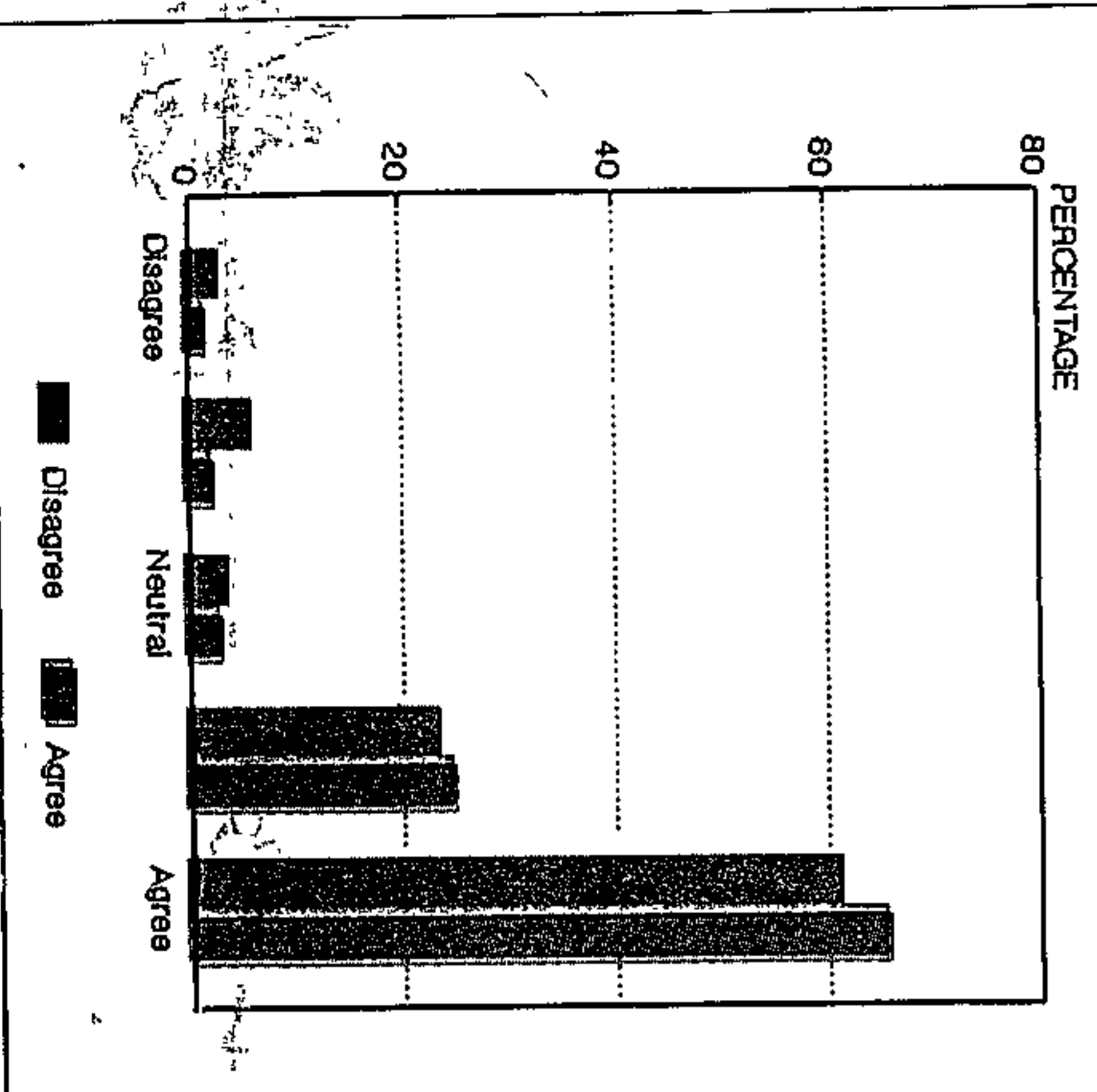
Between 15 and 20 percent of manufacturing and distribution/retail respondents see imports as constituting a major threat to future prosperity.

As far as employment opportunities are concerned, the manufacturing sector has the most positive outlook.

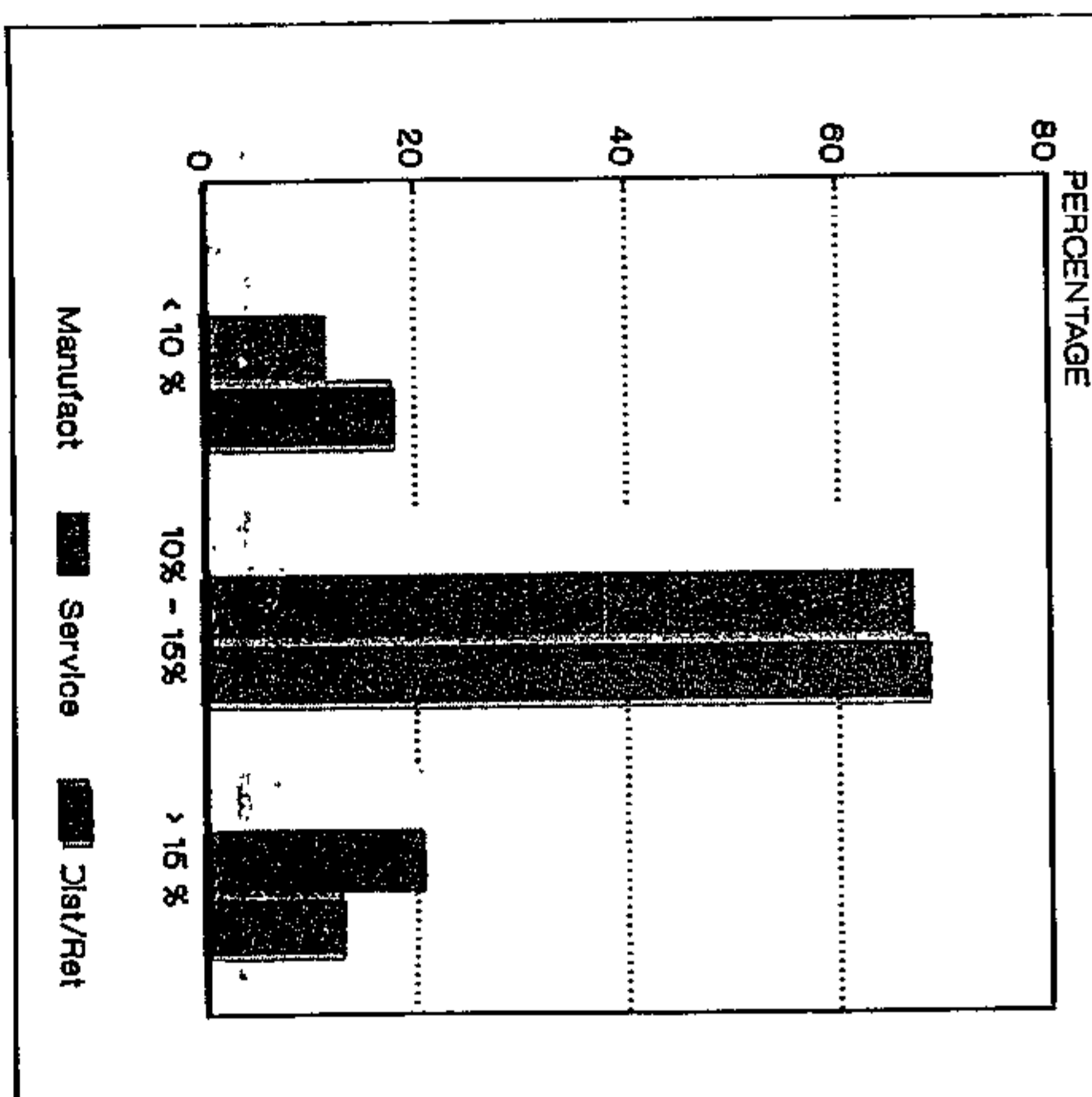
Only 14 percent anticipate reducing their workforce as opposed to 21 percent for the service sector and 27 percent for the distribution/retail sector.

Also, 44 percent anticipate increasing employee numbers by more than 10 percent compared with 35 and 26 percent for the service and distribution/retail sectors respectively.

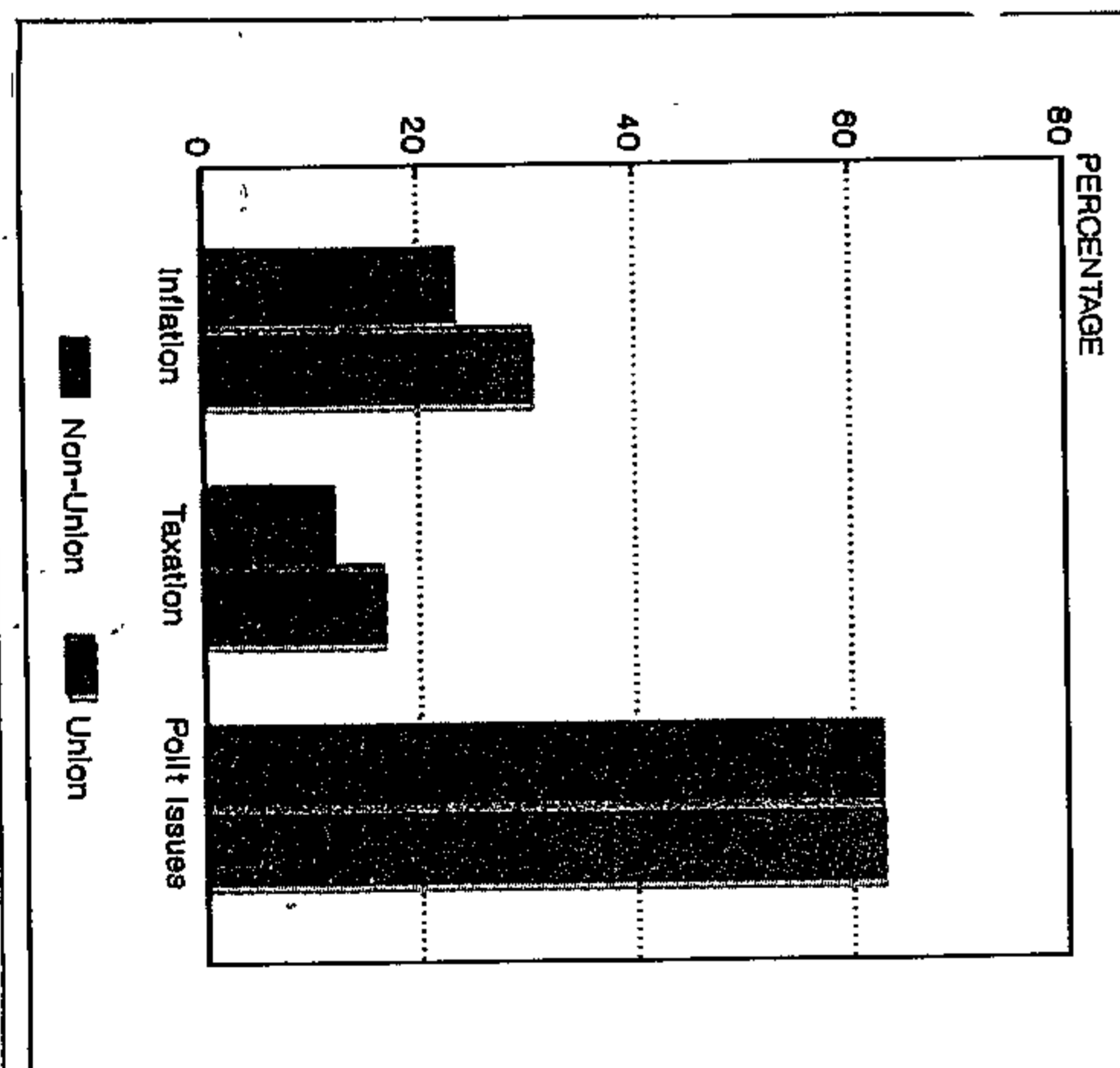
COMMITMENT TO PRIVATIZATION
PRIVATIZATION WILL HAVE A
BENEFICIAL EFFECT ON BUSINESS



SEGMENTATION BY BUSINESS TYPE
BREAKDOWN BY EXPECTED SIZE
OF SALARY INCREASES



SEGMENTATION BY TRADE UNIONIZATION
MAJOR CAUSES OF THE DOWNTURN



BUSINESS

D D 13/4/88

120
49

Confidence index highest in decade

CAPE TOWN — South Africa's confidence index jumped 10 points during the first quarter of 1988 to reach 120 — one of the highest levels since the beginning of this decade.

This figure emerged yesterday from the latest analysis of consumer attitudes nationwide completed by the Bureau for Economic Research at Stellenbosch University.

The director of the bureau, Dr Ockie Stuart, said in the survey that the Government's freeze on civil service salaries and wages was likely to impact on the way consumers exercised their buoyant new willingness to spend.

"It is unlikely that the powerful consumer confidence now being experienced will fade away, but the unavailability of additional disposable income must be taken into account.

"As a result, we can reasonably expect that more consumers are going to be willing to incur debt in the months ahead," Dr Stuart said.

After-tax income for

many consumers would probably decline in real terms in 1988, he said.

"However, there is a general expectation of a compensatory rise in public salaries to come next year, and this, together with the fact that credit is still freely available, supports a swing to credit as a mode of consumer payment.

Perhaps the most important finding of the BER's current survey was the fact that more than half of respondents said they felt now was the time to buy durable goods such as furniture. Dr Stuart said the latest results applied only to white consumer attitudes.

The workforce of South Africa's trade and commercial sectors has on aggregate expanded over the past three months. This was com-

plied from data supplied by 850 firms.

"The aggregate picture is one of expansion, indicating that employment is on an upward path at this time."

The motor industry was experiencing its best season in years.

The BER itself expected that the demand for cars could start tapering off toward mid-year.

As far as spare parts were concerned, Dr Stuart noted that 98 per cent of dealers had reported satisfactory business conditions.

Some 87 per cent of dealers in new vehicles had reported that new vehicle stocks were too low to meet demand, while a net 62 per cent of dealers registered a shortage of used vehicles.

"These shortages stem

from a variety of factors, from strikes to simple underestimation of demand," Dr Stuart said.

Overall, the latest results showed that business conditions in the motor industry had improved substantially over the past 12 months.

The survey warned that prices were set to rise over a wide spectrum of goods in the next three months.

Respondents were almost unanimous in their expectation that prices would rise between April and June.

Dr Stuart said: "The prices of building materials and hardware, in particular, are expected to rise fairly sharply."

There were also signs that non-consumer goods would show faster

price increases than other sectors.

Sales had been lively across a wide spectrum of sectors in the first three months of the year, Dr Stuart said.

As far as retail prices were concerned, the survey found that areas expected to experience the fastest price increases included furniture, household appliances, machinery and equipment. — Sapa

D/D 14/4/88

Assocom outlines more tax hitches

company's cash flow and other requirements and the need to pay an unexpected tax will upset that planning."

JOHANNESBURG — Further anomalies in the minimum tax on companies (MTC) introduced in the March budget have been highlighted by the Association of Chambers of Commerce and Industry (Assocom).

An Assocom delegation presented its objections to MTC at a meet-

ing with the deputy minister of finance, Dr Org Marais.

Among the objections were:

● The tax affects companies which declared dividends prior to the budget. "Dividends may have been determined with a wary eye on a

● Where a company is obliged to borrow funds to pay the tax, the cost of borrowing should be tax-deductible.

● A company which distributes a tax-free capital profit by way of a dividend could be unduly penalised by the tax. Such a dividend could be a multiple of normal taxable income.

● Investment holding companies which earned only dividends would never pay normal tax. However, in certain cases dividends distributed in any one year could exceed dividends received.

Assocom says: "A suitable formula to remove much of the perceived hardships would be for the MTC formula to be based on dividends distributed less dividends recovered, capital profits, foreign source income and other non-taxable income."

It adds that a refund period of, say, three years would serve to reduce hardship "for those companies which normally and legitimately pay little or no normal tax and have unabsorbed credits for MCT for that period". — Sapa

Warning: taxation can make SA poor

DID 14/4/88 (49) (510)

PRETORIA — The country could find itself sharing poverty instead of wealth unless government changes its tax policies.

Explaining this at a symposium here on Education Today, Mr C du P Kuun, managing director of Saambou National Building Society, said that although South Africa had not yet reached the crisis point, steps would have to be taken to prevent a situation where the economy could no longer finance the political demands of the day.

The tax burden imposed by the government on the productive sector was counter-productive, he said, and was jeopardising healthy economic growth.

Referring to the government's reform policy, he said it was obvious that reform would have to be accompanied by a redistribution of wealth.

He warned, however, that such a redistribution could not be accomplished by increasing the tax burden just on some sectors of the economy.

Such a policy would enjoy only temporary success because the productive sector would become so overburdened that no income would be available for redistribution.

Mr Kuun said it was alarming that individuals contributed as much as 60 per cent towards total state income.

He pointed out that government debt had increased five fold in the past seven years to more than R56 billion. Government expenditure regularly exceeded the national budget.

The government relied increasingly on loans to finance its current expenditure — an unhealthy state of affairs — said Mr Kuun.

He emphasised that economic growth in South Africa would be seriously hampered if this trend continued.

Economic growth was of critical importance to stimulate employment, improve the standard of living and encourage saving, he said. — Sapa

Post-apartheid economy to be discussed at forum

49

DIP 15/11/88

Daily Dispatch Reporter

EAST LONDON — The shape of the post-apartheid economy will be the topic of a forum hosted by the Institute for a Democratic Alternative (Idasa) here on Tuesday.

The principal and vice-chancellor of the University of Transkei, Professor Wiseman Nkuhlu, and Professor Charles Simkins of the University of Cape Town, will be the guest speakers at the function.

The director of Idasa in the Border region, Mr Steve Fourie, said the purpose of the forum was to promote discussion on the economic future of a post-apartheid South Africa.

"That apartheid will go is certain. The legacy it leaves will depend on many factors, including the readiness of con-

cerned citizens and business to consider all the economic alternatives," Mr Fourie said.

Prof Nkuhlu has a special interest in strategies for promoting sustainable development in less developed countries.

He was formerly a lecturer at Fort Hare University and has been at the University of Transkei since 1977.

Prof Nkuhlu is a regular contributor at national conferences on development issues and on the promotion of meaningful black participation in the South African economy.

Prof Simkins has widely researched the fields of demography, labour economy, income distribution and political economy in South Africa, and has published works in all these fields.

D/B 15/4/88

Govt confident of reducing public sector spending

49

Political Correspondent

JOHANNESBURG — The government was confident of reducing public sector spending, which should still ensure a real growth rate of close to 3 per cent in 1988, the Minister of Economic Affairs and Technology, Mr Danie Steyn, said yesterday.

He was speaking during the first AGM of the Witwatersrand Chamber of Commerce and Industry (WCCI), held in Johannesburg.

Mr Steyn said experience had shown that any economic upturn was accompanied by an increased demand for imports which led to a balance of payment problem.

"During January of this year the trade surplus amounted to only R550 million and increased to R647 million in February which

exerted some pressure on the positive balance of payments position."

A greater demand for funds had led to upward pressure on interest rates. The economy could not afford this, he said.

This year's Budget was, therefore, aimed at preventing over-heating in the economy and checking inflation.

Incoming WCCI president, Mr Henrie Viljoen, urged the government to continue its reform process without delay.

He said it was imperative that the government maintained its resolve in carrying through its new economic package.

The need to stick to reform must be fuelled by an awareness of unemployment which was running at some 22 per cent nationally, and the necessity to create jobs, Mr Viljoen said.

Bad omen

Hopes of accelerating growth are shrinking as rapidly as the surplus on the current account. The startling erosion of the surplus on SA's balance of trade, against the backdrop of international credit sanctions and the authorities' determination to preserve the balance of payments (BoP) at all cost, can mean little else: the economic revival has faltered.

"Ironically," says UBS economist Hans Falkena, "growth of under 3% has to be considered overheating."

Evidence is that demand, only recently revived, has almost certainly already tipped the balance on the current account into the red. Assuming that this trend continues and the authorities take only limited action, a substantial deficit could confront the economy before the end of the year.

Taken at face value and on the assumption that it will continue at present levels, the balance of trade in January-February, combined with a deficit on the service account,

15/4/88

37

could add up to an annualised current account deficit in the first quarter of over R2bn — after an annualised surplus, seasonally adjusted, of R6,1bn in the fourth quarter of 1987.

Figures should never be taken at face value, of course. So economists are reluctant to put a figure on the potential deficit. Reserve Bank senior deputy governor Japie Jacobs says only that "indications are that during January and February there might have been a small deficit on the current account."

He points out, however, that the impact of more stringent monetary and fiscal policy has scarcely been felt and predicts total demand will be curbed in the second half of the year. The surplus on the trade account will then be restored, he says.

The overall position on the current account will not be known until the Bank publishes the figures for the service account in the June *Quarterly Bulletin*. The March edition records that net service and transfer payments to non-residents increased for 19 years to a level of R9,1bn in 1986. They declined to R8,5bn in 1987 "as a result mainly of a decline in interest payments to foreigners in accordance with ongoing reductions of the outstanding amount of SA's foreign debt."

One could assume an increase in this invisible form of trade in the first quarter. Though there could be a drop in interest payments after a degree of disinvestment, this would be more than compensated for by increases in freight and transport charges and larger dividend payments.

Even based on original projections for the year, the service deficit could be expected to run at R800m a month. Which means, as Sanlam economist Johan Louw points out, to simply break even on the current account, the monthly trade surplus for the rest of the

year would have to be at least R800m. So it is clear the current account will be in serious straits, unless the trade balance improves markedly.

A deterioration in the current account was not unexpected. But the speed with which it arrived, after three years of surplus, has taken everyone by surprise.

"At the start of the year," says Senekal Mouton & Kitshoff economist Leon Steenkamp, "the consensus was that there would be a surplus of between R3bn and R4bn." This was expected to be the result of a trade surplus of more than R12bn and a services deficit of over R9bn, based on a 3% growth rate and a \$450/oz gold price.

Already revised downwards after the February drop in the gold price, the projection is being revised once again in the light of trade figures for the first two months of the year — a R550,3m surplus in January and a R647,1m surplus in February. These figures

WORSE TO COME?

Trade surplus (R1m)

| | 1986 | 1987 | 1988 |
|----------------|-------|---------|-------|
| January | 756,3 | 906,2 | 550,3 |
| February | 958,9 | 1 619,2 | 647,1 |
| March | 752,8 | 940,8 | — |

are supplied by Customs and Excise and are still subject to adjustments made by the Bank. However, the overall trend is clear.

And seasonality is not to blame. In fact, if the pattern of the past two years persists, March will show a smaller surplus than February. (See table)

However, some believe the apparent sharp decline in the surplus could simply be a statistical aberration. Others argue that it could be the result of special circumstances. Strategic purchases may have been made ahead of harsher sanctions measures. The lower oil price could, conceivably, have induced stockpiling. Additionally, importers may have advanced orders in the expectation of a less favourable R/\$ exchange rate.

What is important is the implication of the deterioration for 1988's BoP.

At present, the capital account is thought to be in reasonable shape because, despite the problems on the current account, foreign reserves of the Bank shrank by only R200m in March.

However, there is no room for complacency on that score because about R2bn in foreign debt repayments — \$400m inside the net and \$500m outside it — will flow out during the year.

So the outlook for the BoP seems uncertain to say the least.

Reserve Bank's gold stocks drop

B/Day 8/4/88 (79) (49)

HELOISE HENNING

CONFIRMATION of the possible current-account deficit was seen in the Reserve Bank statement of its gold and foreign reserves for March.

The Bank's foreign currency holdings declined to R893m from R1,1bn in February notwithstanding the sale or disposal of gold bullion which dropped to 5 863 932 ounces from 6 078 096 ounces in February.

Gold bullion stocks were last this low in December last year when they fell to 5 830 350 ounces.

Gold assets, valued at a considerably higher average gold price of R867,95 for the month, compared with R816,98 in February, rose to R5,08bn from R4,96bn in February.

This brings the total gold and foreign assets to a not much changed R6,09bn compared with R6,17bn in February. Reserve Bank governor Geraard de Kock says this indicates the capital account "is behaving itself" since the change in total reserves has not been affected by indications that the current account is running a small surplus or deficit.

The increase in bank deposits to R705,5m from R607,9m in February reflects the rising demand for bank credit.

Although bank credit figures for February are not yet available, by January they had increased 7,5% since October 1987 when credit demand gained momentum.

The March Reserve Bank quarterly bulletin, says demand for bank credit

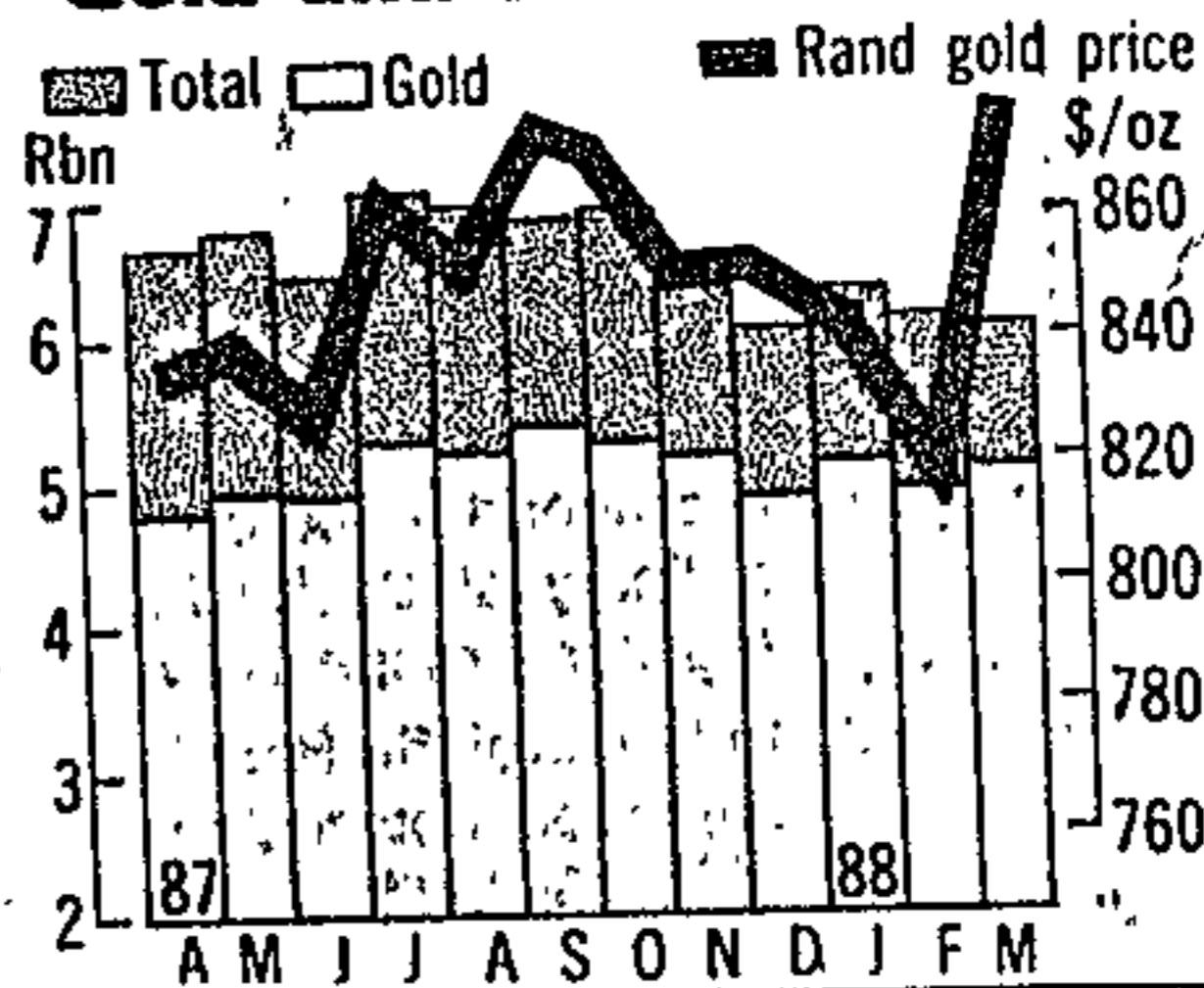
accelerated abruptly in the fourth quarter last year, bringing the seasonally adjusted and annualised figure for that period to 36,2% compared with the previous quarter at 13,1%.

Higher bank deposits could also be attributed to reintermediation, lending coming back onto bank balance sheets.

Notes in circulation at R6,38bn for March is close to its record high of R6,5bn in the middle of December.

De Kock says this is another signal that economic activity is booming and explains why the money market has been tight with the Bank accommodating it through repurchase transactions.

Gold and forex reserves



Source: SA RESERVE BANK Graphic: JOHN McCANN

D/D 19/4/88 49

Barend warns private sector

**Daily Dispatch
Correspondent**

CAPE TOWN — The government is becoming incensed that the private sector is not responding to the appeal made by the State President, Mr P. W. Botha, to use restraint in establishing wage and price increases in line with the "freezes" imposed on the public sector.

This was indicated by the Minister of Finance,

Mr Barend du Plessis, in replying to the debate on his Budget in the House of Assembly yesterday.

Mr Du Plessis said that there were almost daily notices in the media of wage and price increases now being set in the private sector since Mr Botha announced his economic package.

Singling out retailers in particular, Mr Du

Plessis said legislation was in the pipeline to give the government the muscle to take punitive action against companies believed to be exploiting the consumer.

Details in this regard — particularly measures aimed at giving teeth to the Consumer Council — were likely to be revealed later by the Minister of Economic Affairs and Technology, Mr Danie Steyn.

Consumers should be wary of entering easy financial arrangements now when they might find it difficult to meet the terms later, Mr Du Plessis said.

Although there were positive indications for the economy, there were also negative facts which had to be taken into account and it was preferable that the current economic upswing continue at a slower, steadier rate.

49

19/4/88

SA economy no longer largest

ALAN FINE

SA NO longer has the largest economy in Africa in US dollar terms, according to statistics published in the latest edition of Africa Insight, a journal published by the Africa Institute of SA.

According to the journal, in 1985 Nigeria had the highest GNP in Africa of \$75,94bn, with SA's \$65,23bn GNP the second largest. Algeria was in third place with a \$55,23bn GNP.

In 1983 SA's GNP totalled \$76,89bn, compared with Nigeria's \$71,03bn. The decline in the dollar value of SA's GNP in that period coincided with the dramatic fall of the rand against the dollar.

SA's relatively waning fortunes are more clearly highlighted through longer-term comparisons. In 1973, SA's \$25,24bn GNP was 67% higher than Nigeria's and 191% higher than Algeria's.

Fourth

GDP figures show similar trends. At \$2 010, SA stood fourth in the African league in terms of GNP per capita.

The first three places are occupied by the oil-exporting countries

Libya (\$7 500), Gabon (\$3 340) and Algeria (\$2 530).

Other African countries with a per capita GNP above \$1 000 are the Seychelles, Namibia, Tunisia, Mauritius and the Congo.

In the period 1973 to 1985, Botswana showed the largest annualised African real per capita GNP growth rate of 6,4%.

Twenty-one of the 47 countries for whom statistics are available showed negative growth.

Angolan and Mozambican figures for only the 10 years to 1979 were published, and show these two countries had the highest negative growth rates at -9,6% and -5,3% respectively.

49 B/day
21/4/88

Production and sales figures show strength

PRETORIA — The continuing strength of the economy is reflected in the latest production and sales figures, economists here say.

Central Statistical Service says the physical volume of production for the whole of last year was 3,2% higher than the figure for 1986.

Among the biggest increases were motor vehicles (15,4%), tobacco products (13,7%), plastic products (15,2%) and beverages (9,2%).

Total value of sales for the year increased by 15% over 1986 to R100,142bn. Motor vehicle sales rose by 33,7% to R8,320bn, wearing apparel by 23,7% to R2,408bn, plastic products by 27,1% to R1,650bn, and

GERALD REILLY

rubber products by 26,9% to R1,445bn.

Central Statistical Service figures issued yesterday also show that at the end of last year the number of workers in the non-primary sector of the economy increased by nearly 43 000 to 4 241 575, an increase of 0,3% compared with the end of the third quarter.

Total wages and salaries paid in the last quarter increased by 10,5% to R15,044bn, compared with the pay-out for the third quarter, and 25,6% more than at the end of the first quarter of 1987.

De Kock denies challenging PW

DID 25/4/88

49

JOHANNESBURG — Public statements by the State President and by the Governor of the Reserve Bank indicate a fundamental difference of opinion between the men on mandatory wage and price controls.

Dr Gerhard de Kock denied late last night that he had sought in any way to challenge the State President when he criticised wage and price controls in a speech to the Cape Town Afrikaanse Sakekamer on Friday.

He said he was not aware of any change in government policy on wages and prices and had not addressed himself at all to the State President's comments.

However, Dr De Kock's comments stood in sharp contrast to remarks made by President P.W. Botha only one day earlier.

In a sweeping attack on business on Thursday, President Botha

said that as the private sector would evidently not give its "quid pro quo" in the fight against inflation, the government would have to submit legislation to compel its co-operation.

Excessive price increases would be investigated by a business practices committee and "action would be possible".

On Friday, Dr De Kock repeated earlier statements that direct controls over wages and prices would create more problems than they would solve.

Direct interference with prices and wages have also been rejected by the President's own Economic Advisory Council (EAC).

The rejection of direct controls was strongly supported by private sector economists and business leaders; while Assocom is seeking urgent meetings with cabinet members to clarify Mr Botha's remarks.

However, Department of Finance sources said the government had no intention of imposing direct controls over wages and prices to combat inflation, despite Mr Botha's remarks last week. No official comment could be obtained yesterday.

In his Friday speech, Dr De Kock said that present monetary and fiscal policies made a gradual reduction of South Africa's inflation rate well within reach.

If money supply growth was kept to within the 12 per cent to 16 per cent target range and the government stuck to its Budget, the inflation rate would probably show a further gradual decline.

"And if the announced monetary and fiscal policies are not effectively applied, more direct controls over prices and wages would not be the answer," Dr De Kock said. — DDC

'Growth of 3% obtainable' 49

Foreign Staff
ZURICH — South African Finance Minister Barend du Plessis says he believes conditions are favourable for attaining an economic growth rate of three per cent this year.

Mr du Plessis made his prediction in an interview published in the April newsletter of The Swiss-South African Association in Zurich.

The Minister conceded that fiscal measures aimed at such stimulation had to be limited because of stronger private sector activity.

"We have to avoid overheating at all costs," he stated.

The most important thing at the present time, Mr du Plessis said, was

to use budgetary measures to prevent inflation.

On the issue of unemployment and the danger of it growing even further without economic stimulation, he said that South Africa faced a dilemma — high birth rates among the black population as in other African countries, but at the same time low death rates because of modern medical facilities as in advanced industrial countries.

"Our economy at present is growing too slowly to keep up with population growth," he said. This year, R180 million will be spent on creation of new jobs.

In order to truly fight unemployment economic growth would have to be around 5,5 percent. But

that was a level which is unattainable at this time.

For the time being, the government was centring on "deregulation" and on increasing employment in the services sector.

As for inflation, the Minister said he "categorically rejects" allegations abroad that "our so-called ideology is responsible for high inflation."

The reasons were complex and included above-average increase in demand and costs together with structural problems, especially a shortage of skilled manpower.

Mr du Plessis said that higher inflation in the US and other Western countries this year would automatically push up the price of gold — which would be of short-term advantage to South Africa because the country earned half its foreign currency from gold.

"But we cannot solve everything with gold," he said.

There could well be greater pressure on the rand this year, particularly because it is an election year in the United States and the Democrats are using sanctions as one of their campaign slogans.

"No less than five Bills are being debated," Mr du Plessis said. "Our relations with the US have already been sharply reduced. But perhaps the Americans will be able to persuade European states to adopt their policies against South Africa."

In that case there would without doubt be pressure on South Africa's currency.

"Our exports would benefit from a devaluation but there would be an inflationary rise in the cost of imports."

"We are doing all we can to stabilise the exchange rate of the rand."

ECONOMIC OUTLOOK

Chugging along

Last year's 2,5% growth hardly warrants throwing a party. But it's better than the 1% of 1986 and -1% of 1985. Hopes of a further increase with real growth in 1988 of up to 3,5% have been dashed, however.

According to the latest edition of Reserve Bank *Quarterly Bulletin*, momentum which built up in the fourth quarter of 1987,

seemed capable of supporting real growth in 1988 of between 2,5% and 3,5%. "Since that time, however, certain developments should be taken into consideration."

So the latest projection, would seem to be closer to 2,5%.

Last year, real GDP grew at an annualised rate of nearly 5% in the fourth quarter, the seventh consecutive quarterly increase. GDE, meanwhile, was up 5% in 1987 and 10% higher in the fourth quarter than in the same period of 1986. The discrepancy between these two figures reflects the steep increase in imports.

A troubling sign is the low level of personal savings: from a low 3% of personal disposable income in 1986 and the first half of 1987, this fell even further to just 2,5% in the second half of the year. Real wages per worker declined by 3,8% in 1986 and a further 2% in the first three quarters of 1987.

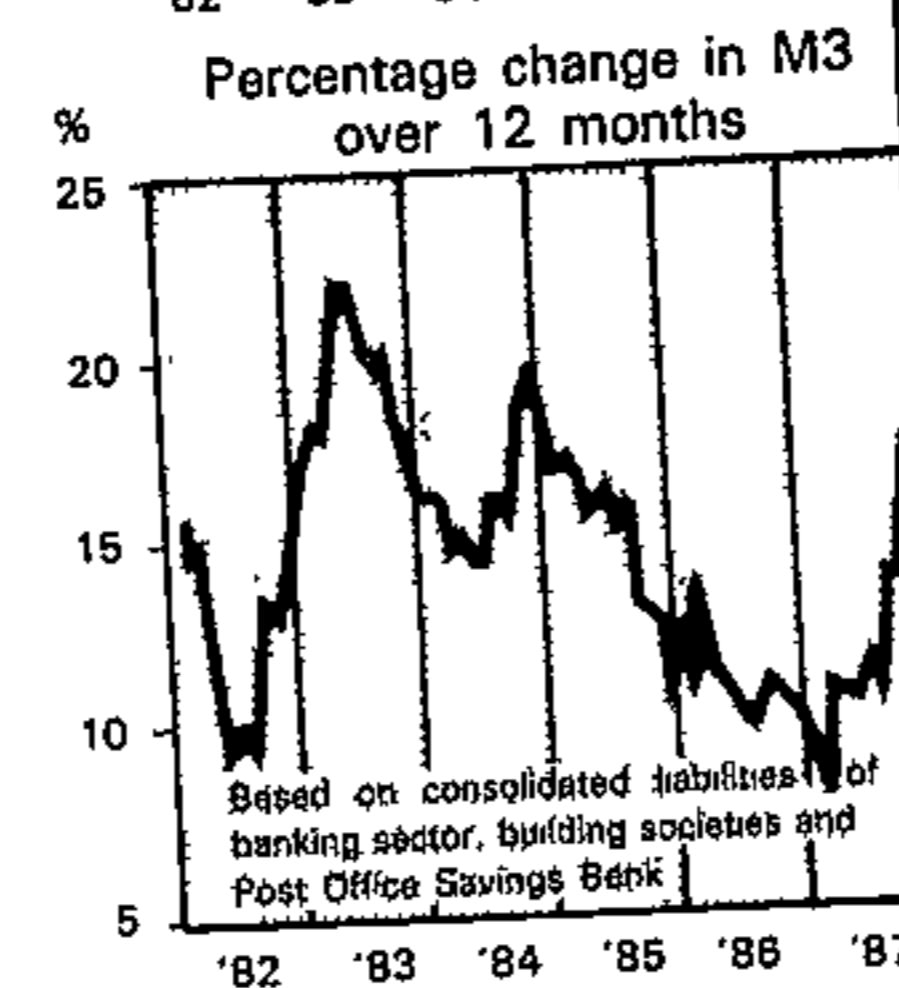
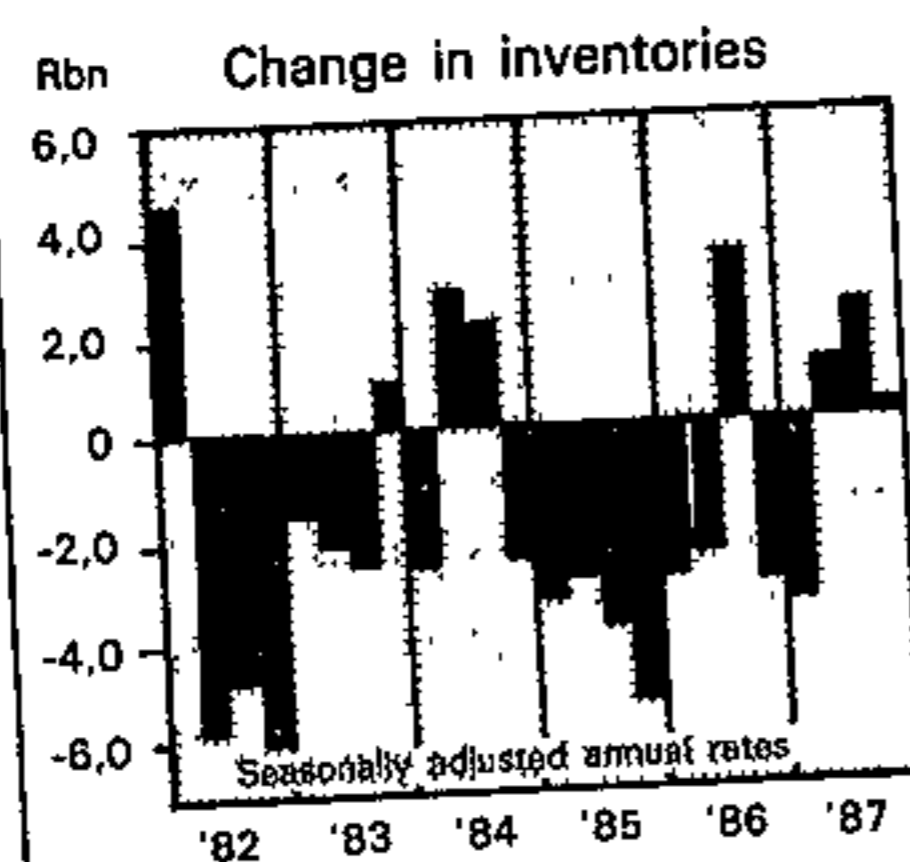
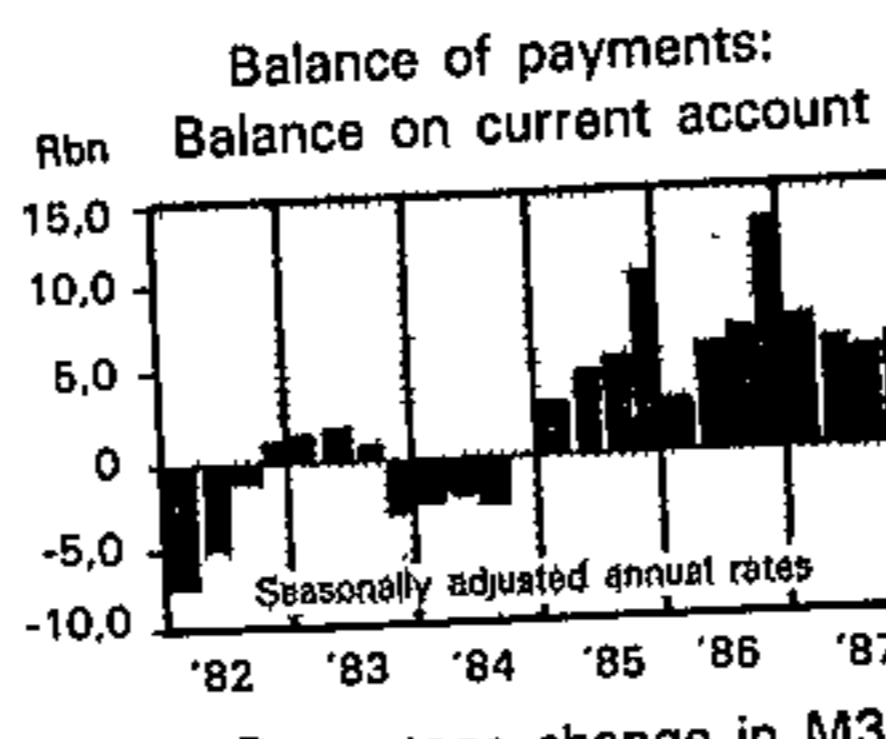
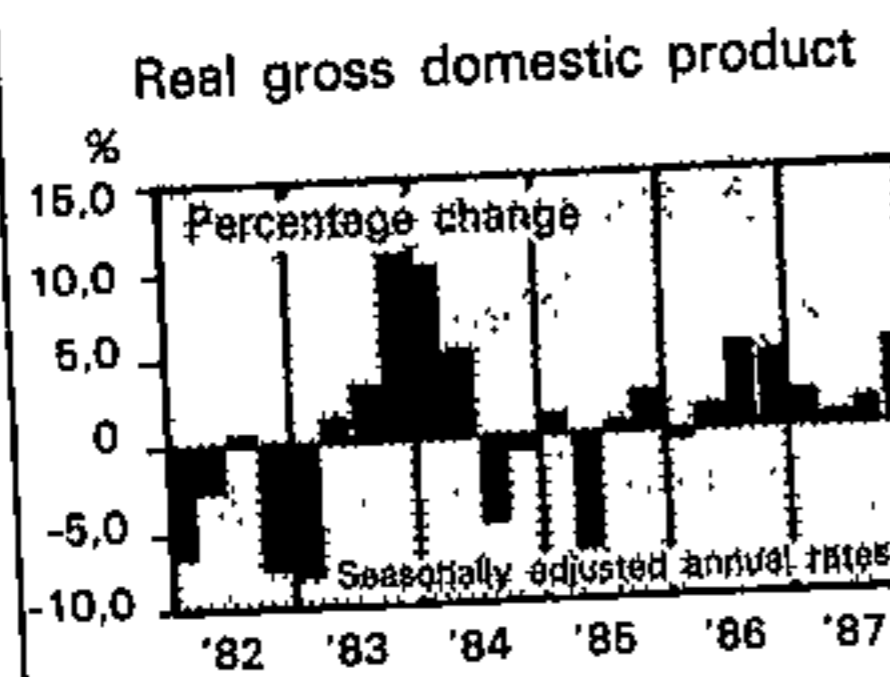
Private capital spending showed its first annual increase since 1981. And real output increased in the fourth quarter in all major

sectors except manufacturing, with marked increases in agriculture, mining, commerce, transport, storage and communication.

However, total capital spending dipped in 1987. Under pressure to constrain public spending, government has clearly held back on capital projects.

Yet it continues to run up quite a debt. It was R55,5bn at the end of 1987, more than double that of five years earlier. This explains the R7,5bn set aside for interest on the debt in last month's Budget

Reviewing the year



Source: Reserve Bank

nearly as high as R8,2bn for defence.

Along with a growing debt have come higher taxes and spending. Consumers paid R9,8bn in sales tax in 1987, up from just R2,9bn in 1982. Income tax collections rose to R20,3bn from R9bn five years earlier. Total revenue more than doubled from 1982 to 1987, rising to R37,4bn from R16,9bn.

Meanwhile, growth in employment remains dangerously low. Non-agricultural employment rose just 0,3% in 1986 and 1,2% in the first three quarters of 1987, not enough to keep up with population growth.

These figures don't reflect growing activity in the informal sector, so things may be better than they seem. But those with jobs are becoming more aggressive. Stepped-up union activity cost 5,8m man-days last year, up from 1,3m in 1986.

Howard

HOUSE OF ASSEMBLY

†Indicates translated version.

For written reply:

General Affairs:

Police Force of self-governing territory: persons detained/removed from RSA

39. Mr P G SOAL asked the Minister of Law and Order:

- (1) Whether any persons were (a) detained in South Africa by persons other than members of the South African security forces and (b) removed by these persons from South African territory since 27 May 1987; if so, (i) how many as at the latest specified date for which information is available and (ii) by whom were they detained;
- (2) whether permission had been obtained from the South African Police prior to such action being taken; if not, (a) in respect of which cases and (b) what action was taken by the Police as a result;
- (3) whether he will make a statement on the matter?

The MINISTER OF LAW AND ORDER:

- (1) and (2) No, but by members of a police force of a self-governing territory. However, because the revolutionary onslaught is also aimed at the self-governing territories, I do not consider it to be in the interest of the safety of those territories to divulge information regarding the actions by the police forces of those territories.
- (3) Yes. According to the Regulations promulgated in terms of the Public Safety Act, 1953 (Act 3 of 1953) by Proclamation R96 of 11 June 1987, "Security Force" is defined as follows:
 - (a) the South African Police referred to in the definition of "the Force" in section 1 of the Police Act, 1958 (Act 7 of 1958);
 - (b) any part of the said South African Police of which the control, organisation and administration have been transferred to the government of a self-governing territory;

(c) any police force established by or under a law of a self-governing territory;

(d) the South African Defence Force referred to in section 5 of the Defence Act, 1957 (Act 44 of 1957); or

(e) the Prisons Service established by section 2 of the Prisons Act, 1959 (Act 8 of 1959), and also any part of any such force or any combination of two or more of such forces or of parts of such forces.

In the unreported case *Mathebe vs The Minister of Law and Order of KwaNdebele in Pretoria* on 22 December 1987, the judge ruled that notwithstanding this definition, the KwaNdebele Police do not have jurisdiction or powers of arrest outside the borders of KwaNdebele. This ruling is at present on appeal and will be heard by the Appeal Court. Bloemfontein

National servicemen: attempted suicide/suicide
1023. Mr J H VAN DER MERWE asked the Minister of Defence:†

- (1) Whether any cases of (a) attempted suicide and (b) suicide in respect of national servicemen were reported in the past two years; if so, how many in each category in each of these years;
- (2) whether these suicides and attempted suicides have any common cause; if so, what is this cause?

The MINISTER OF DEFENCE:

- (1) The honourable member is referred to the replies to written questions number 187 of 1987 and 152 of 1988 in this House.
- (2) No.

Representatives at economic summit conference
1032. Mr C J DERBY-LEWIS asked the State President:

Whether, he will furnish information on the persons who attended the economic summit conference held in 1987; if not, why not; if so, (a) how many persons represented (i) the

HOUSE OF ASSEMBLY

1343
(Handwritten initials)

MONDAY, 9 MAY 1988

1344

(Handwritten signature)

self-governing territories and independent Black states, (ii) the media, (iii) organized trade, industry and agriculture and (iv) employee organizations and (b) what are the names of the bodies which represented (i) organized (aa) trade, (bb) industry and (cc) agriculture and (ii) employee organizations at this conference?

The STATE PRESIDENT:

I refer the honourable member to my written reply to question 687 of 1988.

Own Affairs:

Reply: *substituting reply to Question No 119 on Monday, 2 May 1988, put by Mr C J Derby-Lewis (col. 1247):*

Non-White children attending White private schools

1119. Mr C J DERBY-LEWIS asked the Minister of Education and Culture:

- (a) How many non-White children are currently attending White private schools in the Transvaal, (b) which schools are involved, (c) how many of these schools receive (i) 45 and (ii) 15 per cent subsidies, (d) what is the latest total subsidy amount for the Province of Transvaal in this regard and (e) in respect of what date is this information furnished?

The MINISTER OF EDUCATION AND CULTURE:

- (a) 5 136.
- (b) Assumption Convent (Germiston) School
Assumption Convent High School (Maryvale)
Assumption Convent High School (Pretoria)
Auckland Park Preparatory School
Brescia House Ursuline Convent
Christian Brothers' College (Boksburg)
Christian Brothers' College (Pretoria)
Christian Brothers' College (Springs)
Convent of the Holy Family
Convent of Our Lady of Mercy Dominican School
Crossroads Trust School
Damelin College
De la Salle Holy Cross College
Deutsche Schule (Johannesburg)
Deutsche Schule (Pretoria)
Dominican Convent
Eden College (Johannesburg)
Eden College (Warmbaths)
Glenoaks School
Holy Rosary Convent
Iona Convent
Japani School

HOUSE OF ASSEMBLY

1345

MONDAY, 9 MAY 1988

1346

(Handwritten signature)

HOUSE OF DELEGATES

†Indicates translated version.

For written reply:

General Affairs:

Diplomatic missions abroad: persons appointed as ambassadors/diplomatic officials

24. Mr M RAJAB asked the Minister of Foreign Affairs:

- (a) How many (i) Indians, (ii) Coloured, (iii) White and (iv) Black persons had been appointed as (aa) ambassadors and (bb) diplomatic officials in the South African diplomatic missions abroad as at 1 March 1988, (b) in which countries were they serving and (c) what ranks did they hold?

The MINISTER OF FOREIGN AFFAIRS:

I will gladly furnish the Honourable Member with the relevant details verbally.

HOUSE OF DELEGATES

HOUSE OF ASSEMBLY

†Indicates translated version.

For oral reply:

General Affairs:

State President:

SABC: resignation of former director-general

*1. Mr S C JACOBS asked the State President:†

(1) Whether he made any requests or gave any instructions to the Minister of Information, Broadcasting Services and the Film Industry in connection with the resignation of the former director-general of the SABC; if so, (a) when, (b) what was the purpose of these requests or instructions and (c) what was that Minister's response thereto;

(2) whether, either directly, indirectly or through an official of his Office, he contacted any other person to whom he made requests or gave instructions in connection with the resignation of the said director-general; if so, (a) when, (b) (i) in what manner was this person contacted and (ii) who is the person and (c) (i) what requests did he make or instructions did he give and (ii) to whom;

(3) whether he indicated, during the discussion he had with the said director-general in 1987 about a news broadcast involving the Chairman of the Ministers' Council of the House of Representatives, that he wanted to have this director-general dismissed or thought that the latter must or ought to relinquish his position?

The MINISTER OF INFORMATION, BROADCASTING SERVICES AND THE FILM INDUSTRY (for the State President):

(1), (2) and (3)

I refer the hon member to my address concerning this matter in the House of Assembly on 21 April 1988.

Mr D J N MALCOMESS: Mr Speaker, on a point of order: May I point out to you that the Hansard of the House concerned has not yet been

HOUSE OF ASSEMBLY

Hansard

distributed. Secondly, Sir, in terms of a decision given by the Chairman of this House it was suggested to hon Ministers that they do not refer to answers given to questions put in other Houses.

The MINISTER: I have been referring to a speech by the hon the State President in the House of Assembly; in other words, in this House. [Interjections.]

Mr SPEAKER: Order! I will consider the matter and give my decision later.

†Mr S C JACOBS: Mr Speaker, on a point of order: is this the way in which the hon the Minister replies to a question? Does he do it by implying that all the questions that . . .

†Mr SPEAKER: Order! The hon member for Port Elizabeth Central has raised a point of order on which I intimated that I shall give a ruling later. All further questions on this should therefore stand over until then.

Ministers:

Questions standing over from Tuesday, 3 May 1988:

*25. Mr J B de R VAN GEND — Constitutional Development and Planning. [Reply standing over.]

Nodal point: appointment of designated person
*30. Mr R M BURROWS asked the Minister for Administration and Privatisation:

(1) Whether a designated person in each State Department has been appointed as a "nodal point"; if so, (a) what is the function of a person so appointed, (b) (i) when and (ii) by whom were these appointments made and (c) which persons were so appointed in each Department;

(2) whether he will make a statement on the matter?

The MINISTER FOR ADMINISTRATION AND PRIVATISATION:

(1) No, but co-ordinators of special services, who are sometimes informally referred to as "nodal points", have been designated.
(a) Manages the special services compo-

[Handwritten initials]

ment; obtains, analyses and evaluates information which may be of importance, from a security and welfare point of view, to the department concerned; provides inputs from a security and welfare point of view to the head of department concerned and to other members of management regarding policy formulation, interpretation and execution; serves as liaison point for special services within the department concerned as well as with other institutions.

(b) (i) and (ii) Such designations are done by the head of department concerned, as necessary.

(c) Persons from any occupational class within the department concerned may be designated as such.

(2) No.

Mr R M BURROWS: Mr Speaker, arising from the reply given by the hon the Minister, can he give us the exact official title of these persons?

The MINISTER: Mr Speaker, I am not aware of any specific title they carry. They are co-ordinators, as I have said in my reply to the hon member. They are people who have been nominated as co-ordinators. They are casually referred to from time to time as "nodal points".

Mr H H SCHWARZ: Mr Speaker, further arising from the hon the Minister's reply, will he please tell us whether the word "nodal" has the meaning assigned to it in the *Oxford Dictionary* or in *Weber's Dictionary*, or whether it has a peculiar meaning which he himself has attached to the word? [Interjections.]

New Questions:

Proposed economic policy for RSA: publications involved in advertising campaign

*1. Mr C J DERBY-LEWIS asked the Minister of Information, Broadcasting Services and the Film Industry:

With reference to his reply to Question No 15 on 1 March 1988, (a) which publications were involved, in the month of March 1988, in the advertising campaign in the Press aimed at presenting the Government's proposed economic policy for the Republic and (b) what was

the combined circulation figure of these publications for that month?

†The MINISTER OF INFORMATION, BROADCASTING SERVICES AND THE FILM INDUSTRY:

(a) Newspapers

Rapport

Sunday Times

Sunday Tribune

The Star

Beeld

Citizen

Burger

Argus

E.P. Herald

Volksblad

Oosterlig

Daily News

City Press

Ilanga

Sowetan

Imvo Zabantsundu

Magazines

Financial Mail

Finance Week

Finansies en Tegniek

African Business Publication

(b) Total circulation figure: 2 258 991

Tugs *Willem Heerkrood/Danie du Plessis*

*2. Mr C J DERBY-LEWIS asked the Minister of Transport Affairs:

(1) Whether, with reference to his reply to Question No 805 on 25 March 1988, a decision has as yet been taken on the request for assistance in the form of providing South African Transport Services personnel to operate and maintain the tugs *Willem Heerkrood* and *Danie du Plessis* sold to the Government of Mozambique in 1986; if so, (a) when and (b) what was the decision; if not, what are the reasons for this delay in taking a decision;

(2) whether Transport Services have made an appeal to personnel to volunteer for such duties in Mozambique; if so, how many personnel have responded to this appeal;

(3) whether Transport Services personnel will be compelled to perform such duties?

Hansard

[Handwritten initials]

HOUSE OF ASSEMBLY

Economic growth 'must be contained'

Balance-of-payments constraint to last years

49
Bladen 11/5/88
THE SA economy was likely to have a balance-of-payments constraint for many years to come and that would be the most important determinant of interest rates in the next 18 months, the United said in its latest Economic Monitor.

It said: "As SA cannot easily fall back on foreign credit to finance a deficit on the current account, imports and, by implication, economic growth must be contained."

This situation could force the Reserve Bank to lead the market on interest-rate rises towards the end of this year.

SA will be faced with the irony

GERALD PROSALENDIS

that economic growth above 3% will under these circumstances imply overheating and, thereby, necessitate stricter monetary policy."

Against this background, prime rate was expected to stand at 16% by the end of 1988 but it could taper off in 1989 in line with the expected slowdown in economic activity.

The Monitor said inflation could be negatively affected by higher prices for imported goods, owing to a depreciating rand, and excess demand which could arise towards the end of the year.

"Fundamentally, nothing has yet been done to assure a permanent downtrend in SA's inflation rate."

The contribution of government's wage policy to the anti-inflation drive would at best be temporary.

Inflation was expected to average 14% in 1988 and 16% in 1989.

The Monitor said the clampdown on civil servant salary increases would prevent personal disposable income from rising by more than 16% in 1988 — 2% in real terms. However, personal disposable income could increase by 18% in 1989.

● See Page 6

D/D 5/14/88

(49)

Economy and politics go hand in hand

As an angry young man in the 1960s, Jackie Ntshane spent more than three years in prison for his political activism. Now, as a prosperous insurance executive, he says he is focusing on "economic independence."

Ntshane is part of a growing black South African middle class who have found opportunities in the business world despite being locked out of national politics.

This emerging business class, though still small, sees black economic development as the neglected partner of black political advancement. Both are viewed as necessary ingredients in dismantling apartheid.

"Economics and politics are part of the same struggle for blacks," said Ntshane, who manages a 50-person branch office for the Old Mutual insurance company.

"Blacks must succeed in both areas if they are to take control of their own lives," added Ntshane, who was imprisoned for belonging to the outlawed Pan Africanist Congress.

The South African economy, by far the largest and most advanced on the continent, requires an ever-increasing number of middle-class professionals. Blacks have begun to fill that demand, and there

are some clear signs of black economic progress.

Black households earned an average of R406 a month in 1986, more than double the figure in 1981 and nearly six times higher than in 1975, according to Market Research Africa, a private firm. However, black households still earn less than 20 per cent of the average white family income.

The new Lesedi City shopping mall, east of Johannesburg, has more than 50 black-run businesses and is the largest shopping complex yet built in a black area.

Black taxi drivers, banding together in a nationwide association, over the past decade have taken away a huge portion of black commuters from white-owned bus companies.

Shareworld, a Disneyland-style amusement park in Soweto, opened several months ago and is believed the largest enterprise in the country controlled by black shareholders. A total of 880 black investors hold 60 per cent of the stock.

"There are success stories, but they remain the exception," said Mr Gabriel Mokgoko, spokesman for the National African Federated Chamber of Commerce. "Blacks still are not part of the economic mainstream."

The middle class remains a small fraction of the country's 26 million blacks. They make up about 75 per cent of the population, but only 5 per cent of the executives and managers. Black businesses account for only 1 per cent of South Africa's GNP, according to Black Enterprise magazine.

Black businesses face obstacles on several fronts, including hostility from their own community, where many younger blacks see the business world as an extension of apartheid and white domination.

"Capitalism has become a discredited system to hundreds of thousands of (black) South Africans," the editors of Black Enterprise wrote recently. "To many of our younger students and graduates, even its name is an anathema... (that) earns thinly disguised ridicule and contempt."

Dr Nthato Motlana, a prominent anti-apartheid activist, said blacks have become increasingly hostile to business

and have failed to perceive black buying power as a political weapon.

"The attitude of young black activists and the unions is most unfortunate," he said. "This message must go out to the political activists — blacks need to make money too. Blacks have no political power, but they should translate their consumer power into economic power."

A long-held theory in the white business establishment is that the economy develops and blacks are drawn into the middle class.

Business has proved less resistant to blacks than most other fields, and the workplace is the most frequent point of multiracial interaction.

Black leaders say white business has done far less than it could to assist blacks.

"White business climbed on the back of the apartheid political

Greg Myre: Johannesburg

system years ago and that's where it remains today," said Mr Mokgoko. "Business pays lip service to racial reform, but they have never exercised their power to help dismantle apartheid or assist blacks economically."

Blacks are the largest consumers of most basic necessities, such as food and clothing, yet most black businesses are relatively small operations limited to black townships.

There are no nationwide black-owned chains, and only one of the more than 500 companies listed on the Johannesburg Stock Exchange (a group of six bakeries) is run by blacks.

"Blacks have no credible representation in any of the major economic sectors such as mining, agriculture, manufacturing, the financial institutions, even retailing," Mr Reuel Khoza, the black

managing director of Shareworld, wrote in Leadership magazine.

"By whatever index we use, black economic activity is so insignificant as to be almost nonexistent," he wrote.

Economic life in Soweto, the huge township outside Johannesburg, is typical of many black areas. Most shops are mom-and-pop operations and there also is a substantial informal business sector made up of street vendors.

There is no large, central business district or shopping area in a community estimated at 2,5 million people. Soweto residents are more likely to shop at white-owned businesses in Johannesburg than in their neighbourhoods.

By far the largest industry in Soweto is she-beens, or illegal bars. There are an estimated 4 000 of them in Soweto, outnumbering all other businesses combined.

Black businessmen say the townships will remain underdeveloped until bankers become willing to invest in black areas. There are more than 50 banks in South Africa, but only one, the African Bank, is black-run and makes most of its loans to the black community.

"Regulation and statute have reduced us to a nation of small-time merchants running essentially one-man operations," Mr Khoza wrote.

"Our political spirit has never been crushed, but our assault on the economic edifice of apartheid has been lamentable," he added. "In the economic field, we must create a mythology of competence, of high motivation and high ideals in pursuit of economic liberation."

"The black taxi industry is a clear example of the black entrepreneurial flair that exists in South Africa when it is allowed to flourish," said Mr James Chapman, spokesman for the Southern African Bus and Taxi Association (Sabta).

An estimated 100 000 combis operate nationwide and almost all are run by blacks for blacks. Most combis carry 10 or 15 passengers.

When black taxi drivers began appearing in the late 1970s, they faced a range of restrictions, including limits on the number of passengers and the requirement that they all be of the same race.

But Sabta, a co-operative with 45 000 members, successfully fought regulatory curbs and has become an increasingly powerful force in the transport industry since its formation in 1979.

Sabta has an annual budget of more than R60 million, runs 16 petrol and service stations for members, and arranges discounts on parts and repairs.

Seventy percent of the association's members own only one or two taxis, but most are doing well financially, Sabta says.

Successful black taxi drivers in urban areas earn upwards of R1 000 a month, making them among the highest-earning black group in the country, said Mr Godfrey Mtsheng, the association's vice president.

To join Sabta members pay an annual R100 fee and become part of the local association that sets rates and handles administrative functions.

Sabta membership and resources have been expanding rapidly, although the organisation failed last year in an attempt to take over the nation's largest bus system, Putco, for R150 million.

"It was a temporary setback," said Chapman. "But we've proven we're a force to be reckoned with." — Sapa-AP

U A1 A1 A1 A1

Too little to cool the hot box

STories
8/15/88
49

THE package to restrain the overheated South African economy this week is inadequate.

Consensus among economists in the wake of the one-percentage point rise in bank rate and tighter credit controls on banks is that a Cabinet afraid of a political backlash prevailed.

Economic considerations have been pushed into the background to preserve votes for the Nationalist Party in the October municipal elections.

The concern is that consumer demand will be cooled only slightly by the Reserve Bank's measures and that, if no further brakes are applied, the balance of payments will slump into deficit, the rand will decline and inflation will rise, necessitating harsher curbs.

Standard Bank economist Nico Czyplonka says: "We had an annualised surplus on

Business Times Reporter

the current account of the balance of payments of R6-billion in the last quarter of last year. In the first quarter of this year we were in deficit or close to it.

"Because there is a dearth of foreign investment and lending, we need a surplus of at least R2-billion a year to protect the reserves. We should have had a rise of two or even three percentage points in bank rate to bring consumers to heel."

The signs that the economy is overheating are overwhelming. Gross domestic expenditure in the first quarter of this year was 10% high-

er than a year ago, total credit to the private sector increased at an annual rate of 26%, new-car sales jumped by 35%, wholesale and retail sales increased by 15% and 4%, and seasonally adjusted manufacturing production leapt by 18% from the first quarter to the last quarter of last year.

Urgency

Another bank economist said: "There should have been much more urgency in the authorities' message. They are far too laid back about these negative trends. These measures are not as severe as those of 1984, but there could be more bad news down the line."

Announcing the basket of curbs, Reserve Bank Governor Gerhard de Kock said higher interest rates and tighter accommodation restrictions should encourage importers and exporters to make relatively more use of foreign trade-related credits and relatively less use of domestic credit.

"This would help to arrest or reverse the tendency that has prevailed for some time for importers and exporters to switch from relatively expensive foreign sources of finance to relatively cheap domestic sources.

"Such a development would strengthen the capital account of the balance of payments and support the

gold and foreign exchange reserves."

Commercial banks quickly followed the Reserve Bank's lead by increasing the prime overdraft rate from 14% to 15%, and the next victim will be the mortgage rate.

First National Bank has lifted its bond rate from 13.5% to 15%. Allied Building Society increased its rate from 13% to 14.5% this week in anticipation of a general rise in borrowing costs. United is considering lifting its mortgage rate from 14%.

Most other building societies which increased rates in recent weeks are committed to maintaining them until June or July.

Property economist Neville Berkowitz believes that demand in the residential market will subside rapidly as borrowers face heavier repayments and potential buyers become more nervous about rate increases.

Car-makers and consumer durable manufacturers will also be hit by the increase in minimum deposits. The deposit on a R20 000 car has jumped from R4 000 to R4 800.

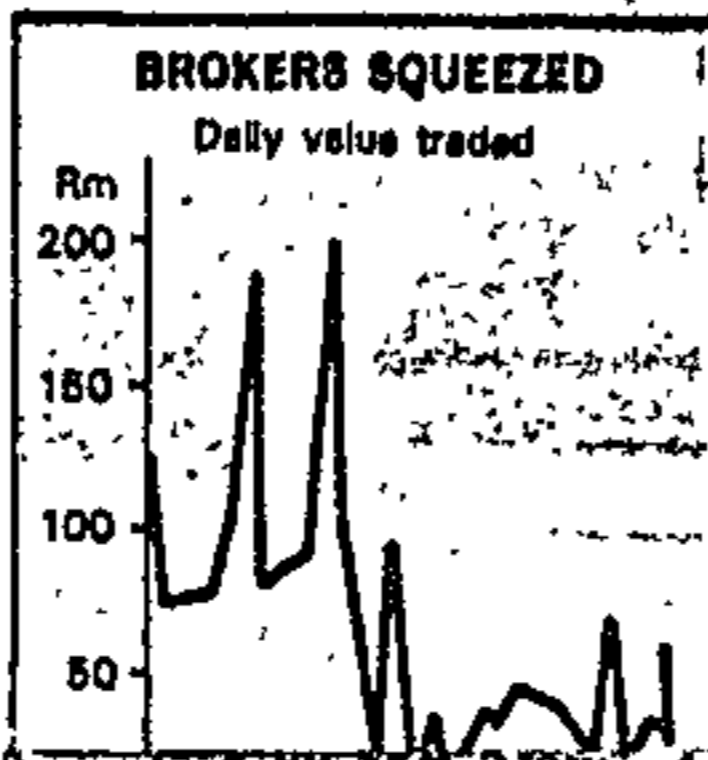
Assocom chief executive Raymond Parsons says that against mounting evidence of a degree of overheating in the economy early action was unavoidable.

But he warns that SA must avoid a boom-and-bust economic situation.

Brokers on the merge

Business Times Reporter

PLUMMETING turnover on the stock market caused the proposed takeover of broking firm Menell, Jack Hyman, Rosenberg by Frankel Kruger Vinderine Inc.



er
n
er
n
o.
so
CI

Smith says there was

Growth of 4 pct under pressure from BoP deficit

109
stav 21/6/88

By Sven Lünsche

The South African economy grew by four percent in the first quarter of 1988, but the obliteration of the current account over the period focused attention on constraints on economic growth, says the Reserve Bank in its *June Quarterly Bulletin*.

Following on an annual growth rate of five percent in the fourth quarter, economic growth, as measured by the gross domestic product (GDP), rose at "a relatively briskly rate of about four percent in the first three months."

This was largely driven by a staggering increase of ten percent in gross domestic expenditure (GDE) in the first three months of this year over the same period in 1987.

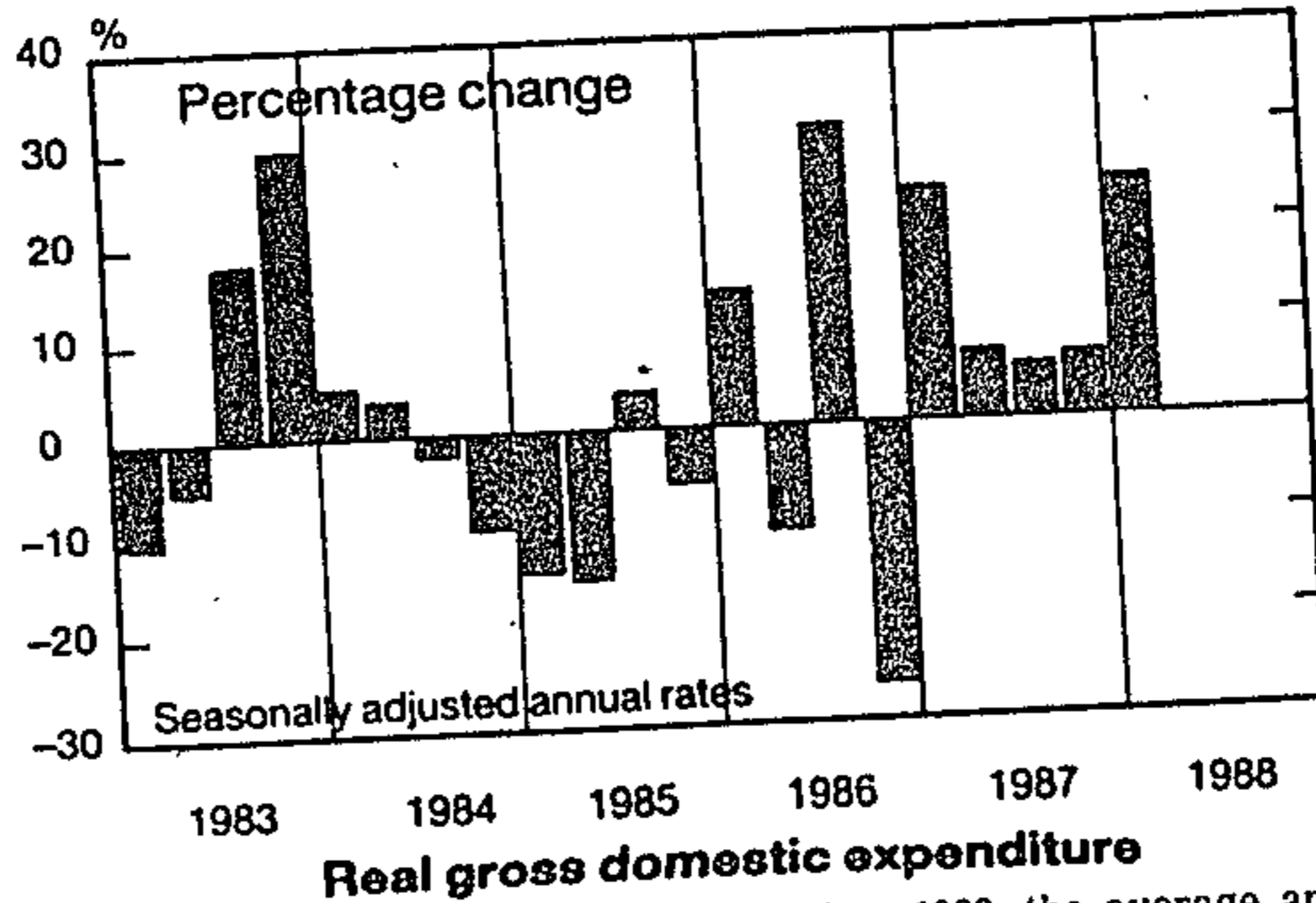
But the rate of growth in domestic demand caused the surplus on the current account to be converted into a slight deficit in the first quarter, as a result of a 20 percent rise in the value of merchandise imports, in conjunction with a four percent decline in exports.

After seasonal adjustments the current account surplus on the balance of payments of R6,1 billion in the fourth quarter, reversed to a deficit of R400 million over the reporting period.

"In the current prevailing conditions, these 'constraints' have come to be presented as factors that prevent the economy from realising real growth rates significantly in excess of the rate of population growth for any extensive period," the Reserve Bank writes.

"Prime among these impediments to faster growth is the balance of payments constraint, as a result of South Africa's foreign debt repayment obligations and its currently limited access to overseas sources of funds.

"While it is obviously true that South Africa, given its resource endowment and the stage of its economic development, should not be a capital-exporting country, it ought also to be recognised that a largely consumption-driven economic up-



swing cannot be financed for any length of time by increasing the country's foreign indebtedness or by drawing down the gold and other foreign exchange reserves.

"A situation of this nature, would eventually call for more restrictive monetary and fiscal policies," the Bank says.

Outlining the extent of expenditure growth in the first quarter the Bank writes that the 10 percent growth in GDE was preceded by growth rates of 6,5 percent on average in the second, third and fourth quarters of 1987.

Real private consumption expenditure (PCE) advanced at an annual rate of four percent, whereas in the seven-year

period to 1988, the average annual rate of increase in PCE only amounted to about two percent.

According to the Bank, the rise in PCE was based on a slight increase in real disposable incomes, but "was also based on a significant acceleration in households' recourse to consumer credit," as reflected in the 13 percent rise in spending on durables (motor vehicles and household appliances).

In contrast spending on non-durables only rose by an annual two percent, while semi-durables and consumer services experienced growth at annual rates of 5,5 and three percent respectively.

The surge in consumer demand led to a third consecutive increase in real gross domestic fixed investment, which rose by two percent in the first quarter, while the level of inventories also improved over the period.

mand led to a third consecutive increase in real gross domestic fixed investment, which rose by two percent in the first quarter, while the level of inventories also improved over the period.

"Households' increased recourse to bank credit and rising levels of fixed investment expenditure, were also reflected in an increase of R900 million in hire purchase and leasing finance, against an increase of only R300 million in the first quarter of 1987," the Bank writes.

Institutions' claims on the private sector amounted to more than R5,9 billion in the first three months of 1988, compared with R1,4 billion a year ago.

On capital market activity, the Bank says, that the value of public sector stock traded on the JSE rose from R34,5 billion in the fourth quarter of 1987 to R48,6 billion in the first quarter this year.

"But the value of shares traded on the JSE decreased markedly from the record level of R5,9 billion that had been reached in the third quarter of 1987 to R4,6 billion in the fourth quarter, and to only R2,4 billion in the first quarter this year," the Bank writes.

The value of real estate transactions improve to R4,8 billion in the reporting period, compared to R4,4 billion in the preceding quarter.

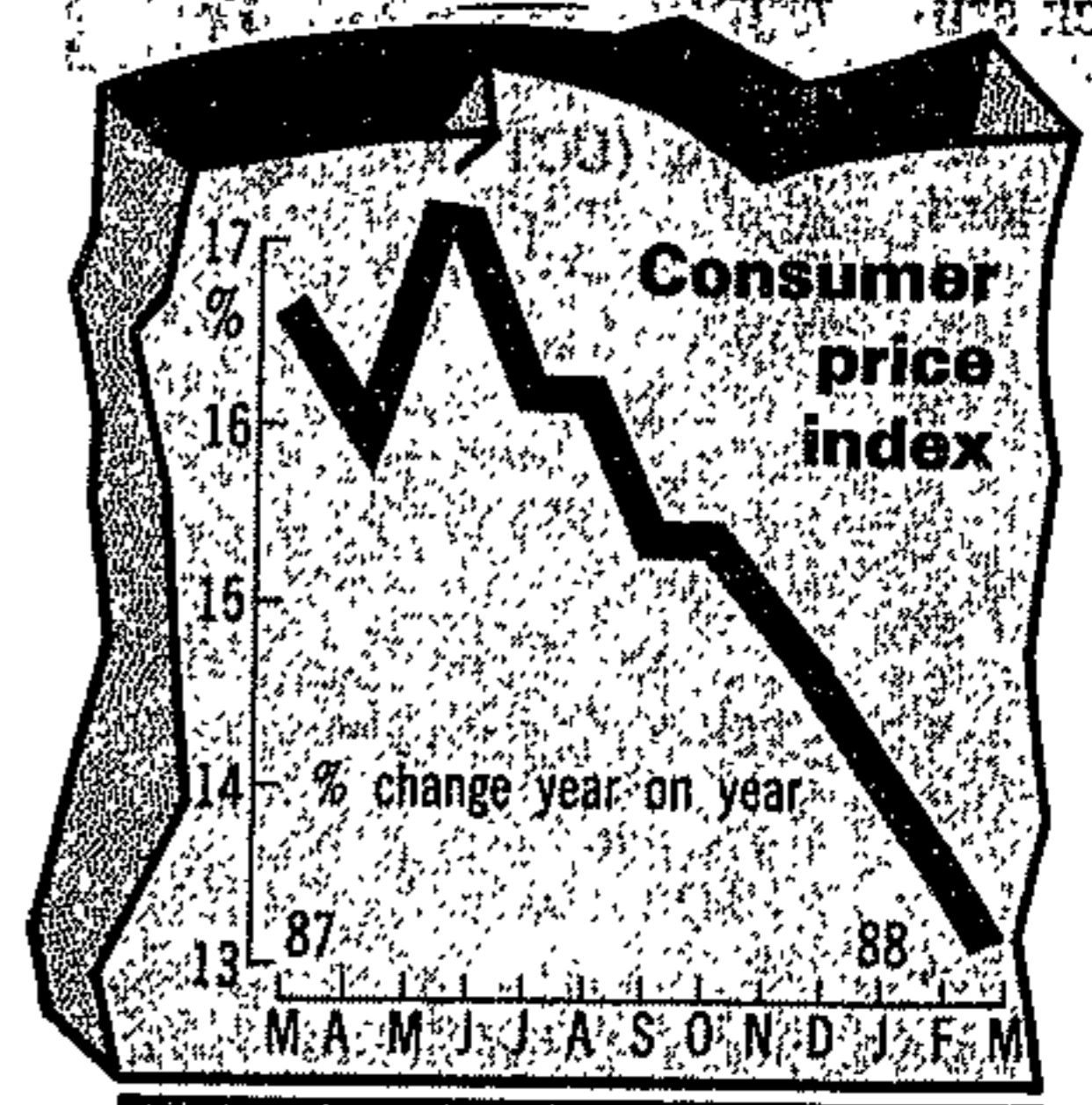
Stoffberg are consulting engineers

Reefs gold mine as part of an

Steps expected to cool economy

M3 figures show growth above target

49
B/day
26/4/88



Source: CSS Graphic: JOHN McCANN

Inflation lowest in three years at 13,4%

GRETA STEYN

INFLATION, as measured by the Consumer Price Index (CPI), was at its lowest in about three years in March, dropping to 13,4% from February's 13,7%.

March's figure is a far cry from January 1986, when the CPI advanced by 22,2% from the previous year. The rate of increase in consumer prices began to drift downwards from June last year, with interruptions in August and October, when the rates remained unchanged.

Food price increases, a major cause of inflation, have slowed in recent months — from 22,8% for the year to September 1987 to 17,1% in March. If food prices, which make up about 23% of the CPI basket, are excluded, the inflation rate for March is 12,1%.

Sanlam economists say slower increases from last year's food prices in the next few months will contribute to a further deceleration of the inflation rate in the short-term.

Other factors, which will strengthen the short-term downward trend in the inflation rate, include relatively low international inflation rates and the small increases in administered prices.

However, the longer term the outlook is less encouraging, with economists predicting a rise in the year-on-year rate later in the year.

MONEY supply growth has burst out of the Reserve Bank's 12% to 16% target range, reflecting heightened credit demand and spending as the economy moves into top gear.

Preliminary Reserve Bank figures show M3, which consists of all deposits with banks and building societies as well as cash in circulation, surged by 22,6% in the year to March. On a seasonally adjusted basis, M3 now stands at R99,9bn — about R3,16bn higher than the upper

GRETA STEYN

limit of the Bank's target range. The Reserve Bank is unlikely to tolerate the rapid growth in money supply, and steps to cool down the economy should lead to higher interest rates.

Reserve Bank Governor Gerhard de Kock, speaking before yesterday's release, recently said: "Full account must now be taken of the danger of excessive money creation and new demand inflation."

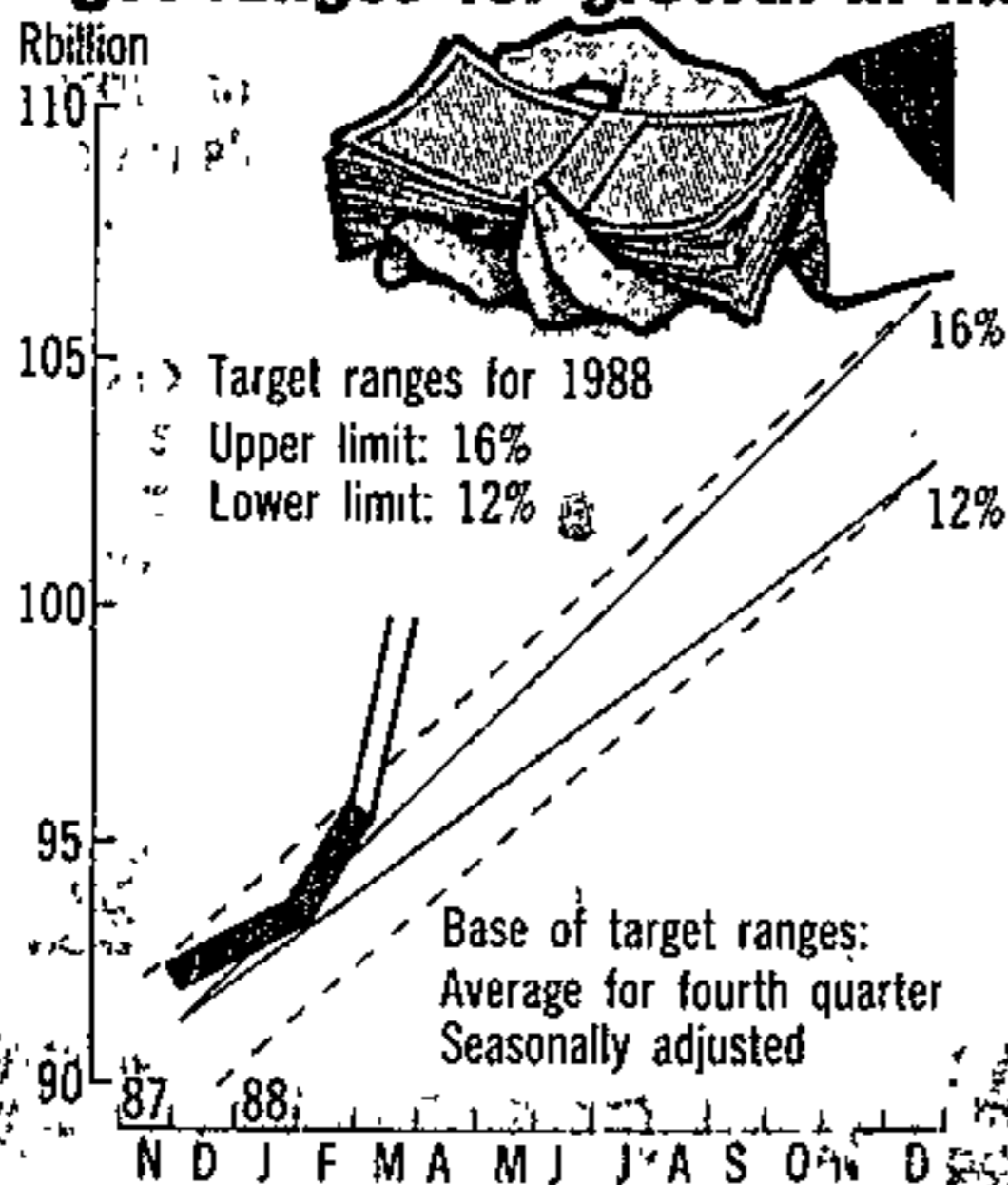
"Already there are indications that the rate of increase in the money supply is overshooting the target range by a considerable margin. If this tendency continues, monetary policy will have to be made still less accommodative."

The money market interprets this statement as pointing towards an imminent rise in Bank Rate. The market has already discounted a hike in Bank Rate. Friday's Treasury Bill rate of 10,65% was higher than Bank Rate — the Reserve Bank's rediscount rate on Treasury Bills.

The surge in money supply growth was anticipated by the money market because of the steady rise in credit demand.

Reserve Bank figures show credit ex-

Target ranges for growth in M3



Source: SA RESERVE BANK Graphic: JOHN McCANN

New M3 figures burst out of target range

tended to the domestic private sector leaped ahead by 4% in February from January, rising to R65,29bn. By contrast, there was virtually no growth in credit extended to the private sector in the same period a year ago.

Old Mutual economist David Mohr said: "Upward pressure on short-term interest rates is likely to persist and this should lead to a tightening of monetary policy."

Trust Bank noted in a recent economic report that the economy could not afford continued growth at the rate experienced in the past six months and would probably have to be cooled down.

The money market yesterday interpreted the money supply figures as confirmation that a rise in Bank Rate is imminent. This will have a ratchet ef-

fect on the interest rate structure, leading to an across-the-board rise in lending rates.

GERALD REILLY reports economists said a substantial increase in wholesale trade sales in the first quarter of the year was a "flickering red light" indicating a threat of over-heating.

Sales for the quarter increased 19,1% at current prices to R18,602 bn, and at constant 1980 prices by 6,7% to R7,683bn, compared with the January-March period last year.

Volkas economist Adam Jacobs said the figures — with recently published retail sales statistics — indicated the economy still had upward momentum.

From Page 1

To Page 2

By Teigue Payne

Of paramount concern for the economy at present is its serious balance of payments constraint, which has emerged much earlier and more swiftly than had been anticipated, according to the May edition of the Standard Bank Review.

It says the seriousness of the economy's current position is clearly reflected by out-of-kilter foreign trade, credit growth and money supply.

The net balance of the current account of the BoP in the first quarter is likely to have been small compared with the large surplus achieved in the last quarter of 1987, and was certainly inadequate to cover foreign loan repayment obligations. These must amount to well over R2 billion this year.

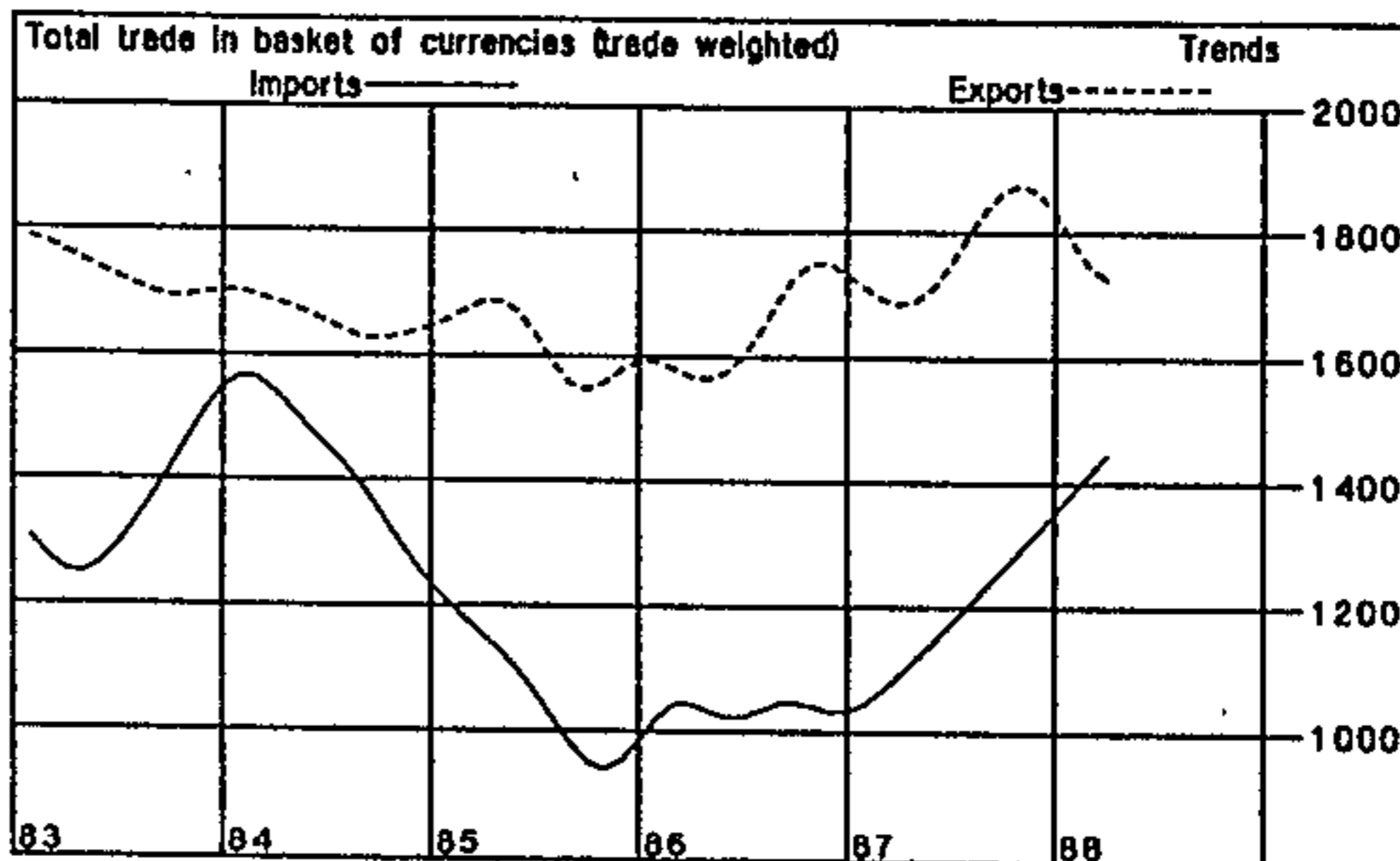
The result of booming imports and sluggish exports was that the merchandise trade surplus of only R1,89 billion in the first quarter of 1988 was 47 percent lower than the R3,6 billion in the same period last year.

The poor foreign trade trend means that in the absence of capital inflows, the authorities must tighten up on fiscal and monetary policy, impacting on liquidity and interest rates.

Reduction in the growth of credit despite strong demand for it will put further upward pressure on interest rates, the review says.

It says the money market's view is that the Reserve Bank's recent one percent increase in the bank rate was not an adequate response to the problems facing the economy, and that interest rates must rise further.

Pressure on BoP unlikely to let up



This Standard Bank chart shows the narrowing gap between the value of imports and exports.

Thus financial institutions are now trying to borrow longer term, which will itself exert upward pressure on interest rates.

It says a large increase in the bank rate — by two or three percent, for instance — could have prevented a continuous upward creep of interest rates this year. But it would have been politically less acceptable because it would have resulted in much more rapid slowdown in credit growth and economic activity.

The economy may have to pay for this later.

The review says the trade surplus is unlikely to become a deficit this year given the recovery trends in certain export categories and the probability of an

economic slowdown.

However, the situation will become very uncomfortable if South Africa's imports continue to rise faster than its exports.

Gold and forex reserves have already been declining slowly because capital outflows have exceeded the current account surplus. The Reserve Bank's gold and forex holdings now cover less than two months' imports.

To prevent serious pressure on foreign reserves the trade surplus must be increased through reduced imports and higher exports.

A clampdown on imports is difficult because about 80 percent are of capital or intermediate goods. And in the absence of higher prices for minerals, which comprise 80 percent of exports, it is also difficult to raise them.

The authorities thus have little alternative but to let the rand slide. Although this will push up inflation, there is no sense in wasting valuable forex propping up the currency.

A further softening of the rand would increase competitiveness of key non-gold exports, particularly coal, and help dampen imports by making them far too costly.

Inflation dipped last year largely because the appreciation of the rand reduced the cost of imports. But this pattern is now beginning to reverse.

Higher local wage settlements add to the inflation pressure. The authorities' postponement of administered price increases will not be ultimately effective and could cause major problems in the future.

The review concludes that while inflation may decline a little further in the short term, it is likely to increase gradually in the second half of this year.

Rise in BA rate putting pressure on interest rates

Star 23/4/86

58

SVEN LUNSCHÉ

The upward pressure on credit demand was underlined yesterday when the leading barometer of short-term interest rates, the bankers acceptance rate (BA9), rose to its highest level since June 1986.

The BA9 was traded at 11,5 percent at noon yesterday, up from Thursday's closing rate of 11,45 percent.

And Standard Bank yesterday became the latest commercial bank to increase the rates it will pay on a wide range of deposits.

These include the rate for six-month fixed deposits rising to 9,5 percent from 8,75 percent and 12 month deposits rising to 11,5 percent from 10,75 percent. Interest on three-year deposits are up from 12,5 percent to 13 percent.

Tightening money market rates were evident on all fronts this week, reflecting expectations of an increase in the Bank rate sometime next month.

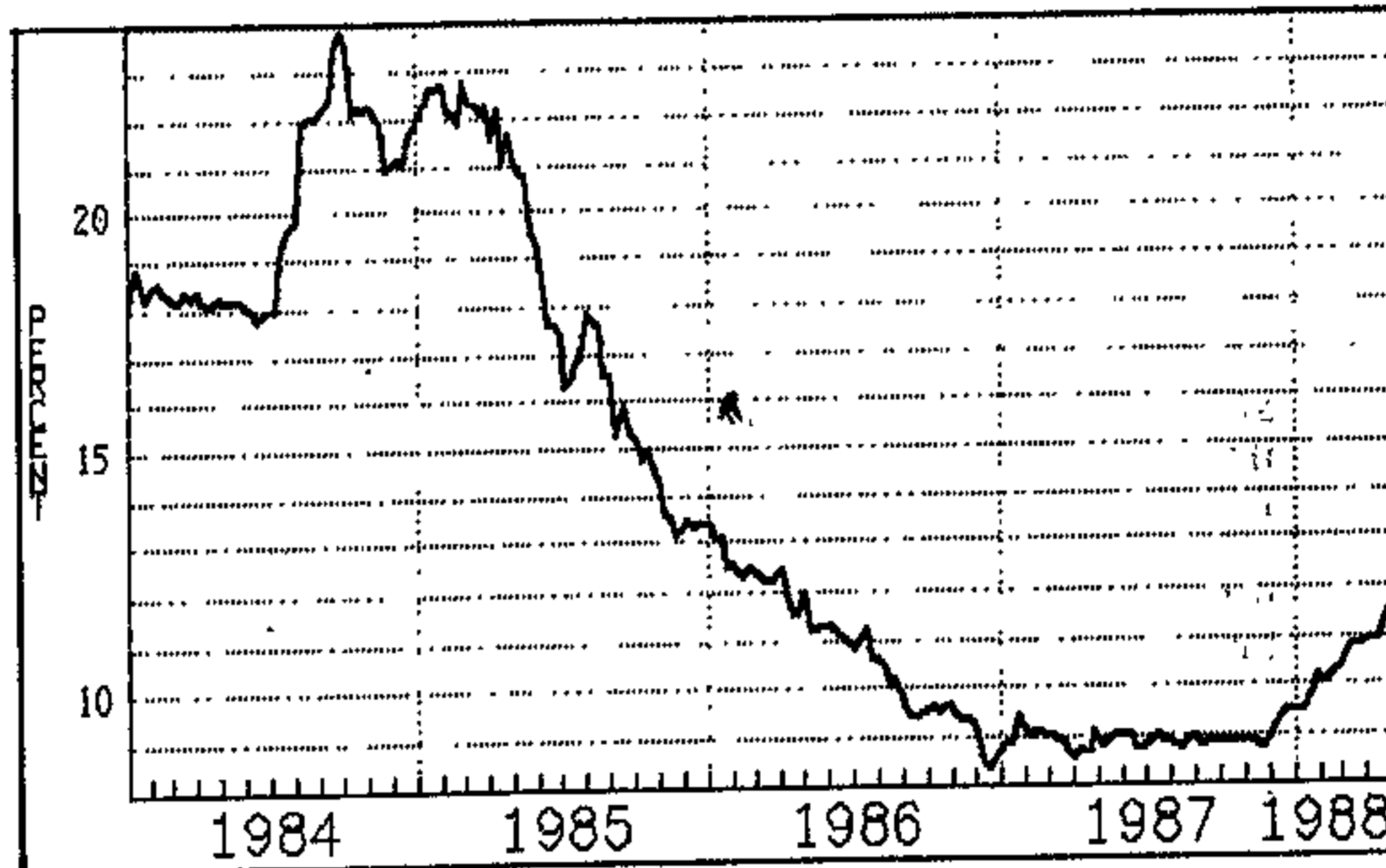
This rise will inevitably be followed by an increase in the prime rate and bond rates are also likely to follow suit.

Consumer demand

The tight money market situation has been a direct result of a tremendous pick-up in consumer demand in particular and to a lesser extent in company's needs for finance.

Mirroring the increase in spending on durable products, banks have seen the demand for hire purchase and leasing finance soaring, while private sector fixed investment at constant 1985 prices rose by three percent last year, disrupting a steady decline in fixed investment since 1981.

A further rise in rates therefore seems inevitable. Simpson McKie's economist John Banos



The BA rate has been falling steeply since 1984 but is now creeping back up.

forecasts a BA9 rate of about 12,5 percent by the end of this year.

"Given our expectation of a substantially lower current account surplus and an already high demand for credit in the private sector, I believe that short-term interest rates are likely to rise by about two percentage points before the end of the year.

"Another factor that could contribute to the rise in interest rates is a tightening of monetary policy as the authorities attempt to keep money supply growth within the 12 to 16 percent target range," Mr Banos comments.

The rise in interest rates has also seen an upward move in participation mortgage bond (part-bond) rates.

Syfrets, the leaders in the market, yesterday increased the rate it pays by one percent to 13,5 percent, while borrowers will also pay more, with the rates charged rising from 13,51 to 14,59 percent.

First Personal Asset Management was the first to raise part-bond rates when the commercial banks raised their prime rates by

one percent in the beginning of March this year. Syfrets has now followed their move and managers of other schemes are also expected to increase their rates soon.

The increases are in line with the pattern of rising interest rates while there has been a noticeably higher demand for money by developers and other borrowers, Al Human, managing director of Syfrets said yesterday.

The new rates apply from June 1 or August 1, depending on the contractual period of notice given to borrowers.

Mr Human said rates over the past six months had favoured borrowers and in the light of this Syfrets had decided to pass on the benefits of the increasing interest rates to investors as soon as possible.

Savers have already invested about R1 billion in Syfret's bonds and it is expected that this figure will surge, as participation mortgage bond schemes may now also issue "granny bonds", as announced by the Minister of Finance this week.

Economy should reduce poverty — Idasa speaker

EAST LONDON — The lineaments of the post-apartheid economy could already be seen in the structure and crises of South Africa's existing economy, an associate professor of economics at the University of Cape Town, Professor Charles Simkins, said last night.

He was speaking about the shape of post-apartheid economy at the second meeting of the East London Forum.

The professor said that the present economy could only be radically reconstructed if output fell a long way below its present levels in the course of the transition.

This was costly, however — a better way would be to try to understand the pressures and manipulate the economy slowly into a configuration capable of sustaining more rapid growth and improved distribution.

The post-apartheid economy should reduce poverty as soon as possible.

If the role of the gov-

ernment was highly coercive, then it would not be able to function to bring up the level of the poorest people.

Income distribution among blacks is becoming more unequal and the principal reasons for this are unemployment, and highly unequal distribution of wealth with barriers against its movement to its most productive employment.

He said there were two sources of economic growth, namely the expansion of the mining industry and greater urban efficiency.

"Both motors will induce further secondary industrialisation behind low exchange rates.

"Increased capability for technical innovation will be essential," he said.

Another speaker at the meeting was the principal and vice-chancellor of the University of Transkei, Professor W. L. Nkulu.

Prof Nkulu said that it was crucially important to realise that for an

economic system for South Africa to work, it had to be acceptable to the people.

"To impose a particular system simply because it promises a high economic growth rate or because it offers equity and social justice as the hoped-for end results would be short-sighted.

"We should rather work towards a system which is likely to facilitate the reconciliation of the aspirations of equity and social justice with an incentive structure which ensure that economic productivity is not undermined."

The most common performance criteria used to compare economic systems were economic growth, efficiency, income distribution and stability.

"Ideally an appropriate economic system should perform well on all the above criteria, but in real life there are trade-offs which must be borne in mind."

The speakers were thanked by the regional director of Idasa, Mr Steve Fourie.



The guest speakers at a meeting of the East London Forum last night: the principal of the University of Transkei, Professor W. L. Nkulu, left, and Professor Charles Simkins of the University of Cape Town, right, with the regional director of Idasa, Mr Steve Fourie.

49 B/day 20/4/88

No long-term solutions provided

Budget fails to tackle the deficit crisis

Teds
Gmau

GRETA STEYN

A DEFICIT crisis still faces the country in the long-term despite the restrictive Budget presented in March, economists say.

In their assessment of this year's fiscal policies, economists agree that current policies provide only short-term solutions.

Nedbank's economic unit says the budget does not provide any longer term solutions as it does not solve the intrinsic "deficit crisis" — the widening gap between state spending and revenue.

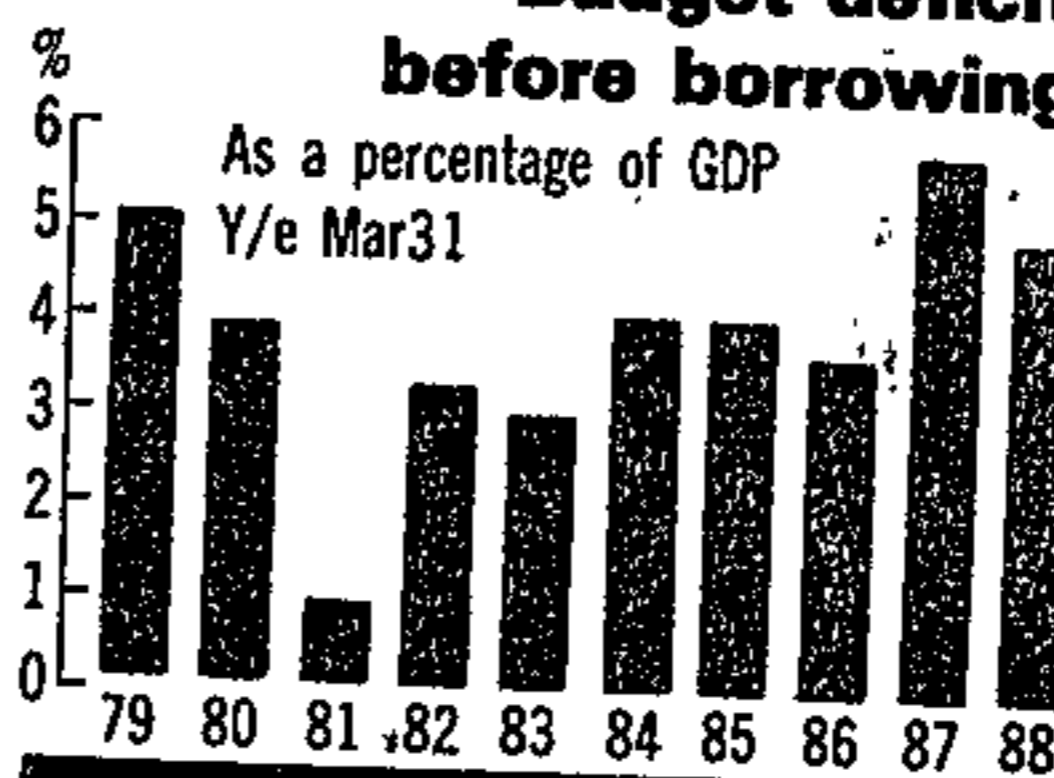
There will be an upsurge of the civil service wage bill next year and the availability of extra-budgetary funds for transfer to the State Revenue Account is nearly exhausted, Nedbank says.

Standard Bank says in its Review that the cutbacks in the 1988/89 budget were achieved merely through a postponement of necessary expenditure — the curbs on civil service pay rises. Next year general increases in civil servants' salaries are more than likely, the bank says.

The Standard, too, believes long-term fiscal problems have not yet been solved.

Structural changes to state fi-

Budget deficit before borrowing



Source: FRANKEL KRUGER Graphic: JOHN McCANN

nances have been deferred to future budgets. "It is difficult to see how the Budget forms part of the stated long-term strategy of the achievement of a reduction in the deficit before borrowing to 3% of GDP."

Frankel Kruger's Gillian Raine notes that if growth slows down, the deficit as percentage of Gross Domestic Product will rise to above the budgeted 4.9% of GDP.

"With respect to the Budget, the ideal is to keep the deficit to 3% of GDP, refrain from financing current expenditure with loans and to keep additional appropriations to 2% of the budgeted amount except under exceptional circumstances," Raine says.

22-28/4/86 (49) a Mail

THE ECONOMY

Socialism calls at black forum

MANY of the participants this week in a Black Management Forum seminar on a new economic framework for South Africa called for that framework to be socialism.

Speakers also recommended a move to a system with increased majority control; more responsiveness to the needs of the population in general; and improved communication.

Those taking part ranged from politicians and trade union leaders to businessmen, consultants and analysts.

And whether or not they agreed socialism was the answer, most argued that political issues should be addressed when discussing economic issues.

The publisher of the monthly journal *Southern Africa Focus*, Eugene Nyati, pointed out that political control did not necessarily mean economic control, but stressed that without political power economic power could not be achieved. He appealed to blacks to "get rid of artificial divisions and start cooperating with one another".

Israel Skosana of the Association of Black Accountants of South Africa (Abasa) said in addressing the new economic framework "social and political frameworks must be also be addressed". He called for the indigenisation of the economy and the encouragement of informal business which, he said, had been neglected and dismissed as "illegal" by the government, even though it had contributed to economic growth.

Top officials of the Congress of South African Trade Unions and the National Council of Trade Unions encouraged a step towards socialism and a move away from what they termed "monopoly capitalism based on racial exploitation".

Jay Naidoo, Cosatu general secretary, said "apartheid and capitalism are inseparable" and that capitalism had been used to strengthen apartheid since the Nationalist government came to power in 1948.

He said the share ownership scheme was not the answer to workers' aspirations because:

- It was an employer tactic to co-opt the workers;

**Speaker after speaker at a black management conference called for a socialist economy 'more responsive to the needs of the population in general'.
MZIMKULU MALUNGA reports.**

- It did not give control of the company to the workers;

- It was a form of deferred payment;
- Management had yet to negotiate with trade unions on this issue.

Nactu general secretary, Piroshaw Camay, like Naidoo, advocated socialism as an alternative to an economic system which had excluded a majority of the people and stressed the need for an economic framework based on "African ethics".

Camay said the BMF and black managers in general had an "important role to play in changing the style of management" in South Africa. He said black managers "need to work for a classless society supporting communal growth instead of individual acquisition".

United Democratic Front vice president, Curtis Nkondo, said the time is ripe for South African to begin talking about the economy, to "lay the foundations of the new economic order now — not postpone the order". He also saw socialism as the economic answer to the "racial capitalist economic system".

Nkondo said capitalism had benefited whites at the expense of blacks. He said there was a need for an entire new economic framework, not reformed capitalism, and cited the Freedom Charter as a guideline — but added that "the Freedom Charter in my opinion is not a socialist document". Nkondo said the aims of the charter could only be realised in a "free socialist democratic society".

The publicity secretary of the Azanian People's Organisation, Muntu Myeza, also called for socialism and indicated the existing economic system did not benefit the majority of the people. "The new economic framework for South Africa will be decided by the people, particularly the black working class," he said.

Rand slide puts strain on prospects of growth

28831
2893
037C
000C
1.51
STW 13/5788
49
87

The rand's slide to record lows against most major currencies this week has kindled fears of a slowdown in domestic growth as the strain begins to tell on the economy.

The gold-linked rand plummeted to an all-time low of 4,18 against sterling this week and dropped steeply against the Deutschemark and the Japanese yen.

The sharp declines sent ripples of concern through financial markets and prompted the Reserve Bank on Monday and Tuesday to intervene heavily in the local currency market by selling dollars to prop up the rand.

Despite the intervention, the currency sank to R2,2300 to the dollar on Monday — its lowest level in more than a year — before recovering slightly to R2,1950 on Wednesday.

"These levels are the lowest I have ever seen against sterling, the mark and the yen," said Willie Potgieter, chief foreign exchange dealer at Standard Bank.

"We believe the rand is likely to weaken further because of the country's inflation problems and balance-of-payment difficulties," he said.

South Africa derives nearly half its export earnings from gold. The bullion price is therefore a major factor in determining the rand's value and it has remained relatively soft recently at around \$450.

Economists worry that any further weakening in the rand will push the 13,4 percent inflation rate higher and slam the brakes on the import-dependent

economy by making foreign goods and services more expensive.

But some analysts argue that the currency should be allowed to fall further to help protect the dwindling surplus on the current account of the balance of payments.

Over the past two and a half years South Africa has been obliged to run huge current account surpluses to repay foreign debt under a rescheduling agreement with major international creditor banks.

It has repaid about \$5 billion of its original \$24 billion foreign debt since mid-1985 when international banks, alarmed by anti-apartheid protests and unrest in black townships, refused to roll over loans.

"Import costs have risen because of the weak rand and flagging exports have been weighed down by losses in the gold price," says Standard Bank in a currency comment.

"These twin factors have already seriously affected the current account on the balance of payments where a healthy surplus is vital to the servicing of outstanding foreign debt," the bank says.

"It is appropriate for the economy to slow down and for the rand to fall in order to shield the balance of payments," says Rudolf Gouws, chief economist at Rand Merchant Bank.

"It would be silly for the Reserve Bank to try and protect the exchange rate. They don't have the means to support the rand

anyway," he says.

As the rand continues to slide, economists are rapidly scaling down their estimates of real growth for the year to below the Government's target of three percent.

"Many traditional signs of a genuine economic upswing are not showing up," says Ockie Stuart, director of the Bureau for Economic Research at Stellenbosch University. "This is a worrisome trend since it is a situation that is symptomatic of a fortress economy."

"It seems realistic to expect that once again the balance of payments will damp down economic growth, contributing to a lowering of living standards and further increases in unemployment," Mr Stuart says.

Leading economists, including Reserve Bank Governor Gerhard de Kock, admit that intensifying trade sanctions and the freeze on foreign bank loans have forced South Africa to become a capital exporter and seriously inhibited the scope for sustained domestic economic growth.

Last week the Reserve Bank demonstrated its concern about the deteriorating balance of payments and fears of accelerating inflation by raising its discount rates to the banking sector for the second time in little more than a month.

"Things would have looked a lot worse if the Reserve Bank hadn't raised interest rates," says Mr Gouws. "And they will probably have to do it again before too long." — Reuter.

P.S.
TCT
St
Do
N1
ELAN
TO
S
L
N
KAA
TO
S
D
N
NAT
TO
S
D
N
TRA
TO
S
D
N
O.
TO
S
D
N
M.A.
T

Business leaders must act against apartheid

Star 18/5/88

69
[Signature]

Business has a vital role to play in the new political and economic order that will inexorably arise with the advent of a broad democracy in South Africa. This is the issue underlying the conference to be held at the Indaba Hotel in Sandton on Sunday.

Many of the senior executives of South African business corporations have in the recent past been seen to be openly supportive of the Government in its often hesitant and sham initiatives at furthering the dismantling of apartheid. Organised business and commerce is equally mute or, at best, unobtrusive, in its protest against the bannings, censorship and detentions that have become the order of the political day for our "reform-minded government".

The consequence of this is that the true majority of South Africans identify business and commerce — capitalism — as being in collaboration with an Afrikaner Nationalist government that founded the whole concept and reality of apartheid. As Don Mkhwanazi, president of the Black Management Forum, states: "The free enterprise system as represented by the private sector has formed an unholy alliance with apartheid."

POSITIVE ROLE

It is therefore predictable that given the advent of the final ejection of all apartheid legislation, traditions and structures, business will be thrown out with the National Party bathwater.

The conference is being convened to address this danger to business. It will provide interesting debate and opportunity for establishing an ongoing programme for action to ensure that business has a positive and productive role in the new democratic South African society.

Many businesses have, for the most part, during earlier years sought not to identify themselves with political party or partisan viewpoints. The referendum of 1983 and the long-standing political crises in the country have changed this attitude to some extent.

Business leadership must now however stand up and be counted concerning its views on apartheid. It must articulate its view and stance to employees and customers alike as to its intentions concerning the social, political and democratic necessities of an irrevocably changing order.

Business must popularise its opposition to apartheid and its plans to recruit, promote and train its personnel on merit alone. Should this fail to occur, harmony and our quality of life in South Africa will continue to decline.

Cabinet ministers in recent months have spent many hours over lunch in the plush dining-rooms of many of

Alex Anderson, chairman of the Business and Economy Group of the Five Freedoms Forum, discusses the theme of the organisation's forthcoming conference, "Preparing Business for the Future".



Anderson . . . "Stand up and be counted."

the larger quoted companies in Johannesburg. Their mission has been to seek funds from business to fight the strength and threat of the CP. The reality, however, for the majority of South Africans, is that their political rights will not improve or alter whichever of the two parties succeeds in the next election.

Because business has seen fit in the past not to "get involved in politics", it does not always understand politicians. However, business certainly does enjoy this now sudden attention from prominent politicians.

Due to this concern about the effects on their business of getting involved in politics, business leaders often also manifest a justifiable degree of inexperience in assessing the merchandise of politicians. The State President himself has sold some large "lemons" at the various conferences that business has been so keen

to attend at the Carlton and in Cape Town.

Conferences concerning management development strategies for black manager advancement, occupational structure, attitude of the underprivileged towards Western culture, must surely do far more for the survival of free enterprise than adding to the ego, girth and pocket of far from deprived National Party Cabinet ministers.

Business must thus be able to urgently address and plan the realities, implications and benefits of the current trend towards the greater involvement of the broader underprivileged community in all aspects of the business dynamic.

Staff composition, structure of the customer base, and the way business is done must, and will, change.

The conference will address these issues, and rightly so. Business must not continue to besmirch its hard-earned free market-founded traditions by continuing to nurse a racially myopic government which is undoubtedly in a state of intensive care, this terminal malaise being brought about by its chronic inability to provide a reconciling political climate and positive vision of the future.

It is important that business leaders participate in this conference so that they too can make their contribution in solving what Alan Paton termed "the great problem". This he described as that "which confronts white South Africans and their country today as to whether they will be able to undo the damage of the Verwoerdian doctrines and gain, to some extent at least, the trust and confidence of Black South Africa in the goodness of their intentions".

De Kock denies challenging PW

D/D 25/4/88

49

JOHANNESBURG — Public statements by the State President and by the Governor of the Reserve Bank indicate a fundamental difference of opinion between the men on mandatory wage and price controls.

Dr Gerhard de Kock denied late last night that he had sought in any way to challenge the State President when he criticised wage and price controls in a speech to the Cape Town Afrikaanse Sakekamer on Friday.

He said he was not aware of any change in government policy on wages and prices and had not addressed himself at all to the State President's comments.

However, Dr De Kock's comments stood in sharp contrast to remarks made by President P.W. Botha only one day earlier.

In a sweeping attack on business on Thursday, President Botha

said that as the private sector would evidently not give its "quid pro quo" in the fight against inflation, the government would have to submit legislation to compel its co-operation.

Excessive price increases would be investigated by a business practices committee and "action would be possible".

On Friday, Dr De Kock repeated earlier statements that direct controls over wages and prices would create more problems than they would solve.

Direct interference with prices and wages have also been rejected by the President's own Economic Advisory Council (EAC).

The rejection of direct controls was strongly supported by private sector economists and business leaders, while Assocom is seeking urgent meetings with cabinet members to clarify Mr Botha's remarks.

However, Department of Finance sources said the government had no intention of imposing direct controls over wages and prices to combat inflation, despite Mr Botha's remarks last week. No official comment could be obtained yesterday.

In his Friday speech, Dr De Kock said that present monetary and fiscal policies made a gradual reduction of South Africa's inflation rate well within reach.

If money supply growth was kept to within the 12 per cent to 16 per cent target range and the government stuck to its Budget, the inflation rate would probably show a further gradual decline.

"And if the announced monetary and fiscal policies are not effectively applied, more direct controls over prices and wages would not be the answer," Dr De Kock said. — DDC

CP MP to address meeting

D/D 25/4/88

304

EAST LONDON — Conservative Party member of parliament and economic affairs speaker for the party, Mr Clive Derby-Lewis will be speaking at the Beaconhurst School Hall tomorrow evening.

Mr Derby-Lewis, founder member of the CP and the party's press liaison officer, said he would show "the way" which the government incorrectly spends its money" in his address.

Another major issue would be what the CP will do about mixed residential areas "when they come into power".

Mr Derby-Lewis, who has accused South African Airways of inefficiency and who said he "predicted an incident like the Helderberg" said he arrived here on a delayed SAA flight last night, and would also raise this issue. — DDR

than double the 1986 inflow of this, R1,7 million was paid out as

Consumer spending is key to economic upswing

Step 26 7/1/88

By Sven Lünsche
In view of the less favourable export prospects for South Africa it is clear that the present cyclical upswing in the economy will have to be built largely on private consumption expenditure (PCE), says Sanlam's economist Johan Louw.

In a detailed analysis of PCE in the group's April edition of *Economic Survey*, Mr Louw says that the stricter discipline as regards government expenditure could have a detrimental effect of economic growth on the short-term, as it leans heavily on controlled adjustment in wages and salaries.

"The implementation of certain recommendations of the Margo Commission, aimed at a more just distribution of the tax burden, should nevertheless have a positive effect on the financial position of consumers and therefore also on their viability and willingness to spend and to save.

"In the long-term, however, the key to more rapid economic growth and accelerated employment lies in the promotion of fixed-investment. It is therefore vital that a favourable climate be created for capital expenditure.

"Apart from the effect of political stability, we believe that investment can be further encouraged by diminishing the tax burden of industrial com-

panies and attempting to prevent excessive fluctuations in interest and exchange rates," Mr Louw writes.

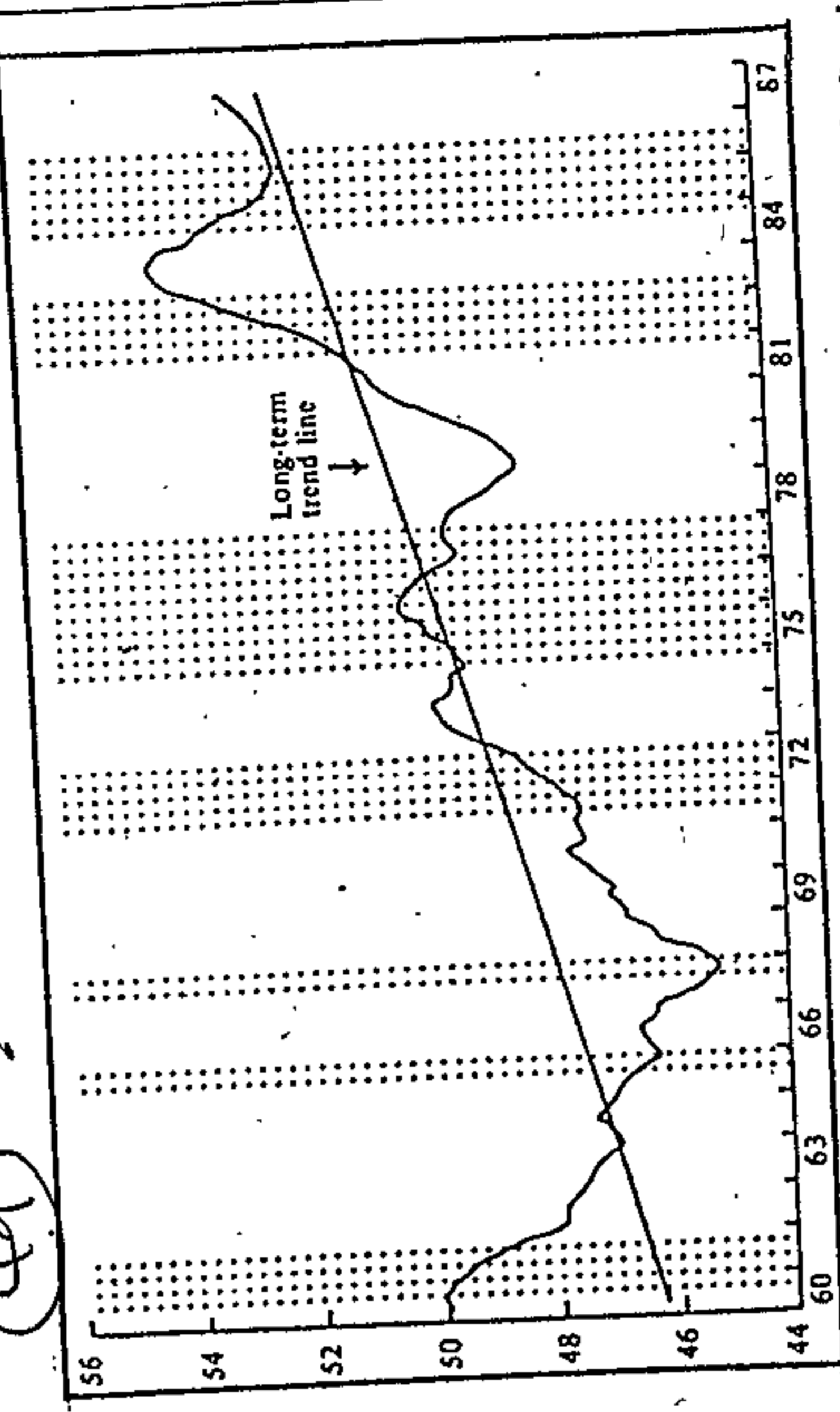
He states that the recent decline in South Africa's growth rates — from an average of 5,8 percent per year in the Sixties to one of 3,3 percent in the following decade and an average of 1,8 percent a year in the eight years up to 1987 — became more and more attributable to private consumption expenditure and less and less to investment and exports.

"Analyses show that although the growth rate in real PCE has declined steeply over the years, its average contribution to economic growth rose dramatically from 42 percent in the Sixties to 52 percent in the following decade and to more than 80 percent in the first eight years of the eighties," Mr Louw says.

He attributes the decline in real PCE largely to a drop in real personal disposable income from average growth rates of 6 percent in the sixties to declines of 1,3 percent on average in the eighties.

"The consumer has also been impoverished by high personal tax rates and inflation in particular."

A breakdown of the PCE figures shows that opposed to the reasonable stability of the real expenditure on non-durables, which amounted to about



The PCE is shown in the graph as a percentage of GDP. Although PCE has declined in real terms over the years, the corresponding declines in economic growth has seen the figure rise from just over 45 percent in 1967 to an average rate of 52 percent last year. The shaded areas indicate downturns in the economy.

50 percent of total PCE over the last 27 years, the share of services expenditure has declined over the years.

Says Mr Louw: "The most important reason for this has been the relatively slower growth in rental paid by households: from 9,4 percent of total PCE in

1960 to about 7 percent in 1987.

"The real expenditure on durables and semi-durables shows large fluctuations and is far more subject to changes in real disposable income than the other main components of PCE," Mr Louw concludes.



Sanlam predicts drop in the price of food

D/D 27.14/88

49

CAPE TOWN — Food price increases should slow down in the next few months and this will contribute to a further deceleration in the inflation rate, Sanlam says in its April Economic Survey.

The survey, compiled by Sanlam's Economic Research Department, says the South African economy expanded exceptionally strongly in the last quarter of 1987 — at an annual rate of about five per cent.

This was a total reversal of the relatively poor growth performance of the two previous quarters.

Provisional figures show that real retail figures for the first quarter of 1988 were about two per cent up on those for the same quarter of 1987.

In the first three months of this year, car sales were more than 26 per cent higher than in the same period in 1987. Real imports are showing a sustained

rising trend and confirm the reasonably strong growth being experienced in domestic activity.

Sanlam warns, however, that it should be borne in mind that the more sluggish growth trend in the economies of some of the country's major trading partners and sustained sanctions will hamper exports.

In conjunction with higher imports, this will in due course place increasing pressure on the balance of payments, which will in turn have a negative effect

on the economic growth rate.

Sanlam says the year-on-year increase in total consumer price index slowed down further in February 1988 to 13,7 per cent — the lowest rate of increase in more than three years.

The inflation rate continued the falling trend that began as early as June last year and was interrupted only in August and October 1987 when the inflation rate stayed unchanged at the same level as that of the previous month. — Sapa

PE on move and mayor tells why

10 2714/88

49

Daily Dispatch
Correspondent

PORT ELIZABETH — This city is on the march. So says the mayor, Mr Solly Rubin, who can quote 20 good reasons for saying so.

Mr Rubin has arranged a series of lunches to meet captains of commerce and industry in the city.

Yesterday, at the second get-together, he listed a score of recent developments which suggested that Port Elizabeth was on the move:

- The demand for labour is improving and in some sectors jobs are now chasing people;

- There has been an average 25 per cent increase in the wages of black workers;

- There has been a notable surge in the local tourist trade;

- The number of black buyers applying to buy houses is on the increase;

- The value of building plans passed is improving countrywide, but particularly in Port Elizabeth;

- The price of local white housing has risen due to strong demand;

- Prime Computers has sold a R4,5m computer package for the Moss gas project;

- The same company has opened a full branch in Port Elizabeth;

- A major new vehicle air conditioner factory has opened and will supply both local manufacturers and the export market;

- The African Hide-Exotan group has opened a R4,5m facility

in the city:

- The Imperial Truck Hire organisation has opened in Port Elizabeth;

- Foreign — but unspecified — capital is flowing in to create more manufacturing capacity;

- Both Volkswagen and Delta motor companies are gaining greater shares of the national vehicle market, "to such an extent that we are now back where we were before Ford left";

- Between 400 and 500 people are returning to Port Elizabeth each month while the number leaving is negligible;

- The building and motor trades are providing more jobs: VW up to about 8 000 and Delta up to about 4 000;

- Port Elizabeth will handle at least a third of the Moss gas construction work, "be it jackets, modules, piles... whatever".

- In June the national City Lodge group will begin building a major hotel on the Playland site on the beachfront;

- There have been two major sales of erven for township development — one in Hume-wood and one in Walmer.

Mr Rubin said there are also two national trends which will be of particular help to Port Elizabeth:

- The annualised inflation rate for March was down to 13,4 per cent, the lowest in about three years; and

- The balance of payments continues to show a healthy surplus.

All depends on partners says Daly

EAST LONDON — If the overseas situation continues on its more positive track, the outlook for South Africa is that much more encouraging, says Southern Life chief economist, Mr Mike Daly, in the company's quarterly economic comment.

He notes that the United States economy has undergone a turn for the better "which suggests that the economy just won't lie down and die, even after the worst stock market crash in history".

However, he warns of a probability of a slowdown in US economic growth late this year and through 1988, "which is not supportive of ongoing economic growth in South Africa".

South Africa's export performance, closely linked to economic growth and inflation trends overseas,

will be the key to economic performance this year and next, he says.

"The higher import levels which are currently tracking the strength of the local economy will need to be matched by higher earnings of foreign currency or the foreign exchange reserves will run down and the rand will weaken further."

As always, he says, the gold price is the factor that could dramatically change the outlook for South Africa.

"In terms of strong overseas currencies, gold and other metals such as platinum, have become very cheap and appear to be building a base below which strong buying pressure emerges."

In spite of an appeal from the State President to private sector employers to



Mr Daly... gold the factor

limit salary increases as part of the anti-inflation drive, Mr Daly sees "only limited co-operation".

The fact that the corporate sector continues to announce profit increases consistently above even optimistic expectations, undermines the whole exercise.

Mr Daly says it appears the low point for inflation will be reached in the first half of this year before rising gradually.

However, he anticipates an average inflation rate for the year of between 13 and 14 per cent, after last year's 16,1 per cent.

Economic indicators

Handle
with
care
says
ASSOCOM

JOHANNESBURG — While the economic upswing appeared to be well into its stride, there was a danger of overheating taking place.

Assocom says it expects business activity to level off later this year and that unless the economy is handled carefully, the

growth rate could be less than three per cent.

It also points out that if imports continue to rise and exports continue to fall, a clear signal will emerge that all the country can afford is a maximum growth of three per cent.

It said it was im-

portant that the economy be kept on an even keel. *912-211188*

The Assocom Business Confidence Indicator increased slightly in April to 98.3 (98.1 in March).

Assocom says that positive factors influencing the indicator

are: the increase in new car sales; an increase in manufacturing production; retail sales recovered from a small dip in March; building plans passed for April registered a solid increase; registered unemployment fell; a small rise in the dollar price of gold; firmer prices on the JSE; and a drop in the

number of insolvent companies. *(49)*

Negative influences were: a rise in the three-month BA rate; a weakening in the rand dollar rate of exchange; emigration and immigration declined; and a drop in the number of new companies registered.

Business confidence spurred by upswing

By Sven Lünsche

Assocom's business confidence index (BCI) increased slightly in April to 98,3 from 98,1 in March, confirming the more positive attitude in the business community in the wake of the continued upswing in consumer demand.

Assocom admits as much when it says the boom has been stronger than many observers expected, but adds that the risk of overheating is now much greater.

"Unless the economy is carefully handled, South Africa may have to settle for slightly less than the expected three percent real growth rate for 1988 as a whole," it says.

"The big variable — the one which will determine the length of the present economic upturn — is private fixed investment, which is showing positive signs but is not yet certain whether it strong enough to sustain the economic recovery into 1989 without causing a surge in imports."

"But if imports continue to rise and exports continue to fall, then a clear signal will emerge to business that an economic growth rate of about three percent is about all that the country can afford," Assocom writes.

The positive factors influencing the BCI were an increase in manufacturing production and a substantial rise in car and retail sales in March, while building plans passed for April registered a solid improvement.

Negative influences on the index were a continued rise in the BA rate, a weakening in the rand dollar exchange rate and a drop in the number of new companies registered.

D/D 27/4/88

Businessman: economic activity bringing political change

EAST LONDON — Economic activity was bringing about more political changes in South Africa than was generally recognised, the management board chairman of BMW South Africa, Dr Walter Hasselkus, said yesterday.

He said at a Rotary luncheon that economic factors such as economic growth, skilled labour shortages, in-com-

pany training and urbanisation had contributed more to socio-political progress than "the actions of politicians or sanctions talk abroad."

"Political reforms cannot take place unless the economy generates the jobs and the disposable income needed to remove frustration, tension and bitterness from the political debate."

Dr Hasselkus said he was concerned about the implications of the Labour Relations Amendment Act.

"Business should rather find creative ways of solving problems with unions than ask the government to intervene with new legislation that might unnecessarily antagonise the trade unions," he said. — Sapa

Recession

danger warning

By Sven Lünsche

19
Economists warned today that too strict monetary and fiscal restraint measures could plunge the economy back into a recession.

Their warning followed on news that a comprehensive package was being developed by the Reserve Bank and the Department of Finance in order to prevent the economy from overheating. The package will probably be announced next week.

The Governor of the Reserve Bank, Dr Gerh rd de Kock, and senior banking officials yesterday held talks in Pretoria. Interest rates are thought to have been the main topic.

An increase in the bank rate by one percent to 11.5 percent is virtually a certainty and would be followed by a rise in all interest rates.

But economists expressed concern at speculations that import controls would be increased and hire purchase conditions tightened.

"Our imports consist mainly of oil and machinery equipments and industry can't afford to pay more money for these goods," an economist said this morning.

Taxing times

Real economic growth, which has declined from an average of 5,8% a year in the Sixties to 3,3% in the Seventies and 1,8% in the subsequent eight years, is becoming steadily more dependent on private consumption expenditure (PCE).

Sanlam's latest *Economic Survey* points out that, though high inflation, heavy taxes, high levels of debt and relatively small pay increases have combined to cause a sharp drop in PCE, its contribution to growth has risen dramatically — from 42% in the Sixties to 52% in the next decade and more than 80% in the first eight years of the Eighties.

The result has been "a notable decline in the personal savings rate (personal savings as a percentage of personal disposable income) from an average of 11,3% between 1960 and 1969, to 10,2% from 1970-1979 and a mere 5% between 1980 and 1987. During this

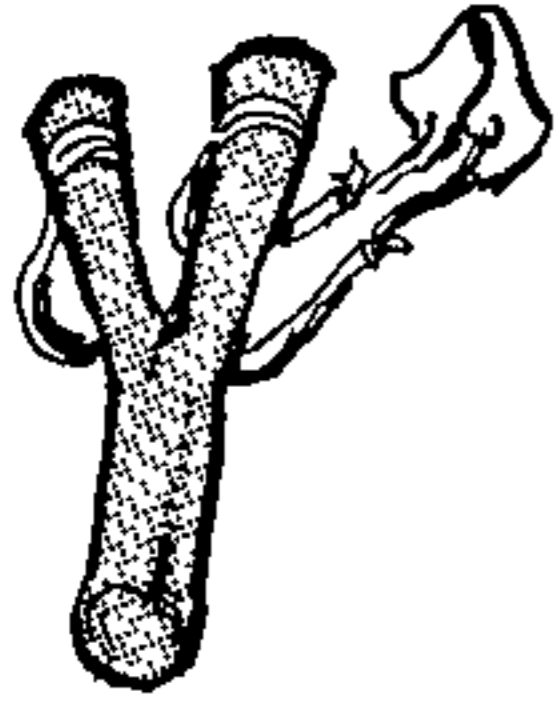
FINANCIAL MAIL APRIL 29 1988

period, consumers had to draw increasingly on accumulated savings or turn to credit to finance current purchases."

Remedies can be sought in promoting fixed investment, which will require "a favourable climate for capital expenditure. Apart from the effect of political stability and clarity regarding the political road ahead, we believe that investment can be further encouraged by diminishing the tax burden of industrial companies and attempting to prevent excessive fluctuations in interest and exchange rates." ■

40

With a wave of the wand . . .



The kindest thing that can be said about the Harmful Business Practices Bill is that it is a misguided attempt to promote consumerism and to intimidate everyone in business.

At worst, it provides, along with the Competition Act, the iron fist with which a gau-leiter needs to regulate — completely — all economic activity.

Its very existence suggests that a formal prices and incomes policy is imminent, supposedly to control inflation.

What is certain is that it will fail to protect the consumer, to stimulate competition and to squeeze inflation out of the economy.

It is a clear signal, too, that government's declared policy of deregulation cannot be taken seriously — in fact, that it has been all but abandoned. This, in turn, is going to mean that both the growth of small business and prosperity in general will be severely circumscribed.

Like the imposts on the press, it reduces law to the whim of a minister and his officials. Its potential to produce red tape in prodigious quantities is enormous.

Most countries which have tried to protect consumers by *regulation* have experienced bitter failures, particularly in the US. This is largely because legislators confuse what they perceive as harmful business practices with schemes where *caveat emptor* should apply.

In protecting consumers and investors, laws can reduce the chances of a man being fooled. If they try to prevent him from being foolish, they invariably fail.

The best example of failed consumer protection laws was the US's antitrust legislation.

There businessmen have been prosecuted for selling *below* the market price ("predatory pricing"); at the market price ("collusion"); and above the market price ("gouging.")

In general, however, business practices that do not constitute fraud and/or misrepresentation, are safe.

A US expert on the consequences of antitrust legislation, Hartford economist Dominick Armentano, argues that far from encouraging competition, these laws have restricted it and are inconsistent with economic efficiency, which benefits everyone in the economy.

Armentano's analysis of the failure of the US's antitrust laws, which are a century old, shows that:

The new Bill to control "harmful" business activities runs contrary to the State President's commitment to deregulation earlier this year. It smacks of the dirigiste impulse found in command economies — and follows in the wake of innumerable failures to curb inflation in this manner.

- The laws misconstrue the fundamental nature of both competition and monopoly;
- Such regulations have often served to shelter high-cost, inefficient firms;
- They have the effect of explicitly intending to restrict price rivalry in the name of preserving competition;
- Attempts to restrict mergers may have the effect of lessening competition — in itself destructive of a competitive process; and
- Like any other form of government intervention, such laws tend to make the economy less efficient.

Perhaps most important of all, enforcement of these laws is predicated on the mistaken assumption that regulators and the courts can have access to information concerning social benefits, social costs, and efficiency which is simply unavailable in the absence of a spontaneous market process.

The major source of monopoly power (and other "harmful business practices") is Pretoria itself. Yet it is Pretoria — the regulatory bureaucracy — that most of the critics of business (and advocates of "anti-harmful" business practice legislation) would expand to suit their particular vision of a good society.

To quote Armentano: "The only principled and practical way to end monopoly power is to end it at its source. Government regulation, entry control, subsidisation, and *antitrust*, are all manifestations of a governmental interventionist power that has been employed by private firms, to private advan-

tage, and to the detriment of society.

"These manifestations cannot be justified from either a natural rights, utilitarian, or subjective perspective. In short, we must seek to end government interventionist power, including antitrust, and move to create a free and open society where individuals can fulfil their own vision of the good society."

Historically, behind this, lies the comment of Adam Smith: "People of the same trade seldom meet together, even for merriment or diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible, indeed, to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less render them necessary."

Simply put, there is overwhelming evidence that the way to promote the market function to the benefit of the consumer is to deregulate and promote the free flow of information on all transactions.

Certainly the Bill is punitive. Businessmen contravening orders made in terms of the Act to follow the Bill could be jailed for up to five years and/or fined up to R200 000. This is the most punitive attack ever on South African businessmen.

The puzzle is why the far-reaching Maintenance and Promotion of Competition Act was considered inadequate to foster competition.

In terms of this Act, price rings have been allowed to continue.

Few, if any, prosecutions have taken place under it. Now it looks as if it has been superseded.

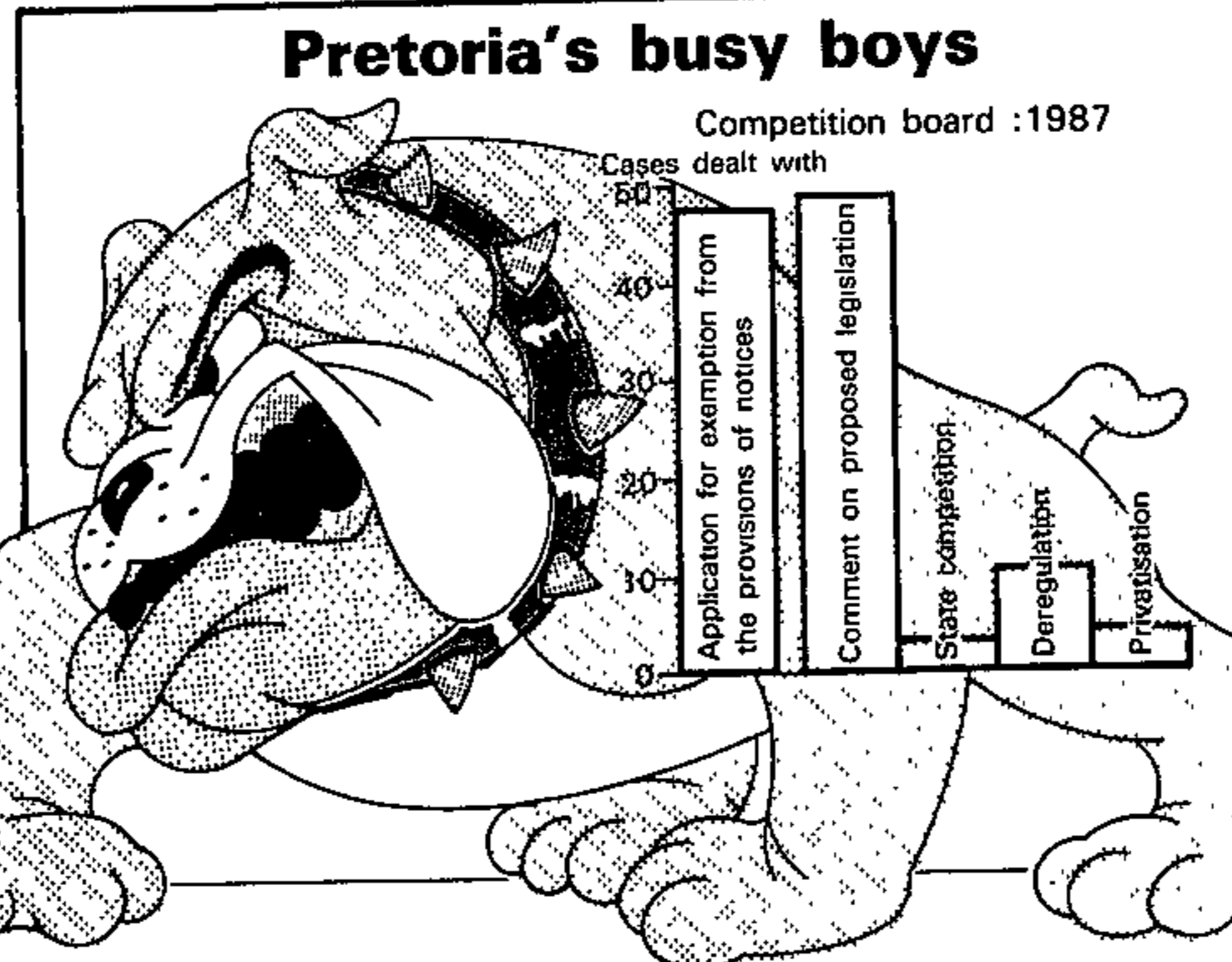
The Harmful Practices Bill will be administered by a Business Practices Committee which will fall under Minister of Economic Affairs and Technology Danie Steyn. Director general here, incidentally,

is Stef Naudé, ex-chief of the Competition Board (CB), which administers the Competition Act. He has yet to be replaced.

The CB falls under the newly created Ministry of Deregulation and Privatisation, under Dawie de Villiers.

Businessmen will have to live with the anomaly of being prosecuted under the auspices of a ministry that had nothing to do with creating the enabling legislation.

This, of course, draws attention to the political background to the Bill. Perhaps



Naudé was so frustrated with having so little success at the CB that he was able to muster a substantial case for more power in his new post.

How long will Naudé need to realise that his frustrations will be as great as before? There is no case, in the world, of government intervention having constructively fostered the functioning of the market function. On the contrary, the evidence today is that the more government withdraws (cuts taxes, shrinks bureaucracy, deregulates and privatises), the more healthy the functioning of the market mechanism.

The Bill will be virtually ineffective against businessmen who are not involved in criminal fraud or misrepresentation. To put this statement in a different perspective, consider that the Bill is based on antiquated, discredited concepts of the evils of monopolies, oligopolies, cartels, price-fixers, and so on.

For instance, to establish a monopoly in a free market would require perfect entrepreneurial foresight, both in the short run and the long run, regarding consumer demand, technology, location, material supplies and prices — and thousands of other uncertain variables. It would also require an unambiguous definition of the relevant market.

This, in turn, begs the question: what constitutes a harmful business practice? According to the draft Bill, it's "any agreement, arrangement or understanding, whether legally enforceable or not, between two or more persons; or any scheme, business practice or method of trading, including any method of marketing or distribution; or any advertising or type of advertising; or any act or omission on the part of any person, whether acting independently or in concert with any other person; or any situation arising out



of the activities of any person or class or group of persons, which directly or indirectly, has or is likely to have the effect of injuring the relations between businesses and consumers; or unreasonably prejudicing relations between businesses or consumers; or deceiving any consumer."

In plain words, that appears to mean that a harmful business practice is one thing only — whatever the minister of economic affairs and technology or his appointed Business Practices Committee choose it to mean.

The committee is given powers to institute investigations, demand documents and records, institute inspection and searches of companies' premises and order businessmen to appear before it in order — in an interesting choice of words — "to be interrogated."

The minister may then advise the price controller to fix maximum prices for goods and services. The minister can order individuals or businesses to end agreements or advertising campaigns, and — the ultimate sanction — dissolve companies and business groups or ban "any form of association" between individuals involved in harmful business practices.

Appeal against the minister's decision is

to a three-man panel appointed by the State President and comprising a Supreme Court judge, an economist and someone with "wide experience of industrial, commercial or financial matters."

Business opposition to the draft Bill has been almost wholehearted. While there is recognition of the need for consumer protection, the feeling is that this Bill is not the way to do it.

Assocom's William Lacey describes it as "no more nor less than price control," running contrary to previous government statements rejecting price and wage controls. He adds that busi-

ness must be represented on the Business Practices Committee: "You can't expect academics and bureaucrats to appreciate or understand business practices."

An official Assocom statement says the draft Bill "runs counter to the whole philosophy of deregulation and commitment to market-related policies."

The Federated Chamber of Industries (FCI) agrees. A spokesman says: "In the light of government policy to reduce expenditure and to deregulate the economy, this Bill could be considered contradictory to this policy."

"It is both over-regulatory and costly. The FCI questions the necessity for such wide powers of intervention into business affairs." Quite so.

The belief that this Bill will in any way contribute to a reduction in inflation is absurd. It means that government has no real understanding of how inflation is created or what it, the creator, needs to do to stabilise prices.

The inconsistency of this proposed legislation with government's declared policy of deregulation suggests either chicanery or ignorance. ■

INFLATION

Guilt and shame

Throughout history, governments have debased their currencies and blamed the resulting price inflation on greedy businessmen. It's time for businessmen to start fighting back.

Back in 300 AD, the Roman Empire debased its pieces of silver and gold, and Diocletianus blamed the resulting price surge on an old favourite: the avarice of monopolies.

Unwilling to deal with the source of the problem — money creation — the emperor fixed maximum prices for goods and labour and prescribed the death penalty for anyone who sold his wares at higher prices. The results were predictable.

A historian of the time wrote: "There was much blood shed upon very slight and trifling accounts; and the people brought provisions no more to markets, since they could not get a reasonable price for them; and this

It's both popular and populist to blame businessmen for inflation — meaning price inflation. It's also wrong. The root cause of monetary inflation is the printing of money — and for that Pretoria is to blame. It's time more businessmen struck back with the facts.

increased the dearth so much, that at last after many had died by it, the law itself was laid aside."

Diocletianus is only one in a long line of leaders who have tried to use force, threats and law to restrict the market's reaction to debased currencies.

After the Zambian government imposed sweeping price controls last year, essential

commodities disappeared from store shelves and the black market flourished — prompting President Kenneth Kaunda to send troops into Lusaka in December to burn down market stalls and arrest hundreds of illegal traders. "We are now getting tough with them, and this operation will be extended to other parts of the country," a police officer explained.

If black markets are tolerated or government officials can be bribed, the damage of price controls can be limited. Official statistics may show that prices aren't rising; in the real world, they are.

Enforced with totalitarian vigour, however, controls will destroy an economy.

And all for nought. Despite what interventionists keep saying, nowhere, ever, has it been shown that businessmen in a free market cause sustained rises in the price level.

dorses the call for self-discipline in both the public and private sector made by the State President." A *Business Day* headline in March sums up the confusion: "Retailers agree to help govt cut the inflation rate."

Granted, most of the public doesn't understand inflation. And businessmen might think it good public relations to sound like they're joining the fight against inflation.

But be warned. You can't argue that (a) inflation is a serious problem in SA; (b) wages and prices fuel inflation; and (c) the private sector must join the anti-inflation fight — and then be outraged when (d) government steps in to restrict wages and prices by law. Given the premise, you can hardly fault government's logic.

The problem is that businessmen have not disputed the premise that the private sector causes, or can fight, inflation.

So here's what we're faced with. Botha — displeased that businessmen who welcomed his anti-inflation speech have not been holding wages and prices down — appears to be threatening to force them to do so by law.



“The threat by the president to control wages and prices is one of the most serious threats made to economic progress.”

Raymond Ackerman

high, I'll become uncompetitive. Government doesn't have to worry about me.”

He adds: “The threat by the president to control wages and prices is one of the most serious threats made to economic progress. Inflation has been primarily caused by government and not by business, and I don't

The proposed Control of Harmful Business Practices Bill would allow sweeping, arbitrary price controls which would warm a socialist's heart. Punishment would be fines and jail terms, rather than burning down market stalls; but the anti-capitalist sentiment remains.

Some businessmen and public officials are questioning the wisdom of the government's strategy. Many more are needed.

Pick 'n Pay chairman Raymond Ackerman, angry at Botha's apparent criticism in parliament of his company's recent wage agreement, argues that government should get on with privatisation and leave the private sector to run the economy.

“It's the private sector's responsibility to price competitively,” he tells the *FM*. “If the salaries I'm paying my people are too

think business should take the blame.”

Says Brian Benfield, MD of AA Life: “Government cannot promote free enterprise on one hand and a wage freeze on the other. These two approaches cannot be reconciled.”

Courageously, Reserve Bank Governor Gerhard de Kock is publicly arguing that monetary and fiscal discipline, not government price controls, are needed — saying “direct controls would create more problems than they would solve.”

He's right. When money supply races ahead, prices must rise. “Successful” wage and price controls can only hide the cost. South African consumers will pay through black market prices or shortages of goods, Zambia-style.

Companies with the best lawyers and most friends in government will circumvent controls. This is no way to run a free-enterprise economy.

As the inflation debate hots up and the possibility of controls draws nearer, more businessmen must step forward and speak out. They must stress that they can do nothing about monetary inflation, which is the full responsibility of the Bank and government.

And they must argue that they cannot cause a wage and price spiral. A business prices its goods only as high as consumers will allow and pays its workers as much as is necessary to recruit and retain a competent work force.

Inflation is government's folly, not businessmen's fault: that's the message Pretoria needs to hear. ■

COMPETITION BOARD

Silence isn't golden

Has anyone seen the Competition Board (CB)? Once a vocal frontrunner in attempts to police business and encourage competition, it has become conspicuous by its silence.

The board, which framed legislation outlawing cartels and business collusion, appears to have gone to ground since former chairman Stef Naude left to become director-general of Trade and Industry.

Acting chairman Hennie Bekker says the CB is carrying on business as usual. It continues to investigate and advise government on dere-

gulation, competition and economic concentration, but there are signs some of its work is in danger of being overtaken, or that new legislation will make it redundant.

The draft Control of Harmful Business Practices Bill (see *Leaders*) threatens, by its very vagueness, to hijack some of the provisions of the CB-initiated Maintenance and Promotion of Competition Act of May 1986.

The board is responsible for policing the prohibition of price maintenance and collusion, as well as collusion on conditions of sale, market sharing and tendering.

The draft Business Practices Bill allows for immediate action against any business or profession guilty of "injuring relations" or "unreasonably prejudicing" consumers. Such a loose definition can encompass matters which the CB polices under the Competition Act. Law breakers under the new Bill can be jailed for five years and fined R200 000, and companies may be dissolved.

No one has ever been prosecuted under the Competition Act. Although former chairman Naude claimed prosecutions were imminent, none have taken place. Acting chairman Bekker says complaints have been passed on to the SAP Commercial Branch. But the police maintain they have received nothing and no investigations are under way.

Pick 'n Pay chairman Raymond Ackerman says price fixing won't end until senior businessmen are hauled before the courts. "But the CB can't be expected to do its job as long as blatant forms of price fixing — in petrol, TV sets, liquor and bread — still have government blessing." Assocom economist Bill Lacey says: "The marketplace needs to be policed if it's going to be run effectively."

One problem is that cartels and price fixing have reappeared under a new guise. In the case of certain professions, statutory tar-



Stef Naude ... no successor in sight

iffs have been replaced by a "recommended" scale, which, in practice, amounts to the same thing. And in industries with only a handful of producers, price fixing reappears as "spontaneous price following."

Another problem has been that the Competition Act was followed immediately by dozens of exemptions. The draft Business Practices Bill threatens immediate action but two years after the Competition Act, the CB is still investigating exemption applications.

The last major investigation, into the cement cartel, should be decided soon. Bekker says the CB hopes for a decision in August — but it may have to defer it again.

A more immediate problem is the question of a permanent chairman. Bekker says the "suddenness" of Naude's elevation left little time to appoint a successor, but it's six months now since the announcement of his promotion and two since he actually left.

The longer the delay in appointing a successor, the more questions will be raised over the CB's future. The delay has already raised questions over whether anyone wants the job or whether the CB will have to settle for second-best. ■

MANGANESE

PE or(e) Saldanha?

The Cabinet is to decide this week whether to reverse an earlier ruling and allow manganese ore mined in the northern Cape to be exported through Saldanha Bay.

An earlier ruling declared that all manganese ore mined in the region should be shipped through Port Elizabeth.

This has cost SA dearly. International

steelmakers insist that their shipments of iron ore and manganese ore should be carried in the same bulk carrier, of at least 250 000 t.

But Port Elizabeth can handle ships of no more than 60 000 t. While it can handle parcels of high-grade ore, it is uneconomic to use it for huge cargoes of low-grade ore — so foreign steelmakers have tended to buy their iron ore in Brazil and manganese ore in Gabon or Australia.

Saldanha Bay is ideal for this type of business. It is linked by a railway line completed in 1977 to Sishen, where Iscor can supply the steelmakers' iron ore and is as close as Port Elizabeth to the northern Cape manganese mines.

The harbour, reputed to be the best natural harbour on the coast of Africa, has a water depth of 23 m next to the ore quay and regularly handles vessels of 250 000 t and bigger.

SA Harbours desperately wants Saldanha Bay — which is being used to about 50% of its design capacity of 1,8 Mt a month — to be used for manganese exports. But it also wants to maintain some level of traffic through Port Elizabeth, so has specified that only low-grade manganese ore may be shipped through Saldanha — and then only

TAIWAN AGREEMENT

SA should thank heaven for small mercies. At a time of international sanctions, she can still count on a fruitful relationship with Taiwan.

In the ninth session of the forum for this co-operation — the Economic and Technical Co-operation Conference — which ended on Monday, Economic Affairs and Technology Minister Danie Steyn and his Taiwanese counterpart T H Lee signed a number of agreements.

The most important was a plan to exchange agricultural technicians and study the different methods of agricultural production used in the two countries. They also agreed to co-operate on developing the jewellery industry. Trade, fisheries, mining and the inevitable plea for further Taiwanese investment in SA were also on the agenda.

In the 13 years since SA concluded a most-favoured-nation agreement with Taiwan, there have been numerous bilateral agreements in areas as diverse as medicine, air transport and mining research.

No dramatic upswing likely

Star 30/1/88

49

The present consolidation phase on the Johannesburg Stock Exchange will most probably last until the middle of next year, says Mr George Huysamer, senior partner of the firm that carries his name.

However, he says, this does not mean investors — large and small — should refrain from making prudent and long-term equity investments.

Many shares quoted on the JSE now offer very good values, equal to average long-term values.

"Most small investors enter the market during the last 10 percent of the bull market. Just as nobody can accurately predict the top of the bull market, so no one can say when the market has reached bottom."

Mr Huysamer made it quite clear he did not foresee a dramatic and sustained upswing in the local stock market. The current performance of the equity market is already discounting the slowdown in economic growth, widely predicted to commence sometime during the first half of next year.

Looking into his clouded crystal ball, Mr Huysamer says the combined effect of rising interest rates, a depressed gold price, wage and salary disciplines being imposed and pressure on the current account of the balance of payments, is bound sooner or later to have adverse effects on company earnings. This is what the

MAGNUS HEYSTEK

lacklustre performance of shares on the JSE — despite sparkling results — are discounting.

When making investment decisions, four important criteria should be used. They are price earnings and dividend yields, dividend yields compared with alternative investments, inflation and the price of gold.

Assuming that the earnings of industrial companies will rise on average by 25 percent this year and that the JSE will remain at present levels, it places the stock market on a price earnings ratio of 7. This compares very favourably with an average of 8,8 since the beginning of this decade.

Assuming an increase of 20 percent in dividend payouts over the next 12 months will increase the average dividend yield to 5 percent. This compares very favourably with the average of 4,9 percent this decade.

Using the relative level of interest rates as a measure, Mr Huysamer points out that Treasury Bill rates are currently 7 percentage points higher than dividend yields, compared with an average of 7,5 percentage points since 1980.

Mr Huysamer also notes the long-term relationship between the gold price and the JSE industrial index.

Government advisers fear a downturn in wake of mini-boom

Star 30/4/88

49

FINANCE STAFF

Economic advisers to the Government are worried that the sudden mini-boom could be followed by an equally steep downturn.

This was disclosed by the Minister of Finance, Mr Barend du Plessis, when he opened a Stellenbosch Business School conference on economic prospects at Bellville yesterday.

Mr du Plessis said there were two schools of thought among his advisers: those in favour of letting the growth rate decline naturally and those who believed steps should be taken to curb it.

Discussing the sudden and rapid growth in the economy, Mr du Plessis said there was alarm at its rate, with some of his advisers expressing concern that current growth would be followed by a steep decline.

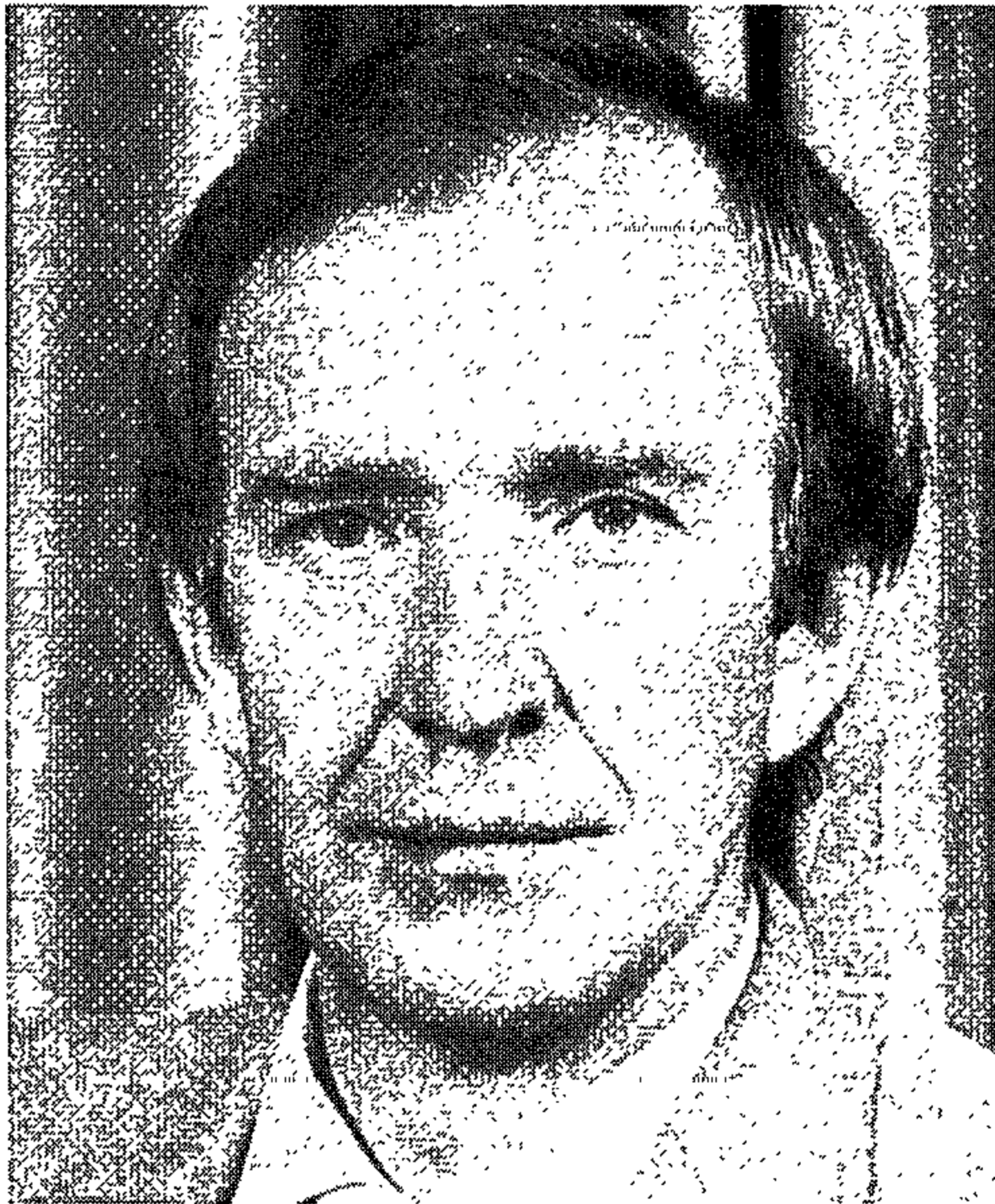
"Some say the growth rate will decline naturally, but others feel it should be curbed; a great debate is on the go about the subject at the moment," he said.

"The gross national product (GNP) increased by five percent in the last quarter of last year and the gross national expenditure (GNE) by six percent.

"Estimates for the March quarter are that GNP was four percent. There is too much money available and this is mostly due to bank credit. In 1987, outstanding bank credit increased by several billion."

Mr du Plessis said fiscal policies were well-organised, but the monetary policies should now be addressed.

This should be done in such a way, however, that it would not



Barend du Plessis: a great debate on the go

have the same results as those experienced in 1984 when the recession hit.

"In the short term, we should deal with the constraints placed upon us — we have to adapt to working under the ceiling conditions set for us — but in the long term we should work towards removing those constraints," he said.

Tax experts working to find loopholes in the tax system

would have serious competition in future, Mr du Plessis said.

He warned loophole hunters that attempts would be made to stop the leap-frogging process resulting from attempts to close holes in the tax system and said the integrity of the system would be protected.

Suggestions of the Margo Commission accepted by the Government would be implemented as rapidly as possible, he said.

DID. 215188

Clampdown on credit?

49

**Daily Dispatch
Correspondent**

CAPE TOWN — The government is expected to take steps to put a brake on what it perceives to be an unacceptable explosion in consumer credit.

The Minister of Finance, Mr Barend du Plessis, has voiced the government's concern at certain trends in the economy.

He was speaking at a conference on future economic prospects organised by the University of Stellenbosch's Business School.

His comments reinforced the warnings issued to the financial sector by the Reserve Bank.

Several economic indicators, such as the money supply figures, growth in consumer credit and the impact these could have on

South Africa's current account on the balance of payments, were matters for concern, he said.

Money supply figures for the first quarter of the year were way above what they should be; consumer spending and credit creation had become excessive; and the current account on the balance of payments was caught up in a squeeze — partly as a result of the debt standstill and the conditions now emerging domestically.

These trends created a dilemma — whether to continue with the stimulatory measures or put the brakes on.

Mr Du Plessis said he believed the recent pattern of growth had been good, with government encouragement through fiscal means.

However, there was need for greater control.

Long-term changes⁴⁹ are vital^{3/1/84}

HOUSE OF ASSEMBLY

— It was vital that there be long-term structural changes in South Africa's finances to enable inputs to growth which would not affect the balance of payments, the PFP spokesman on finance Mr Harry Schwarz said yesterday.

In its present delicately balanced political situation the country could not live with slight upswings followed by massive downturns and accompanying increases in structural unemployment.

Speaking during the finance vote committee stage debate, Mr Schwarz, said businessmen needed reassurance on the Harmful Business Practices Bill.

They should realise that consumer exploitation did not only affect inflation and the economy but race relations as well. — Sapa.

Soaring food prices putting constraint on economic growth

By Tom Hood

CAPE TOWN — Soaring food prices are taking too large a slice of the consumer's income, says a leading industrialist, Mr Mike Getz.

As a result, sales of clothing are 40 to 50 percent less than they should be and there are 200 000 fewer people employed than there could be, he claims.

The basis of the consumer price index was changed last year to reduce the weighting of food and as a result the latest figures claim that food prices have risen only 16,5 percent in the 12 months to March 31.

Inflation for the country as a whole was 13,4 percent in March, as measured by the official price index.

Mr Getz, president of the Cape Chamber of Industries, blamed high food prices for preventing the "emerging consumer," mainly black, from buying other goods and providing real growth in the economy.

Significant

Typically, he says, this consumer, whose earnings fall into the lower third segment of incomes generally, would be expected to devote some 15 percent of disposable income to clothing.

That the consumer could afford to spend only some 8 percent had vital significance for growth in the country.

"As a developing country and probably by any other criterion, the cost of food is the single most important constraint on a balanced pattern of consumption,"

he said in a paper delivered to the Business School of Stellenbosch University.

"This expenditure in the typical household denudes and denies it access to a broader spectrum of goods.

"Economic and other reform, which does not come to grips with this appalling state of affairs, is not addressing a fundamental problem."

Mr Getz said he stressed the issue of domestic consumption in rather specific terms by relating potential output to existing needs for manufactured goods.

Distorted

Apparel and textiles were merely an example of the crippling distortions industry in this country had to contend with.

"With sales of clothing 40 to 50 percent less than they should be, we live in a situation where there are 200 000 fewer people employed than there could be. Not to mention replacing our rather expensive maize production with the growth of cotton," he added.

"The price of food here takes too large a share of the consumer's income. In too many sectors, including clothing, the consumer index is whoppingly higher than prices at the production level.

"There is no evidence to indicate that these factors benefit the economy — in fact quite the contrary. This could be a real example of the poor productivity characterising much of South Africa's capital-intensive activity."

Daily Dispatch
Correspondent

CAPE TOWN — The government's industrial decentralisation programme has again been attacked, being described as an indefensible wastage of economic resources not helpful to meaningful development within the country.

The strong criticism is contained in a detailed study of the programme, commissioned by the Federated Chamber of Industries (FCI).

The economic consultant to the FCI, Professor P. Haasbroek, who headed the investigation, outlined the findings at the FCI's executive council meeting yesterday.

Prof Haasbroek criticised the logic involved in implementing the decentralisation programme and said there were few factors on the credit side of the decentralisation policy.

He said decentralisation incentives handed out since the latest scheme was introduced in 1982 amounted to R1,6 billion.

Of this total 39 per

Decentralisation a waste of resources professor

11/10 4/15/88

cent, or R609 million was spent on transport concessions, 20 per cent on labour grants and interest-free concessions, 7 per cent on electricity, 6 per cent on tax concessions, 5 per cent on re-location costs, and 3 per cent on housing.

According to the research the decentralisation programme had done very little to create extra employment opportunities, leading mainly to a re-location of industries.

It had led to serious doubts about the permanence of the industrial base established in these decentralised areas, and on their ability to sustain existing employment opportunities.

More important, said Prof Haasbroek, the decentralisation policy was producing an allocation of resources which was inimical to economic growth and the expansion of em-

ployment opportunities in the country as a whole.

"Although industrialists are compensated by the incentives for the additional costs, it is still an economic loss to the community."

The track record thus far suggested that jobs created in the decentralised areas were in fact merely a transfer of jobs from the metropolitan areas.

Because of the much higher cost per job in the decentralised areas, the policy represented a higher cost with no significant benefit to the community.

The possible restriction of industrial growth in the metropolitan areas not only caused a stagnation in employment, but also resulted in the actual destruction of employment opportunities.

During the first five years of the regional development plan, 137 467 jobs were created in the decentralised industrial points.

At the same time about 150 000 employment opportunities disappeared from the South African economy.

The metropolitan areas therefore lost about 290 000 employment opportunities.

Of almost R4 billion spent on regional development during the first five years of its existence, R2,3 billion was invested in projects and R1,5 billion on the incentive scheme.

Expenditure on incentives amounted to R11 500 a job.

The amount of R315 million that was spent on tax free cash grants in wages made labour cheap, or even in effect free.

"This is clearly an indefensible wastage of economic resources."

"It could increase the cost structure of South African manufactured goods, thereby making South African industry less competitive in domestic and international markets."

Another study had indicated that only 23 of a sample of 35 firms which were located in decentralised areas should have been subsidised on economic grounds, while 17 of the 23 had no need for subsidisation.

Durr at FCI P11

W weaker trade figures signal tougher economic restraints

Star 4/15/88

By Sven Linsche

The release of first-quarter trade figures could well be the signal the monetary authorities have been waiting for before implementing a package of economic restraint measures.

The figures, published by the Commissioner of Customs and Excise yesterday, show the trade surplus in the first three months of this year was almost 50 percent down on the R3,6 billion surplus in the first quarter of 1987.

Trade exports from January to March amounted to R10,573 billion and imports to R8,680 billion, resulting in a reduced surplus of R1,894 billion.

News of the diminishing surplus comes on the eve of an expected monetary and fiscal package, which should help curb rampant consumer demand and prevent the economy from overheating.

As a result of buoyant consumer spending, combined with a weaker rand, the value of imported goods has been rising, placing the current account of the balance of payments under pressure.

This is confirmed by the figures. The diminished surplus was largely the result of a rise in the value of imports to over R2 billion, while exports between the first quarters of 1987 and 1988 remained largely stagnant.

A further indication of this trend is the fact that imports of machinery, mechanical and electrical appliances and accessories soared by almost R1 billion to R2,696 billion over the period.

South Africa needs to maintain a viable surplus in order to meet its foreign debt commitments and finance local infrastructure developments in the absence of foreign investments.

Says Old Mutual's chief economist Dave Mohr: "It is unlikely that the cur-

rent upswing in the economy will match that of 1978 to 1981, because of balance of payments constraints."

Writing in the groups latest *Economic Monitor*, he says: "With the painful experience of correcting the balance of payments and inflation problems that followed the 1980/81 and 1983/84 upswings still fresh in minds of policymakers, a change in the overall fiscal and monetary policy stance has become apparent.

"The balance of payment position is going to play a major role in monetary policy decisions and it is likely that short-term interest rates will continue rising in the coming months."

Wage restraint

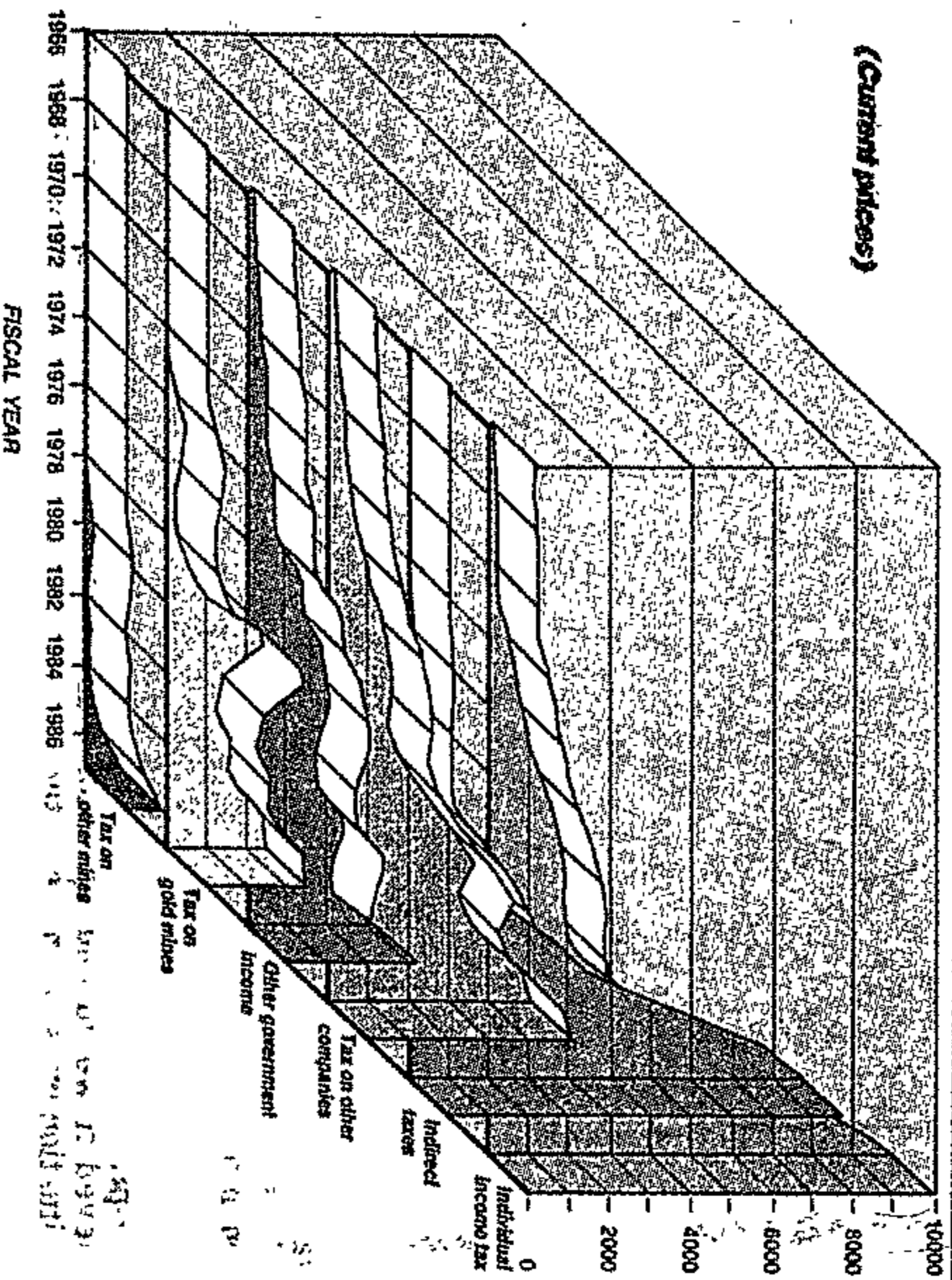
Mr Mohr believes the change in the authorities' fiscal and monetary policy, coupled with wage restraint in the public sector, will have an impact on the economic outlook.

"Although the 1987 private consumption expenditure growth of close to four percent now seems unlikely to be exceeded, we still expect to see further growth in consumer spending in 1988.

"The growth stimulus in 1988 is also likely to come from fixed investment activity. The adverse influence which the shift in economic policy will have on economic activity probably will not be felt as soon as this year."

On prospects for inflation Mr Mohr writes: "Inflation is approaching a bottom area and could start rising again during the year. This rise will be caused by a weaker rand, a tighter labour market and a continued recovery in domestic demand.

"Government action to curb inflation, such as no general salary increases to civil servants and freezing of postal and telephone tariffs, reduces the possibility of a sharp rise in inflation at least during this year."



Current Programmes:
Workshops on
in general.

Consumers in the noose of debt traps

By Michael Chester

Consumers are confused by sudden Government orders to slam the brakes on their current spending spree — and why the signals flashed by the economic robots manning the cash tills have turned from “green” to “red”.

When they started to boost flagging retail sales a few months ago they were applauded for the display of renewed confidence in their spending habits. Now they are being told to cool it.

Warnings from the Government about an overheating in the economic revival, usually enmeshed in economic mumbo-jumbo that skims above their heads, adds to the confusion.

The reasons behind the concern centre on the phenomenal climb in the amount of buying on credit — rather than cash — and the ability of consumers to handle the debt load they have amassed in the spending spree.

New credit

Mr Paul Edwards, managing director of the Information Trust Corporation (ITC), which monitors the credit record of no fewer than five million businesses and individual consumers, has noted that applications for new lines of credit — either by hire purchase deals, bank loans or borrowing on mortgages — are now running at unprecedented levels.

He is also concerned about sharp increases in the number of rubber cheques that bounce on retailers when they come to cash them at the banks or building societies.

The big debate now in progress is how the Government should handle the problem — and who's to blame if consumers find themselves in the noose of more debt traps.

Dr Azar Jammie, director of the Econometrix research unit, has no hesitation in pointing the finger at a main culprit: “Why have we landed in this mess? Because Government spending has stayed on a relentless upward curve and it has found no alternative to higher and higher taxation — a principal cause of the erosion in personal disposable incomes.

Heavier tax bill

“Whatever the concessions announced in the 1988 Budget, the total income tax bill is growing heavier — and so, too, the burden of general sales tax, which may worsen on many items when VAT comes in next year.

“South Africans, trying to maintain their standard of living, have already dug deep into their savings. When the piggy-bank is empty, there is only one option — borrow.

“It happened with the credit explosions we saw earlier in the 1980s — and it is happening again now.”

Dr Jammie points to the official statistics compiled by the SA Reserve Bank. They show that while salaries and wages soared from R28,6 billion in 1980 to R84 billion last year, actual private consumption expenditure raced ahead in a climb from R35,4 billion to over R95 billion.

Fortunately, actual pay packets were padded out by extra income from any property they owned, such as rent, and other oddments. But the close shave be-

Spending spree has spun out of control

Stev 4/1/88

tween income and expenditure already caused personal savings to shrink from above R4,3 billion to under R2,7 billion a year.

Also to be taken into account, says Econometrix, is the population explosion. The overall growth in the gross national product has been modest even on its widest measurement. But when all the additional heads are counted, Reserve Bank figures concede that GNP, on a per capita basis, has actually shrunk — the acid test of trends in living standards.

It all makes Dr Jammie more and more fretful about the prospects of consumers eventually digging themselves out of the growing load of debts.

Fuelling boom

“The current economic recovery is riding on the back of consumer spending. But a boom fuelled by demand for credit carries its own seeds of destruction.

“The urgent need now is more self-discipline by the big financial institutions, the banks and building societies, which have been falling over themselves to extend credit to customers in the tussle to expand business.”

ITC's Mr Edwards also advocates more self-discipline — by consumers as well as the financial institutions.

What will happen to the ability of borrowers to keep up with debt repayments if interest rates start a rapid rise and mean bigger monthly repayments on home bonds and HP agreements?

Mr Edwards doubts that rates will soar to the 25 percent level they hit in the big clamp-down ordered by the Government in 1984. But he does forecast jumps in basic rates to around 16 percent in the next few months — perhaps enough to break the budget of many borrowers who have drawn a fine line.

“Consumers should think back and remember the lessons it was assumed they had had to learn the hard way.

“That's not to say there is anything wrong with buying on credit. What's needed is a more responsible approach to credit...”

Agriculture and the economy

sowetan 5/5/88

(Handwritten scribbles)

49

BY AN ECONOMIST

LIKE other developing countries, South Africa has seen its agricultural sector decline as the mining and manufacturing sectors have grown.

In 1911, one year after the establishment of the Union of South Africa in 1910, agriculture's share of goods and services was around 22 percent and its share of employment was about 64 percent.

In 1986, agriculture contributed only 5,7 percent to the gross domestic product of South Africa. Almost the entire contribution comes from the white dominated commercial farming sector.

Commercial farming has grown dramatically in the past 60 years. Whereas in 1920 South

Africa was forced to import food, we are not significant food exporters. Agriculture accounts for a significant portion of South Africa's foreign exchange earnings excluding gold.

The trend in commercial farming has been towards increasing automation and mechanisation thus slashing the manpower requirements.

Government, by way of its pricing and tax policies has encouraged the development of agricultural control boards which essentially constitute monopolies and create upmarket related prices which are invariably over-priced.

The control boards offer protection to farmers which encour-

ages a certain amount of inefficiency. This also raises costs for the consumer.

A result of all the regulations surrounding agriculture in South Africa has been the growth of informal sector agriculture where agricultural products find their way through to the market bypassing one of the 20 agricultural control boards. The transactions are unrecorded and are therefore not taxed.

Government policy has favoured capital intensification by way of substantial tax allowances for investments in capital goods.

The fact that farmers pay relatively little tax is no coincidence eg: tax

values on livestock are substantially lower than their market price. In addition the production or income earning season of farmers runs contrary to the financial year.

This may make it easier for farmers to say buy up a few thousand head of cattle prior to the year-end in order to show a tax loss and then sell them at the beginning of the following financial year at a profit.

The policy of favouring capital intensification at the expense of labour is to an extent backfiring as the cost of agricultural equipment, most of which is imported, is rising astronomically due to the relative depreciation of the rand.

Most of South Africa's agricultural imports come from the United States, Germany and the

United Kingdom.

The rand has depreciated heavily against these currencies.

We are presently running at around R4 to one pound and R2,15 to one dollar.

Agricultural debt is currently running at R13,5 billion rand. The debt is financed by the Land and Agricultural Bank, commercial banks, agricultural co-operatives, agricultural credit and land tenure and private persons.

While South Africa's foreign debt of over R20 billion is treated as a potential national current account crisis, the agricultural debt in South Africa is hardly mentioned with the same degree of gravity.

Ever since the creation of the Union of South

• To Page 16

P.T.O.

(Handwritten marks and signatures)

• From Page 14

Agriculture and the economy

Africa in 1910, the white farming community has constituted a very strong support group for the National Party.

Their interests are thus politically very sensitive issues which the Government cannot afford to ignore. This has resulted in markets being rigged in favour of the farmers and at the expense of the consumer who feels the impact through the rising price of agricultural products.

The producer and retail monopolies control the intermediate stages of the shift of the goods from the farmers to the

consumers (eg: Premier Milling). This makes the consumer even more vulnerable as price-takers especially when the prices may be completely unrelated to the market price.

The consumer price index (CPI) for food is a major contributor to consumer price inflation in South Africa. In October last year, the annualised CPI index for food was 22,6 percent vs a 15,6 percent overall inflation rate in South Africa.

The index has since decreased slightly but food still contributed more than one third to the monthly rise in the index in March as opposed to February this year. Vegetables were up by 9,4 percent; sugar by 4,4 percent; milk, cheese and eggs by 2,8 percent.

Maize is the main crop in South Africa accounting for around 20 percent of total agricultural production. The last successful maize crop was harvested in 1980/81.

Since then, the 1982-1984 drought, which continued until 1986 over large parts of the summer-rainfall area excluding Natal, has caused the maize farmers a lot of hardship.

Maize exports have also suffered due to the current glut of grain on world markets whose

origins can be traced back to the oil crisis of 1974 when the price of nearly all commodities hit the roof.

The higher prices encouraged over-production on world markets. The situation in South Africa was further exacerbated as maize farm subsidies skewed production in favour of maize farming and away from dairy farming etc. The effect on the consumer has also been one of increased costs.

Had the prices of agricultural products been market related, the over supply would have been reflected in lower prices much earlier.

Instead, markets were rigged.

Examples of this in South Africa are the stock-piles that were built up for instance by the Rooibos Tea Board or by the topping up of producer prices by the Wheat Board.

In other cases the Government helped rig markets indirectly by encouraging and facilitating the formation of producer cartels eg: KWV.

The crisis of the maize farmers is often expounded as the crisis of agriculture in South Africa. This is misleading as beef, sugar, wool and deciduous fruits are currently doing very well.

Agricultural exports are well supported by the lower rand/dollar exchange rate which makes South Africa's produce more competitive on world markets.

The international scenario in South Africa is directly affected by the

state of agriculture abroad. There is some indication that the very low prices of agricultural products may be bottoming out.

Still the scenario is not particularly favourable as growth prospects worldwide are not very positive.

Moreover, there is a worldwide surplus of grain which affects SA directly as maize and wheat are our main agricultural exports.

Stock levels worldwide are also exceptionally high and at this stage, the

grain supply by far exceeds the effective demand. There are also price support and protectionist measures which protect producers in the USA, the EEC and Japan.

Although the rand is expected to go lower thus making our exports more competitive, the higher cost of capital equipment, the inefficiency of the control boards, sanctions against SA's exports and the surplus of many agricultural products abroad will continue to pose severe problems to agriculture over and above natural disasters such as droughts and floods.

Has SA an informal 'Grossly Deceptive' Product?



□ INFORMAL TRADER ... is her contribution to GDP ignored?

GRETA STEYN

ECONOMIC growth is measured by changes in Gross Domestic Product (GDP), which represents the total output of an economy. But the question can be asked whether GDP manages to capture all goods and services produced.

"Grossly Deceptive Product" is how a recent article in the Economist referred to GDP. It asked the question: "Are the numbers on which governments base their economic policies wrong?"

Changes in real GDP may not be a true reflection of "economic growth," as the contribution of the so-called informal sector is ignored.

SA's official statistics are troubling. Growth is inadequate to meet the burgeoning demand for employment. Economists estimate that a growth rate of at least 5% to 6% in real GDP a year is required to cope with employment needs in the next few years.

Instead, 3% seems to be about the limit before balance of payments constraints come into play.

Stellenbosch economics Professor Sample Terreblanche says the secular stagnation of the SA economy over the last 13 years caused a dramatic decline in the creation of job opportunities. At the same time, per capita incomes declined by about 1% every year.

From 1960 to 1974, 160 000 job opportunities were created every year. Since 1974, only 60 000 job opportunities were created annually, while 300 000 people enter the job market every year, according to Terreblanche.

How do people survive in the face of these statistics? Or do the figures not tell the whole story?

While economists run econometric models to forecast growth -- and hence employment opportunities -- the shadow economy thrives.

The Small Business Development Corporation's Ben Vosloo recently noted that one estimate of the size of the unrecorded economy in the US was as high as 20% to 30% of GDP.

"In SA it would seem that the unrecorded sector is equally prevalent. It is currently estimated that more than 500 000 businesses out of one million in SA are unrecorded, providing an income base to as many as 3.5 million people," Vosloo said.

But the Economist noted in its article that the different measures to estimate unrecorded activity produce wildly different results. Estimates of America's black economy

is not so much the actual size of the informal sector relative to GDP, but rather whether unrecorded output is growing as a percentage of GDP. In other words -- is the informal sector growing faster than the formal sector? If the answer is yes, then real growth in GDP is understated and not a reflection of "economic growth".

Economic indicators and surveys show that the unrecorded sector's contribution to "economic growth" is probably becoming more significant.

UCT economics Professor Brian Kantor regards currency demand in SA as "compelling evidence" of unrecorded economic activity.

Kantor, writing in an issue of *Intercom*, says South Africans should be using relatively fewer notes to transact their activities -- credit cards, interest on deposits and the availability of credit should result in less cash in the economy.

But the opposite is true. The note issue has been growing much faster than the other media of exchange.

The latest Reserve Bank Quarter-

ly Bulletin shows that notes and coins in circulation grew by 20.6% to December last year from the previous year. By comparison, cash in the hands of the public grew by only 14.3% between 1982 and 1983.

Kantor says official spending figures are not in line with the sharp growth in cash. Spending in the economy is -- officially -- significantly lower than one would expect when looking at the notes in issue.

In the past, there was a tight relationship between currency demand and spending.

"If the past relationship between notes and expenditure were taken as the proper measure of expenditure growth rates in spending would have been significantly higher over the past 10 quarters."

This approach to the informal sector's contribution to GDP growth yields a figure of between 6% and 10% of GDP -- and growing.

Turning to the different measures of GDP, Kantor noted that, since the second quarter of 1985, the expenditure measure of GDP had been re-

duced by substantial amounts to bring it into line with output or income GDP.

"My intuition is that the numbers are not telling the full story, partly because the sample surveys are not in touch with new realities and because expenditure measures are intrinsically more reliable than output or income measures," Kantor says.

SA's real economic growth was 2.6% last year -- or was it?

New shape of government

IN THE text accompanying the diagram of governmental structures on this page yesterday, the horizontal and vertical divisions of government were transposed. Government was correctly shown in the diagram as divided vertically into own and general affairs, and horizontally into central, regional and local government levels. Readers who have kept the text for reference may wish to update it by appending this correction ...

South Africans growing steadily poorer

THE performance of the economy over the past five years had been dismal and South Africans had on average been growing steadily poorer, Cedric Savage, chairman of the Toncoro Group, told a meeting of the South African Poultry Association. Gross domestic product had increased by only 4,6 percent in the past five years while the population had grown by 13 percent. Savage said fixed investment over the last five years had dropped by 31 percent. Demand (in volume terms) for building materials and motor cars dropped by 30 percent during the recession. — Sapa.

5-12-1978

W. Mead

49

① No

SA's economic revival continuing — Barend ^{D/D (49)} 5/5/88

Political Correspondent

CAPE TOWN — Indications are that the revival of the economy, which acquired strong momentum in the fourth quarter of 1987, continued in the first quarter of 1988, the Minister of Finance, Mr Barend du Plessis, said yesterday.

"The volume of manufacturing production, measured at a seasonally adjusted annual rate, rose by about 18 per cent in the first quarter of 1988 compared with the fourth quarter of 1987.

"Wholesale and retail sales, in constant prices, rose by 15 per cent and 4 per cent respectively; new car sales rose by 35 per cent; while the volume of merchandise imports and the value of building plans passed also rose sharply.

"This accelerated tempo of economic activity was accompanied by an increase of 24 per cent (at a seasonally adjusted annual rate), in the broad money supply).

"The rate of bank acceptances, for example, rose from 9,50 per cent on 31

December 1987 to 11,0 per cent on 31 March 1988, and to 11,85 per cent on 3 May 1988."

However, it was common knowledge that the gross domestic product was already rising at an annual rate of nearly 5 per cent in the fourth quarter of 1987, while the gross domestic expenditure rose at annual rate of six-and-a-half per cent.

It appeared that the gross domestic expenditure had subsequently risen at a still higher rate.

"The downward trend in the inflation rate has been very encouraging: the rate of increase in the consumer price index (measured over a 12-month period) fell from nearly 21 per cent in January 1986 to 13,4 per cent in March 1988.

"This improvement in the general economic situation is to be welcomed.

"Given the restraints under which the economy is labouring, however, it is necessary that the upswing be held within affordable limits, so that it may continue as long as possible: in the long term we shall thereby reap its fullest benefits," Mr Du Plessis said.

041
41.4751
V.H. to Doury

De Kock explains bank rate hike

JOHANNESBURG — The Reserve Bank decision to raise the bank rate from 10,5 per cent to 11,5 per cent with immediate effect is part of a package of economic stabilisation measures, according to the Governor, Dr Gerhard de Kock.

The Reserve Bank has also requested all banks and building societies to slow down the rate at which they are expanding their credit to the private sector.

In particular, it asked that the institutions practise restraint in extending consumer credit and granting mortgages to finance luxurious private homes.

Dr de Kock said "The decision follows a marked further improvement in domestic economic conditions and an increase in real gross domestic expenditure during the first quarter of 1988 to a level more than 10 per cent higher than in the first quarter of 1987.

"While the upsurge in demand imparted further momentum in real output and income, it showed signs of imparting undue pressure on both domestic resources and imports, at a time when exports were declining.

"If not curbed timely, the rise in spending might result in new demand inflation, balance of payment difficulties and downward pressure on the exchange rate of the rand."

He said that during the first quarter of the year that total credit granted by the monetary institutions rose by an annual rate of 26 per cent, after only rising by 22 per cent on average for the whole of 1987.

To support this increase in demand for credit, the banks had to obtain additional reserves from the market and their efforts to do so placed upward pressure on short-term interest rates.

The Reserve Bank continued to moderate the upward movement in interest rates and it now deemed it imperative to restrict its own credit creation.

Following discussions held with the banks and buildings societies, the Reserve Bank had decided to introduce the following measures:

It intends to reduce its lending facilities to the private sector and will only use its accommodation facilities to smooth out large month-end and other seasonal fluctuations in the money market.

Accommodation through the discount window will only be provided by rediscounting or extending overnight loans against the security of liquid assets. Only in exceptional circumstances will overnight loans be extended against the security of non-liquid assets.

The Reserve Bank's rate on overnight loans to discount houses will be increased by one per cent. This means that that the rate is raised from 12 per cent to 13

per cent for overnight loans covered by treasury bills and short-term government stock, from 12,25 to 13,25 per cent for loans covered by liquid bank debentures and bills and from 12,75 to 13,75 per cent for loans covered by liquid bank acceptances.

Reserve Bank overnight loans to banks will increase by one per cent.

Overnight loans to banks in exceptional circumstances against the security of non-liquid assets will be granted at 16 per cent for the first day and this rate can be increased for any bank that might make excessive use of this facility.

The bank also stated: "The prevailing tendency for the demand for home loans to outstrip the supply might well result in further upward adjustments in the home mortgage rates of banks as well as building societies."

The bank hopes that the effects of the new restrictions of accommodation policy will encourage importers and exporters to make more use of foreign based trade credit facilities.

It expects a growth rate in the Gross Domestic Product of between two and three per cent for the current year. — DDC

49 B/day 5/5/88

Barend spells out clamps on growth

FINANCE Minister Barend du Plessis yesterday unveiled measures aimed at restraining total economic growth.

He emphasised in a statement that the aim was to contain the recent excessive growth in expenditure, fuelled by credit, which could in the long run do more harm than good.

The new measures are:

□ The debtors allowance on sales tax payments will be phased out over a period of a year. At present, half the tax due on a purchase is paid immediately with the balance over the life of the hire purchase agreement.

Legislation would be included in the 1988 Income Tax Act Amendment.

He said the effect would be that the allowance of any tax period beginning before July 1, 1988, would be reduced by 5% at the beginning of each month, so that the allowance would be fully phased out by April 1, 1989, before VAT commenced;

□ The valuations placed on company cars would be adjusted to bring them closer to current market values and from June 1 these would be increased by about 15%. The new tables of revised values would be gazetted soon;

□ Limits under the Usury Act and Credit Agreements Act have been raised substantially. The present ceilings are R70 000, subject to the Usury Act, and R100 000 under the Credit Agreements Act. From today, the maximum amount for all new financing transactions under both Acts will be R500 000. The limit for smaller sums under Section 2 of the Usury Act will be raised from R4 000 to R6 000;

□ Minimum deposits on all transactions under the Credit Agreements Act will be raised by one fifth of the present requirement, for example, a deposit of 10% will

GERALD PROSALENDIS and HAROLD FRIDJHON

become 12%. No change is being made to the maximum repayment period. This change will be gazetted today;

□ Leasing transactions will be included under the Usury Act and the Credit Agreements Act. This provision will apply only to agreements which run for periods of more than three months, including any existing transaction. The provision of minimum deposits and maximum payment terms will in future apply also to rental transactions concluded from May 9.

Du Plessis warned that the public should not incur financial liabilities that could not be met in more difficult circumstances.

"I refer specifically to the granting of home-loans via overdraft facilities with the house itself as security."

Outlining the economic background to the introduction of the package Du Plessis said:

□ The volume of manufacturing production, measured at a seasonally adjusted annual rate, rose by about 18% in the first quarter of 1988, compared with the fourth

quarter of 1987;

□ Wholesale sales, in constant prices, rose by 15% and retail sales by 4%;

□ New-car sales were up 35%;

□ Merchandise imports and value of building plans passed also rose sharply.

The accelerated tempo of economic activity was accompanied by an increase of 24% in the broad money supply and by an inevitable upward pressure on interest rates.

He said gross domestic product was rising at an annual rate of nearly 5% in the fourth quarter of 1987, while gross domestic expenditure rose at an annual rate of as much as 6,5%, and was still rising.

This had led to the surplus on the current account of the balance of payments virtually disappearing as merchandise exports were lagging. The rand had come under pressure, its average weighted value against the basket of currencies depreciated by 7,9% between December 31, 1987, and April 30.

He welcomed the improvement in the general economic situation but said constraints under which the economy was labouring made it necessary to hold the upswing within affordable limits so that it could continue for as long as possible. The limitations placed on SA's economic growth capability by the balance of payments could not be ignored.

From savings, a growth rate of 2% to 3% could be generated, but a rate of 5% or 6% could not be maintained even under the most favourable circumstances.

A proper balance had to be maintained between the objectives of a higher growth rate in the short term on the one hand, and greater stability in the general price level on the other.

The package should not halt growth in the economy, but simply damp down excessive expenditure.



● DU PLESSIS ... greater stability

Du Plessis explains policy adjustments

HOUSE OF REPRESENTATIVES — The package of new policy adjustments was aimed at achieving a sound balance between fiscal, monetary and other measures, and to effect the adjustments in the economy on a broad front without making inordinate use of a single policy instrument, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Giving the economic background to the new measures in the committee stage of the Budget debate, he said the surplus on the current account of the balance of payments had virtually disappeared.

One reason for this was the fact that merchandise exports had not performed well recently.

The exchange rate had also come under slight pressure, the average weighted value of the rand against the so-called basket of foreign currencies having depreciated by 7,9 percent between December 31 and April 30.

The downward trend in inflation had been very encouraging and a cautious approach should be followed to ensure that it did not rise again.

Mr du Plessis said that although the improvement in the general economic situation was good for South Africa, given the constraints under which the economy was labouring, it was necessary that the upswing be held within affordable limits so that it could continue as long as possible. — Sapa.

COMMENT

Even before the advent of sanctions and disinvestments, steering the South African economy was at best of times an arduous and difficult task. Largely dependent on the whims of international demand (or lack of it) for gold and other precious metals, the economy has certain built-in fundamentals that make it inherently unstable and highly cyclical. *STW 5/19/58*

An additional factor is the lack of foreign capital so badly needed to sustain a higher and durable upswing. *(29)*

After nearly three years of virtually no economic growth whatsoever to speak of, the economy suddenly "took off" with an unbridled vigour unforeseen by even the most optimistic economist or politician.

Now the brakes have to be applied, fiscal and monetary measures have to be introduced to "cool down" the economy to protect the balance of payments. This is going to be the recipe for years to come.

For the truth of the matter is that sanctions and disinvestments are succeeding; much as our politicians would have us believe otherwise.

The balance of payments is not under pressure because imports are rising too fast — rising imports are a normal and healthy reaction to a growing economy. On the contrary, the balance of payments has to be protected because exports are shrinking due to effective sanctions. And much as we try and argue the point, sanctions pressures will increase thereby threatening our export markets even more.

Under normal circumstances any deficit on the trade account would have been gladly funded by overseas bankers. Now, alas, that alternative has also been taken away.

The conclusion is that the economy will stumble along with growth rates of anything between 0 and 2 percent a year (while the population grows at more than 3.5) with intermittent spurts of economic growth phases that all-too-soon place the balance of payments under pressure.

This means three things:

- Economic planning and forecasting has essentially become of very short-term nature.
- The economy has become even more highly cyclical.
- The so-called free marketers are chasing windmills. Government intervention in the economy is not only unavoidable; it has become imperative.

MAGNUS HEYSTEK

Credit curbs put the brake on economy

By Michael Chester (49)
Economic signals have been switched from green to amber by the package of credit curbs announced yesterday by the Government, said representatives of big business today.

The Association of Chambers of Commerce and Industry commented: "Against the background of mounting evidence recently that a degree of 'overheating' in the South African economy was emerging, it is clear that early action on the part of the authorities was unavoidable." *See 5/5/88*

Assocom chief executive Mr Raymond Parsons said: "What is important is whether the

economy can be kept on an even keel as a result of the latest fiscal and monetary measures. The economic signals have now changed from green to amber."

Dr Azar Jammine, director of the Econometrix research unit, said: "The Government had no alternative to credit restrictions, but the package is a sad indictment on the overall state of the economy."

"It seems that every time economic growth gets going, the brakes have to be slammed on."

One encouraging aspect was that the Reserve Bank clearly intended slowing down the money supply, which should favourably affect inflation.

Blast damages SAP hostel, grenade flung into house

By Craig Kotze
Crime Reporter *5/5/88*

An explosion rocked the SAP single quarters in Kagiso township near Krugersdorp early this morning, causing extensive damage but injuring no-one.

And in another apparently insurgency-related incident, a hand grenade was flung into a private home in Mamelodi near Pretoria. No-one was injured but the house was damaged, police said.

A Pretoria police spokesman said the Kagiso blast happened 45 minutes after midnight.

The device used had not yet been identified but an intensive investigation was underway to

find the bombers. It was not yet known who was responsible.

Forensic experts visited the scene this morning, said the spokesman.

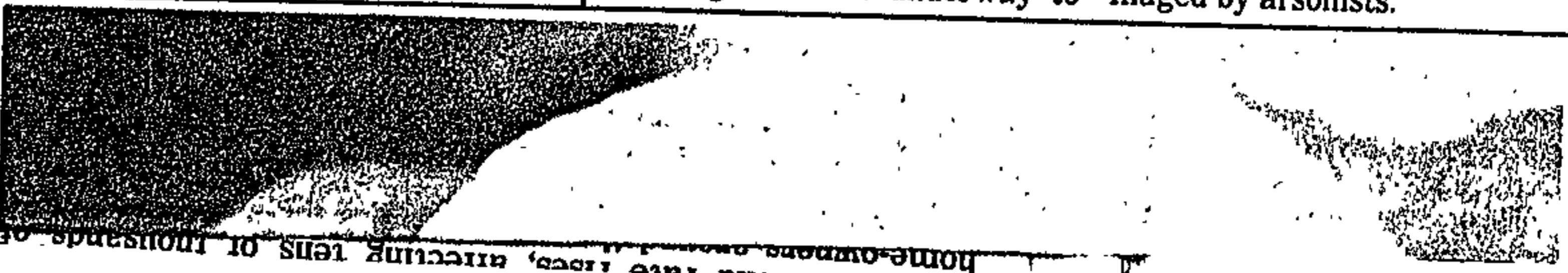
The explosion was one of several unrest incidents reported by police over the past 24 hours.

Also in Kagiso, a private house was damaged by arsonists.

On the East Rand, a delivery vehicle was damaged when it was set alight in kwaThema.

At Mitchells Plain in the Western Cape a private vehicle was damaged by stone-throwing youths. Two were arrested.

At Zwide in the Eastern Cape, a school classroom was damaged by arsonists.



home-owning... late 1980s, affecting tens of thousands of...

BOND RATE ANNUAL INTEREST PAYMENTS
(COMPOUNDED MONTHLY)

| Value of Bond | Annual Interest Payable | | | | |
|---------------|-------------------------|--------|--------|--------|--------|
| | 12,5% | 13,5% | 14% | 14,5% | 15% |
| 20 000 | 2 500 | 2 700 | 2 800 | 2 900 | 3 000 |
| 50 000 | 6 250 | 6 750 | 7 000 | 7 250 | 7 500 |
| 75 000 | 9 375 | 10 125 | 10 500 | 10 875 | 11 250 |
| 100 000 | 12 500 | 13 500 | 14 000 | 14 500 | 15 000 |
| 150 000 | 18 750 | 20 250 | 21 000 | 21 750 | 22 500 |
| 200 000 | 25 000 | 27 000 | 28 000 | 29 000 | 30 000 |

HIRE-PURCHASE REQUIREMENTS

| PRICE OF GOODS Amount R | INITIAL DEPOSIT | | INTEREST PAYMENTS | |
|-------------------------------|---------------------|--------------|---------------------|----------|
| | Previously 10% R | Now 12% R | Before April 1 R | Now R |
| 1 000 | 100 | 110 | 260 | 320 |
| 2 000 | 200 | 240 | 460 | 520 |
| 5 000 | 500 | 600 | 1 000 | 1 300 |
| 10 000 | 1 000 | 1 200 | 2 000 | 2 400 |
| 20 000 | 2 000 | 2 400 | 4 000 | 4 400 |

Brakes (49)
applied
to trim
growth

Political Correspondent

CAPE TOWN — The economy has been severely hobbled by the international financial isolation of South Africa, the Government's latest monetary and fiscal measures have indicated.

Instead of being able to finance what could have been a growth of 5 or 6 per cent this year, desperately needed to put millions of unemployed blacks in work, the financial authorities have had to apply the

brakes "slightly" in order to trim growth to about 3 percent.

IMPORTS

If the economy grew at a greater rate, imports would outstrip exports and South Africa would have no foreign currency at all.

This is how politicians see the position of the South African economy today.

They are generally in favour of the Government's latest credit curbs, although some warn that careful monitoring will be necessary to ensure maximum growth within the constraints of the economy.

PACKAGE

Mr J H Heyns, National Party MP for Vasco and chairman of the Parliamentary Joint Standing Committee on Finance, says he is in favour of the measures.

"I am pleased the Government has introduced a package of measures and not just resorted to increasing interest rates, which it did a few years ago and which nearly bankrupted the population."

Progressive Federal Party spokesman on finance Mr Harry Schwarz says: "The curbs were inevitable because of the way the economy is being allowed to run and also because of the balance of payments position."

Spending curbs will take time to filter through

By Sven Lünsche

It will take a few months to assess whether measures to curb domestic expenditure have succeeded, but economists feel consumer spending has not yet hit a ceiling.

The fiscal and monetary package, built around a one-percent rise in Bank rate and stricter HP credit finance conditions, achieved initial success when some financial institutions yesterday raised mortgage rates to 15 percent.

As a matter of course, all commercial banks upped prime rate from 14 to 15 percent.

But the major target of the measures was to curb spending on durable goods via hire-purchase finance. Spending on items such as cars, appliances and furniture had reached such proportions that credit extended by banks to the private sector increased at an annual rate of 26 percent in the first quarter of this year.

Real gross domestic expenditure as a whole was ten percent up over the same period and the broad money supply (M3) soared by 24 percent over the quarter.

"It is difficult to put exact figures on growth rates, but I see consumer spending on durables outperforming the other sectors by a wide margin," an economist at a major stockbroking firm said yesterday.

Spending on durables

He estimated that spending on durables would increase by eight percent this year over last year's figure of R6,151 billion, with private consumption expenditure as a whole rising by 2,8 percent.

Nedbank economist Edward Osborne said: "While the measures could have some effect in curbing spending on consumer durables, much of the growth in credit demand is derived from equipment purchases by professional people and they are un-

likely to decrease their spending at a similar rate."

When announcing the package on Wednesday, both the Reserve Bank and the Ministry of Finance emphasised that a lot of pressure would be on financial institutions to slow down the rate at which they were expanding credit to the private sector.

Most banks have said they will do everything in their power to heed the call, but that this alone might not be enough.

"The measures will take a little while before they are effective and, in the meantime, the monetary authorities might have to accept another increase in interest rates," said John Lloyd, deputy general manager, Treasury, at Standard Bank, who described the restrictions as a mild adjustment.

Volkskas economist Adam Jacobs felt the measures might not be enough. "The measures regarding HP were modest, so that they would not kill economic growth at this stage, but other steps might have to be taken to supplement the package." He mentioned selective import restrictions on consumer goods as one possibility.

Reserve Bank Governor Dr de Kock emphasised he was still looking at economic growth rates of two to three percent this year and expected the main effects of the steps being taken would be to bring M3 money supply growth closer to its target range.

It could be difficult to achieve the target range of 12 to 16 percent in M3 if one believes some analysts who argue that the size of the informal sector is generally underestimated.

The differential in the percentage growth rate of annual wholesale (15 percent) and retail sales (four percent) in the first quarter and other indicators tend to support these critics. If nothing else, the success of the Government's measures should provide some insight into the size of the informal economy.

ECONOMIC PROSPECTS

Galloping GDE growth

49

After nearly three years of abstention, South Africans are on a manic spending spree. Finance Minister Barend du Plessis this week told the *FM*: "Preliminary indications are that first quarter growth in GDE will be substantially up on the fourth quarter" — when it increased at an annualised 6,7%, leading to annualised GDP growth of 5%.

This confirms general perceptions that spending is growing at a dangerous rate, posing a serious threat to economic stability and the surplus on the current account of the Balance of Payments.

How do the authorities intend to counter the threat? At the time of going to press Du Plessis was not prepared to comment.

"After thorough preparations, in-depth discussions will take place this week," he said. "These will be followed by comprehensive policy statements."

An announcement has been a long time coming.

Ironically, in view of the authorities' tardiness, the urgency of the situation was highlighted by Du Plessis himself, at the Stellenbosch University Graduate Business School seminar last week.

"It's no good closing the stable door after the horse has bolted," he said. It would seem, from his prediction, however, that the horse is long gone, along with the opportunity for timely action.

With increasing demand pressures, Bank rate and prime should have been allowed to rise more frequently. Prime moved from 12,5% to 13% in January and a further one percentage point in March. While Bank rate moved from 9,5% to 10,5% in March — the first move in more than a year.

Had Reserve Bank Governor Gerhard de Kock decided earlier on the policy he announced (but failed to implement) in March,

of allowing Bank rate to move more frequently in smaller amounts in line with market movements, both would have been at least one percentage point higher by early April.

While money market participants and most economists would agree a rise in Bank rate and go-ahead for a rise in prime are long overdue, politicians and policymakers obviously have other priorities.

High on the agenda, for those who operate with one eye on the voters of Lydenburg, Bethlehem and Parys, is the plight of the farmers. After years of drought and flood, the farming community is heavily in debt and highly vulnerable to rising rates.

Kobus Jooste, president of the South African Agricultural Union, made this clear last week when he reminded the community that every one percentage point increase in interest rates means an across the board annual increase in interest costs of R140m to the sector (see below).

Of course, failure to respond to market forces should not be ascribed only to a reluctance to alienate voters.

Policymakers prefer to have as many facts in front of them as possible before they make a move. And, as Nedbank's Merton Dagut points out: "By the time official information is collated it is already out of date — this is precisely the problem with applying interventionist policies."

The authorities obviously fear any premature move will abort the recovery. We have just emerged from one of the most damaging recessions of the century and there is a desperate need for a period of prosperity to restore a measure of confidence.

What is at issue is how this will best be accomplished.

On this score, Du Plessis confided to his audience at Stellenbosch that he is getting conflicting advice.

"One group of advisers says that the extraordinary upswing we are now experiencing will lose its momentum in the second half of this year and we needn't become too worried about the balance of payments or the current account.

"The other group says we must now apply the brakes,

even if it is in moderation, otherwise we are going to allow a momentum to build up which will land us in the same sort of trouble we had in 1983-1984."

This, however, seems to be simply a debate about the correct timing of market orientated policies.

There are more serious differences between those who support De Kock's policies and those who would prefer to see more direct controls.

The danger, now, is that having failed to allow rates to find their own level earlier in the year, policymakers may resort to precisely these forms of control.

Even De Kock has pointed out that the authorities have made "no absolute commitment" to market-orientated policies.

And there are those who would be delighted to reintroduce controls. Potentially in the pipeline then are measures such as ceilings on bank credit, minimum deposit requirements and import control.

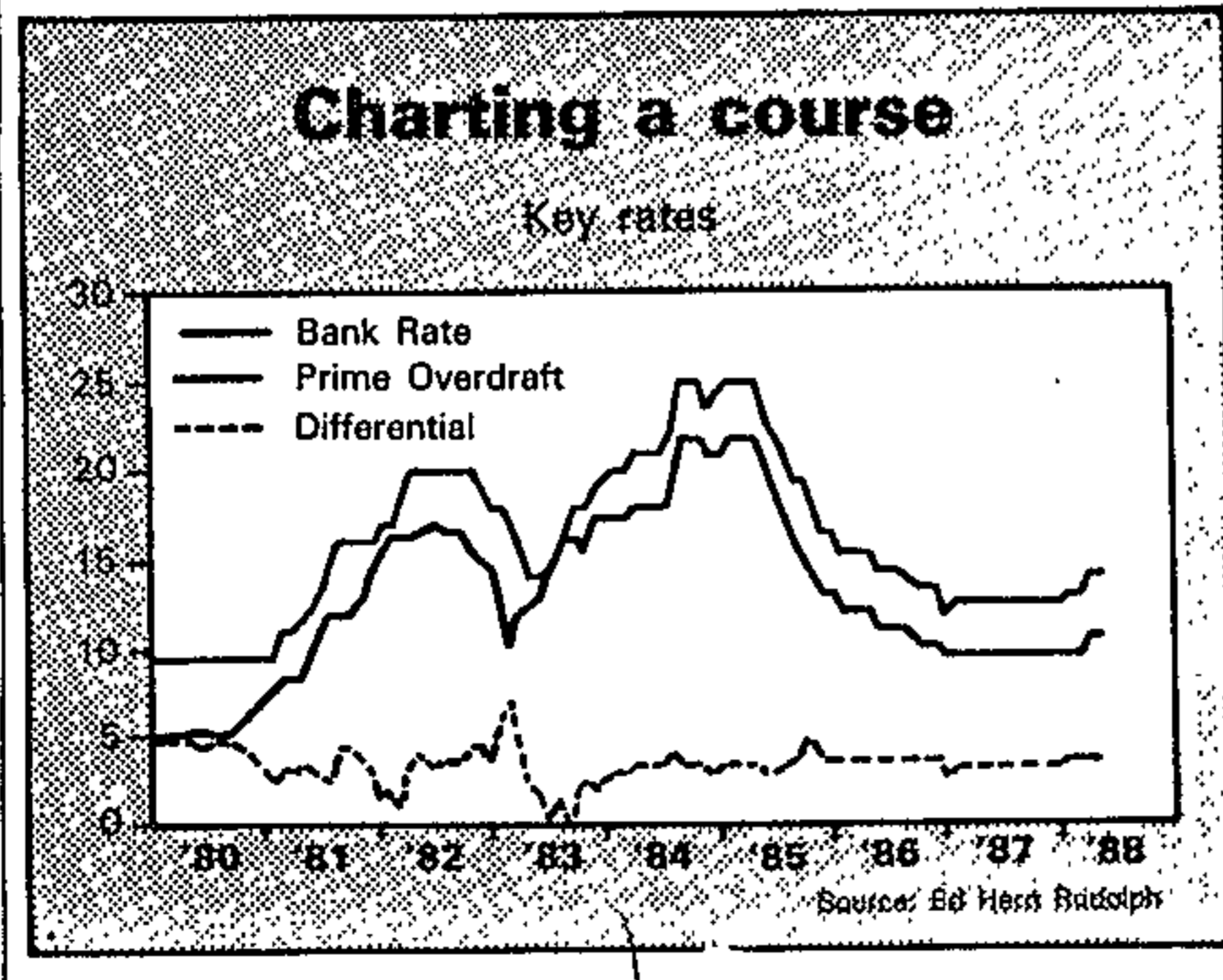
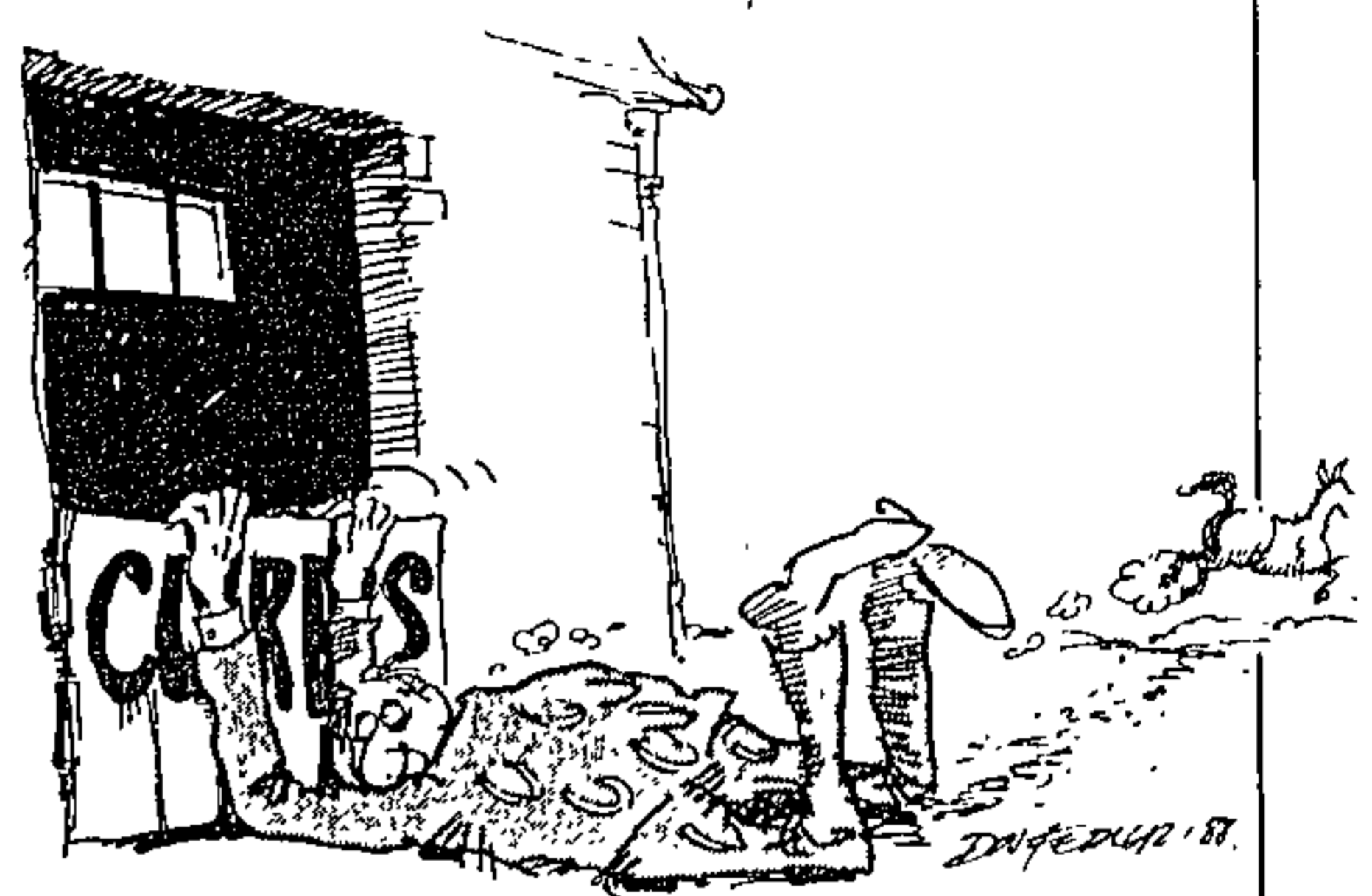
Whatever the package unwrapped this week, however, it is bound to include an increase in interest rates — whether this is big enough to accommodate market pressures (1,5%-2%) or only a nervous three quarters of a percentage point.

What will be the effect on the average person?

Here, too, there are conflicting views. Some observers believe that once South Africans move into spending mode, only rates over 20% will stop them. Others believe we have learnt the lesson of 1984 and that relatively modest interest rate increases will halt growth.

Unfortunately, either way, the situation is exacerbated by the authorities' failure to allow the Bank rate to move more flexibly with the market, thereby reducing its psychological impact.

This has entrenched, rather than reduced, SA's boom-bust psychosis.



Weaker rand adding to inflation worries

Star 7/15/88

49

By SvenLünsche

One of the major aims of last week's economic stabilisation package by the fiscal and monetary authorities was to prevent excessive consumer spending from stimulating demand inflation.

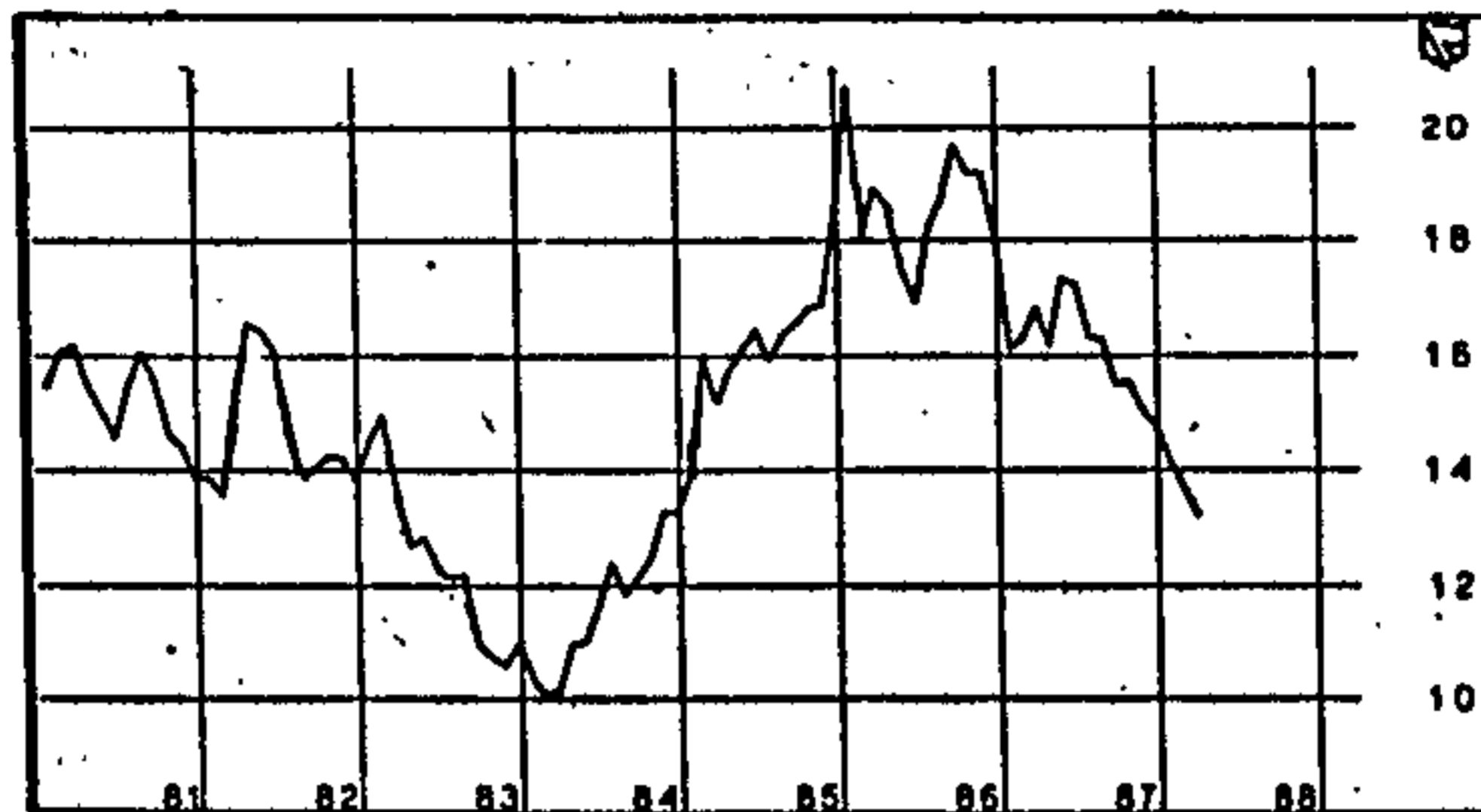
Inflation has been on the downturn continuously since June last year and in March 1988 hit a three-year low of 13,4 percent.

But despite this trend and major efforts by the government to curb wage and price increases, economists generally forecast that inflation will rise again in the second half of this year.

An average rate of 13 percent is forecast for 1988 by the Bureau for Economic Research at the University of Stellenbosch (BER) in its latest issue of *Economic Prospects*, but the academics expect the downward trend to bottom out in the third quarter and increase again thereafter.

And once again the feeling is that the expansion of domestic economic activity, which BER says will continue well into the first half of 1989, will be largely responsible for this rise.

"In 1987 consumers received on average 3,2 percent more income



The inflation rate has been declining almost continuously since June last year and hit a three-year low of 13,4 percent in March 1988. But economists generally forecast a higher rate towards the second half of the year.

in real terms and disposable income will again rise above the inflation rate in both 1988 and the first half of 1989," BER writes.

The implication was that their current income is of a nature allowing for significant increases in consumer spending and the Bureau predicts that private consumption expenditure could average out at 4,1 for the year as a whole, taking into account a slight slowdown in the fourth quarter this year.

The spending spree will largely

benefit the services sector and durable goods, despite the government's attempts to curb credit spending on these items.

The rapid growth in domestic demand, in conjunction with an expected 4,8 percent rise in gross domestic fixed investment this year, will inevitably cause a sharp increase in imports — estimated by BER to grow by 22,6 percent in 1988 — while export growth will be restrained.

The net effect will be a narrowing in the current account surplus,

but the consequent decline in the exchange rate of the rand against all major currencies was likely to fuel imported inflation dramatically later this year.

The depreciation of the rand against the US dollar has already been in evidence over the last few weeks and by year-end the Stellenbosch economists fear the rand will have dropped by 6,3 percent to about R2,25. A sharper 13,8 percent fall against the Deutsche-mark is also anticipated.

"The depreciation forecast in the rand will result in import prices rising by 12 percent on average in 1988, while higher interest rates will increase the cost of debt servicing and thus influence corporate profits.

"Bond rates too are projected to rise, which together with rising building costs will put upward pressure on rentals," BER writes.

Summarising, the Bureau says that the rise in economic demand, was likely to bring the balance of payments constraints to the fore.

Thus a lower exchange rate and higher interest rates will ensue and the resulting upward trend in inflation will eventually put a damper on economic growth towards the second half of 1988.

Fortress economy trend worries Matie expert

CAPE TIMES 10/5/88

Own Correspondent

JOHANNESBURG. — A warning that the impact of trade and financial sanctions would be felt in the coming months was given yesterday by the Bureau for Economic Research (BER) at Stellenbosch University.

It said relations with the international community over the next year were not expected to worsen dramatically, but the sanctions already in force would start to make their effects felt soon.

"This will be compounded by the negative effects of a general slowdown in the world economy, resulting in a two-fold inhibition of growth for South African merchandise exports," BER director Dr Ockie Stuart said.

"We are now experiencing some of the typical signs of an economic cyclical upswing in its mature phase, but many traditional signs of a genuine upswing are not showing up. This is a worrisome trend,

since it is a situation that is symptomatic of a fortress economy."

On the political front, he said the government's continuation of the state of emergency might be beneficial in the short term but did not appear to be tenable in the longer term.

Commenting on the results of the BER's latest in-depth study of trends across a broad spectrum of trade and industry, Dr Stuart advised business people to start tightening their belts.

"We are riding relatively high on a vigorous wave of consumer activity at the moment, but businesses must prepare to start working harder for their profits.

"Unemployment is still rising and fixed investment has, in recent months, not come on stream at all, other than in housing. It seems realistic to expect that once again the balance of payments will damp down economic growth, contributing to a lowering of living standards and further

increases in unemployment."

The narrowing of South Africa's trade surplus from more than R1 billion a month on average during 1987 to a level in the region of R550 million and R647 million in January and February respectively this year, gave cause for concern, Dr Stuart said.

A slow, orderly depreciation (6,3%) in the dollar/rand exchange rate was expected in 1988, which in turn implied a dollar/rand exchange rate of just below 45c by the year end. The rand would continue to fall against the American currency in early 1989 and was expected to be around 42,5c by the middle of next year.

"It is important to realize that the dollar itself is expected to depreciate against other major currencies during this period. The rand will therefore depreciate even more sharply against, for example, the Deutschmark. The DM/rand exchange rate is expected to be about 69c by mid-1989," Dr Stuart said.

CAPE TIMES 10/5/88

Weaker rand could see tourism boom

Star 10/1/78

49

By Derek Tommey

The rand has slumped again in the foreign exchange markets — confirming that South Africans are the new poor of the international tourist trade.

But the downturn is also likely to bring South Africa its biggest tourist boom.

The rand has fallen by an average of 10 percent against a basket of currencies since Christmas.

This slide, added to its previous weakness, has numerous ramifications for the economy.

This week it cost South Africans R4,19 to buy a British pound. This is about 16 percent more than it cost at Christmas when the rate was R3,60, 23 percent more than a year ago when the rate was R3,40 and double the rate of three years ago when the pound cost R2.

The slide against other currencies has not been so severe but is still significant.

Travel agents report that it can cost £140 a night to stay in a good London hotel. The same accommodation in Cape Town would cost around R140. And dinner for two in a good restaurant there could easily exceed £60 against R60 here.

But while the fall in the rand is making these people poor, it is also expected to make the local tourist industry much richer this Christmas.

Foreigners know a bargain when they see it. With prices here up to a third or a quarter of their own, they are expected to flock to South Africa, especially to the Cape, in their thousands later this year to enjoy its scenic attractions, its historic memories and its sunshine.

They will also be joined by thousands of South Africans who have just become aware of the Cape's attractions.

No one is yet prepared to estimate how big the increase in the tourist trade will be. But some

are guessing that the increase could be at least 20 percent. And there is some concern in the industry about how it will cope with the increased business.

However, Mr John Robert, head of Captour, said this week that it was a nice problem to have.

But he did feel the need for everyone concerned with tourism, including the local authorities as well as the private sector, to start planning ahead for the growing boom in tourism which the country can expect in the coming years.

A 20 percent annual growth rate in tourism would attract the new private investment needed. But it would also be necessary for the authori-

ties to take a long-term view and help developers, so that the same mistakes made by tourist areas overseas are avoided.

Local authorities, for example, would have to decide on land allocation. With tourism becoming a major industry, they would have to rule on such matters as whether a large tract of land along the coast owned by a millionaire should be left for single occupation or earmarked for holiday cottages or a caravan park.

Although South Africans may be the new poor, this has not deterred them from visiting Britain and the Continent this year. In fact the numbers are even larger than last year.

Elcentre triples sales

Elcentre Corporation yesterday reported a remarkable surge in its attributable earnings for the year to end-February and hinted at a separate listing of its major divisions.

Earnings a share based on a weighted average rose from 22c to 58,6c, after sales trebled to R331 million. Turnover would have risen to R402 million had sales of recently acquired businesses been included.

The total dividend has been raised by 88 percent to 23c a share.

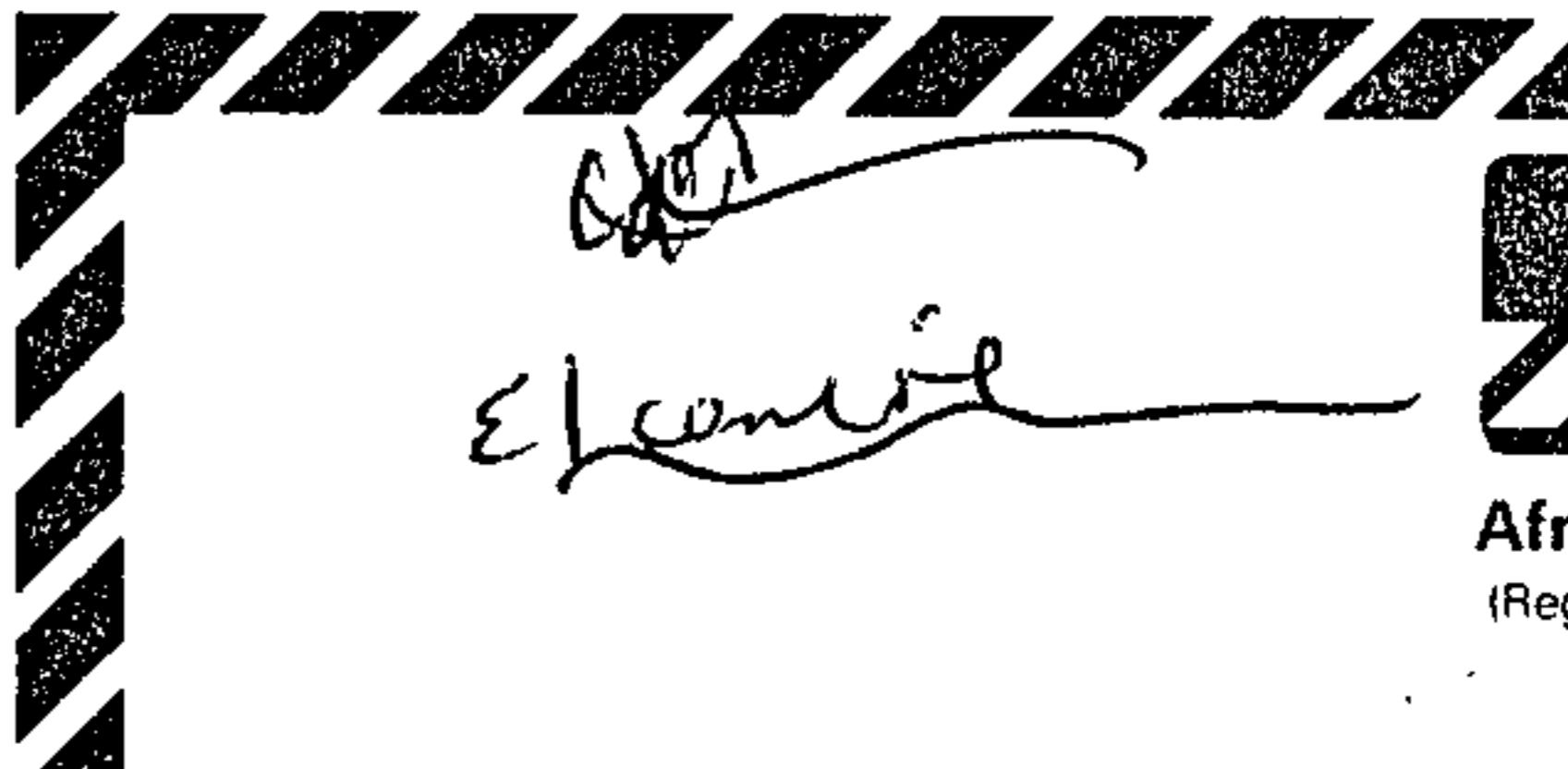
Results include those of Atlas Cables, Keens, Litecor and Orez, all of which were acquired during the year, but do not include those of the Cape firms of Springbok Elec-

tric Group and Multitech, both purchased subsequent to the year end.

Commenting on the performance, executive director Nathan Mowszowski said it was mainly due to strong organic growth, successful acquisitions and improvements in productivity.

Mr Mowszowski said a further increase in operating income was expected in the current financial year. He also indicated a group restructuring to enable the respective divisions to establish their own identities "with a view to future listings on the JSE."

Elgro, which owns 55 percent of Elcentre, announced earnings per share for the year of 28,9c and a final dividend of 6c making a total of 10,75c for the year.



d
r
e
s

Reserve Bank holds back support to protect BoP

49

Star 19/5/88

Rand in long-term downturn

By Sven Liinsche
 For the first time in weeks the Reserve Bank yesterday actively intervened in the currency market to boost the rand from its lows set in early morning trading.

Over the previous trading days the rand had slumped to record lows against sterling, Deutschemark, the yen and other major currencies, while falling to its lowest rate against the US dollar in over a year.

Against the American currency the rand yesterday slipped to R2,23 in the morning — in dollar terms this indicates a rate of just under 0,45 US cents, which is considered by many technical analysts as a crucial benchmark. Active Reserve Bank support later in the day pushed the rate to a close of just over R2,20.

The long-term decline, however, apparently has the approval of the monetary authorities who, until yesterday, failed to support the rand ever since the release of the March trade figures last week.

Even before that date, Reserve Bank intervention was limited, according to dealers, as the authorities are trying to boost the country's flagging balance of payments, which is under threat from the dramatic surge in demand for imported goods by consumers.

Last week's drastic measures to restrain consumer expenditure must also be seen in this light, but a currency dealer said there was a limit to the extent interest rates and other fiscal measures could be used to restrain demand.

"When it comes to protecting the balance of payments, interest rates have political and economic limits placed upon them, while exchange rates can be

dropped without causing too much domestic upheaval," the dealer said.

Another dealer estimated that the Reserve Bank will only return to the market once the current trading frenzy, brought about by importers flooding the market and investors looking for cover, has subsided.

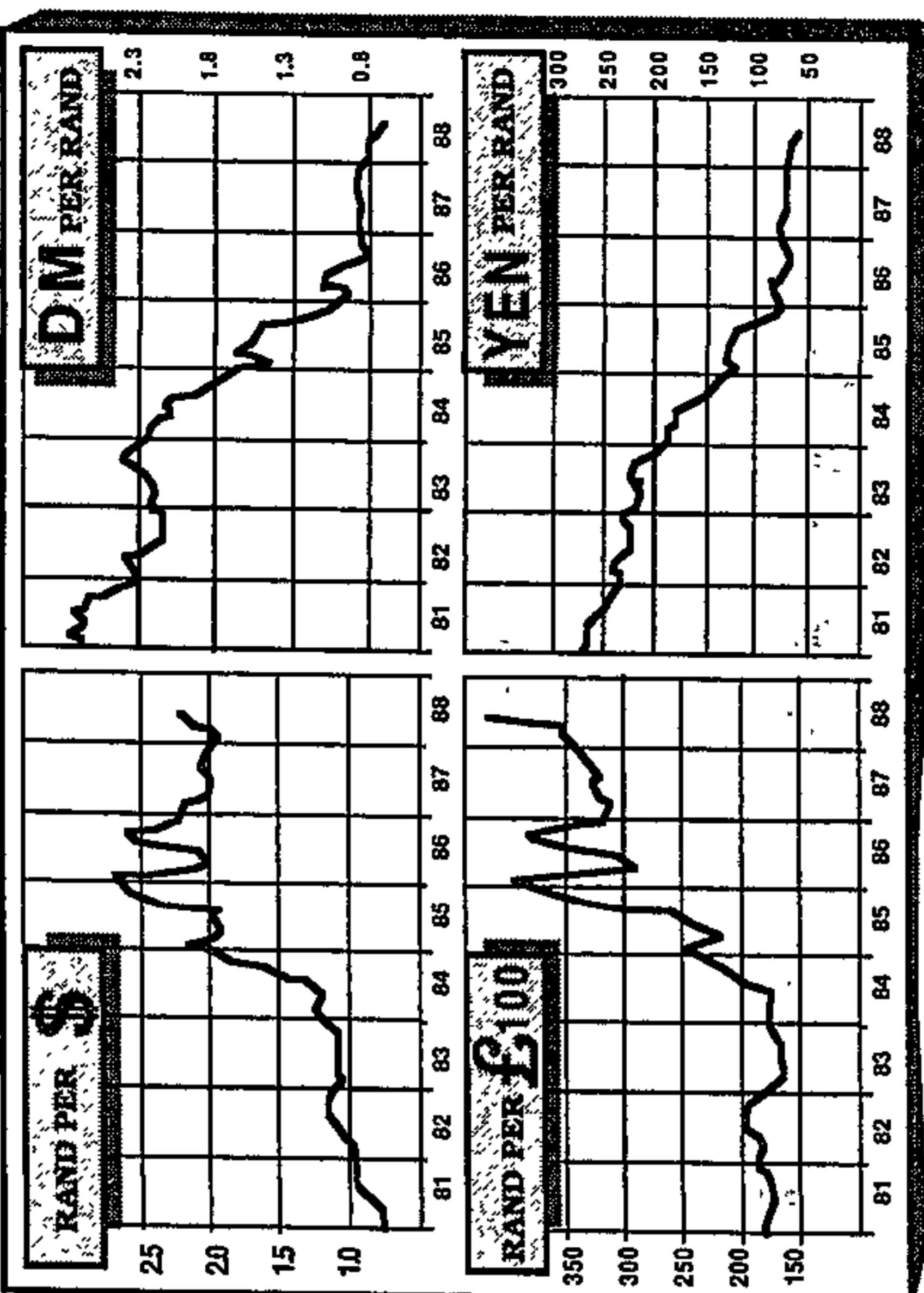
The statistics show the decline of the rand on all fronts. On a trade-weighted basis the rand has declined by 11,9 percent since the beginning of the year and by 3,1 percent since Monday last week, after being remarkably stable during 1987.

The worst decreases have been recorded against sterling. At yesterday morning's rate of R4,16, the rand was 15,6 percent down against sterling since January 1, while the currency has declined by 12,4 percent against the Japanese yen.

In Deutschemark terms the rand has dropped by 7,3 percent and against the US dollar the South Africa currency has decreased by 14 percent since the beginning of the year. Over the last week alone the rand has declined by 3,1 percent against the dollar.

And the downward trend is likely to continue as South Africa's balance of payment accounts come under further pressure. In April, Standard Bank predicted a dollar-rand exchange rate of R2,30. According to one dealer "the trend will remain, but the level could be much worse."

In the wake of last week's decline, recent forecasts of R2,25 at year-end and R2,35 at mid-1989 by the Bureau of Economic Research, also seem highly optimistic and economists will undoubtedly have to re-evaluate the future prospects of the rand.



WAARDE
 TABEL

Maand
 Month

| | | | | | | | | | | | |
|-------------|---|---|---|---|---|---|---|---|---|---|---|
| J | F | M | A | M | J | J | A | S | O | N | D |
| Jaar - Year | | | | | | | | | | | |

Star 10/19/88

Sanctions crunch coming — BER

By Sven Lünsche

South Africa will feel the pinch of financial and trade sanctions significantly for the first time in the coming months, the Bureau for Economic Research at Stellenbosch University (BER) has predicted.

Commenting on the results of the BER's latest study of trends across a broad spectrum of trade and industry, director Dr Oekie Stuart says a full economic upswing cannot be achieved without substantial foreign investments.

"We are now experiencing some of the typical signs of an economic cyclical upswing in its mature phase, but many traditional signs of a genuine upswing are not showing up. This is a worrisome trend since it is a situation that is symptomatic

of a fortress economy," he says.

"Unemployment is still rising and fixed investment has in recent months not come on stream at all, other than in housing. "It seems realistic to expect that once again the balance of payments will damp down economic growth, contributing to a lowering of living standards and further increases in unemployment," Dr Stuart says.

While relations with the international community over the 12 months were not expected to worsen dramatically, sanctions already in force would start to make their impacts felt in the coming months.

"This will be compounded by the negative effects of a general slowdown in the world economy, resulting in a twofold inhibition of growth

for South African merchandise exports."

On a more positive note, Dr Stuart says consumers are generally in a better financial situation than they were two years ago. "In 1987, for the first time in the 1980s, consumers' disposable income rose in real terms by 3,2 percent, compared with 1986, and we expect disposable income to be again above the inflation rate in 1988 and the first half of 1989. However, all the signs are that the spending party by consumers — private consumption expenditure is likely to be 4,1 percent this year — will taper off towards the summer, with expenditure on durable goods showing a substantial fall in 1989 and services also tapering off markedly."

9/10/88 10/5/88 (49)

Economy is still affected by structural 'imbalances'

CHRIS CAIRNCROSS

THE performance of the economy during 1987 — when measured against unemployment and the level of inflation — demonstrated the country was still experiencing the effects of deep-seated structural imbalances, the Board of Trade and Industries (BTI) said yesterday.

The BTI said, in its annual report tabled in Parliament, the nature of the problems, particularly those relating to the manufacturing sector, suggested there had been some degree of failure in official policy relative to industrial development, export promotion and customs-tariff assistance and protection.

It said: "It is important any such failure should be clearly identified and corrected."

It appeared that, over the years, there had been insufficient awareness of the trends developing within the economy.

"The committee of inquiry into export incentives found existing export incentives have not fulfilled the purpose for which they were created.

"It is also possible some formula-customs duties used to counter disruptive foreign competition have tended to worsen (SA's) terms of trade."

Consequently, there was room for considering the restructuring of some aspects of the official industrial-assistance policy.

The BTI said increased unit costs imposed by declining productivity and the efforts to recover some of those through pricing policies, had contributed to sharp price increases, reducing the manufacturing sector's competitive position.

Unit labour costs increased by about 10% in 1987, leading to labour costs approaching equality with those in overseas countries.

Capital costs on the basis of an average of prime lending rate, the three-month bankers' acceptance rate and corporate bonds yields, rose about 44% higher than an average of those in the US, Britain and West Germany last year.

Weighing the comparative costs of labour and capital by their respective overall contribution to the GDP, the BTI found the total cost of those two primary production factors was about 22% higher than in representative overseas countries last year.

It said: "It might even have been a little higher if the hardening of the rand in 1987 is also brought into the reckoning."

That implied that, overall, some economic activities may need "effective protection" — about 22%, or as much as 5% more than in 1986.

"It is an unsustainable position that the level of protection should constantly have to be increased. It is, furthermore, equally unsustainable to devalue the rand continually to compensate for the lack of competitiveness."

Personal disposable incomes increased

Star 11/27/88
49

Finance Staff

Personal disposable income grew by 23,8 percent in the last quarter of 1987 says UBS economist Dr Hans Falkena.

Writing in the society's latest *Economic Monitor* he said the increase for the whole year was 19,3 percent, or three percent in real terms.

He states the most important reasons for the jump in income levels over the past year were:

- Mounting trade union demands.
- An increase of 20 percent in the public sector's wage bill.
- Improved agricultural conditions.

He expects an increase in personal disposable income of not more than 16 percent this year because of the civil service clamp-down on salaries. Given the temporary nature of this policy, however, Dr Falkena says that personal disposable income may well increase again by 18 percent in 1989.

Trade union activity will remain the main driving force behind higher income levels, especially for the black sector of the workforce.

Although he expects unemployment to decline in the next 18 months, he states the overall economic state will prevent any marked decline in the jobless figures.

Moreover, factors such as the excess supply of unskilled labour, the country's population growth rate of some 2,5 percent and the hesitant pace of deregulation will all contribute negatively to the long-term downward potential of unemployment in our country," Dr Falkena says.

Business must take this wonderful opportunity

Star 12/5/85

49

Murray: Privatisation is very much on our minds at the moment. There are indications that government is thinking about a form of partnership arrangement, but I wonder if it has thought about whether partnerships would be attractive to people in the private sector?

Hofmeyr: I certainly welcome the move towards privatisation, though we should guard against the tendency to see it as a panacea for all our problems. Privatisation will not in my opinion do very much, if indeed anything, to overcome the opposition of many black people to the private enterprise system. This issue remains of overriding importance and needs to be addressed in other ways, one of which is deregulation.

Government has not yet given us a clear idea of its intention. Barend du Plessis has stressed the need for gradualism and has also pointed out that government may remain a majority shareholder in enterprises being privatised for a period of time. This certainly has something to commend it, provided that it is genuinely a staging post and does not become a permanent situation, which in my opinion would not work at all.

How effective is business in influencing government?

The scope for business to influence government is very limited, contrary to the opinions of many in South Africa and even more abroad. In recent years, government has appeared to be listening to the business sector, but this has certainly not influenced its policies or practices.

The State President was quick to interpret the result of last year's general election as a complete rejection of the views of businessmen calling for fundamental change. An alternative interpretation would be that government succeeded in its attempts to frighten the electorate on security issues. As we have seen since, they may have been rather too successful in this endeavour.

Obviously, business must continue to try to influence government and the white electorate. At the same time, business dare not wait for government and must continue, with all

Extracts from an interview with Murray Hofmeyr, chairman of Johannesburg Consolidated Investments (JCI), by Hugh Murray, editor of Leadership magazine.



Hofmeyr ... "Business dare not wait for government."

means at its disposal, to address itself to its entire constituency. Business has a wonderful opportunity and a tremendous responsibility to seek common cause between management and labour and between black and white.

Moving from the domestic scene on to South Africa's relations with her foreign trading partners, we seem to have reached an all-time low, politically and commercially. How should we redevelop our foreign links?

I would suggest that a good start would be to abandon the practice of telling them to "do their damndest" and similar aggressive and offensive stances. This type of conduct offers some satisfaction to our enemies, but none at all to our friends and I actually wonder whether it does win votes in the platteland.

I disagree fundamentally with those who argue that we will not improve our external relations unless we give in to demands, however extravagant. On the contrary, I believe

that a number of our trading partners who would like to retain and extend relationship with us would be greatly encouraged if we showed some sensitivity to their points of view and gave some clear indications of resuming the process of reform.

As far as the commercial side is concerned, business can do no more for the present than attempt to cope with the problems of sanctions at an ever increasing cost.

Perhaps, as Van Zyl Slabbert believes the pain level is not yet high enough to force government into realistic negotiations?

Government apparently thinks that it can still achieve its objectives without proper negotiation. The pain level might indeed not yet be high enough, though some feel we are already beginning to show signs of a death wish.

We have, however, experienced a measure of economic pain during the past few years. What is the outlook for the immediate future?

We all support government in its objectives of bringing down inflation. Government has been honest enough to recognise that one of the main reasons for excessive inflation has been the high level of government expenditure with successive budget overruns.

I have no doubt that government will accuse the private sector of not responding adequately to government's challenge. However, they have to recognise that salaries and wages in the private sector have to be competitive in the market and many of them are in any event negotiated.

Many have doubts about government's prescription and fear that a perceived failure of the present approach will lead to increased pressure for direct management of the economy.

ECONOMIC OUTLOOK

Fading fast

Say goodbye to the economic upswing. The Stellenbosch Bureau for Economic Research (BER) says at least two factors make growth unsustainable.

Firstly, the recent mild upswing has been accompanied by rising interest rates — a traditional sign of growth in SA — but not, more importantly, a drop in unemployment or rise in fixed investment (besides housing).

"We are experiencing some typical signs of a cyclical upswing in its mature phase," BER says in its latest *Economic Prospects*. "But many traditional signs are not showing up at all — and this is worrisome and symptomatic of a fortress economy."

Secondly, the current account surplus has fallen faster than expected, prompting government to try to curb growth to cut imports.

Back in October, BER was bullishly projecting 3,6% growth in 1988, a stable rand/dollar exchange rate, a boost in per capita disposable income and a fall in long-term interest rates. Even in January, it still saw 3,4% growth this year.

But now it has cut its 1988 growth projection to 2,2% ("with downward potential for

next year,") and says, after inflation and taxes, the average South African will be no better off this year than last — maybe worse.

To top it off, money and capital market rates have moved high above earlier projections (in October, BER was predicting 12,75% prime and 14,9% long Eskom for the

BER'S PROJECTIONS

The year ahead

| | 1988 1st half | 1988 2nd half | 1989 1st half |
|-----------------------------------|---------------------|---------------------|---------------------|
| Average \$ gold price | 449,7 | 441,0 | 452,5 |
| Average rand gold price | 950,2 | 895,5 | 1 040,5 |
| Average R/\$ exchange rate | 0,473 | 0,447 | 0,435 |
| Average DM/\$ exchange rate | 1,662 | 1,638 | 1,620 |
| Gold production* .. | 612,5 | 617,5 | 623,5 |
| % change** | -2,9 | 4,7 | 1,8 |
| Non-gold export volumes*** | 107,4 | 105,2 | 105,2 |
| % change** | -0,8 | -3,3 | -2,1 |

* Seasonally adjusted, annualised. (In tons).

** From same period a year earlier.

*** 1980 = 100. Annualised.

Source: BER

second half of 1988). And the rand, rather than remaining stable against the dollar, has dropped sharply.

Among BER's predictions and comments:
 SA's wage bill will increase a nominal 16,1% this year, not enough to raise per capita purchasing power. "High inflation rates and large personal tax payments are continuing to erode the income of consumers," it says;

The gold price will firm, averaging US\$441 (R895,50) in the second half of the year and \$452,50 (R1 040,50) in the first half of 1989;

Gold production in the second six months of 1988 will be up 4,7% from the same period a year earlier;

Japan will grow a real 3,5% this year, and relatively high growth is expected in the newly industrialised countries of the Far East — good news for exporters, since these countries have not imposed sanctions; and

The rand will average US44,7c (R2,24/\$) in the second half of 1988 and 43,5c (R2,30/\$) in the first half of 1989.

The sharp drop in the rand after release of the March trade statistics last Wednesday suggests the exchange rate projections are too kind to the rand. For now, BER economist Glenn Moore tells the *FM* he's sticking by the projections. "The market overreacted," he says.

If imports continue to increase strongly, however, he will lower projections. And he stresses that the trend for the rand against the dollar is down, in any case, as short-term balance of payments pressures combine with the large inflation differential between SA and the US. ■

UNHAPPY NEW YEAR

If the latest United Building Society (UBS) *Economic Monitor* is right, 1989 won't be much of a year. UBS predicts an upswing in inflation, a falling rand, and lethargic growth.

Specifically:

- Real GDP will grow just 2,4% in 1988 and 1,8% in 1989;
- Consumer price inflation will average 14% this year and 16% next. "Fundamentally, nothing has yet been done to assure a permanent downtrend in SA's inflation rate," it argues, saying improved productivity, increased competition, political stability and responsible fiscal and monetary policies are needed; and
- Pressures from debt repayment and trade will push the rand to R2,28/\$ by year-end and as low as R2,35/\$ in 1989.

UBS is also pessimistic about employment prospects: "Though we expect total employment to improve further over the next 18 months, restrictions on economic growth performance (flowing from the balance of payments constraint) will prevent any material downswing in unemployment. Moreover, factors such as the excess supply of unskilled labour, a population growth rate of some 2,5% and the hesitant pace of deregulation will all contribute negatively to the long-term downward potential of unemployment."

The *Monitor* says personal disposable

income grew at a rate of 23,8% in fourth-quarter 1987, bringing the increase for 1987 to 19,3% — about 3% in real terms. It cites mounting trade union demands, a 20% leap in the public-sector wage bill and improved agricultural conditions.

Given the clampdown on government wages, it expects disposable income to rise 16% (2% in real terms) this year. But wages will pick up in 1989, as government employees and unionised blacks are awarded increases.

Other predictions:

- The 1988-1989 Budget deficit before borrowing will total R10,5bn, some 7% higher than budgeted. Given that the public-sector wage clampdown is a one-shot saving, "government will have great difficulty in containing its deficit to current levels in 1989;"
- Long RSA stock will trade in the 16,5%-17% level by end-1988 and may rise further during 1989;
- Prime will be 16% by year-end, but may taper off in 1989 in line with the expected slowdown in the economy;
- The surplus on the current account will fall to R2,5bn in 1988 and R2,6bn in 1989; and
- Gold exports will decline by 1% in 1988 but rise by 4% next year, and real exports will increase by 1,5% this year and decline somewhat in 1989.

first quarter, at R10,6bn. The small gain was due mainly to improved prices on international markets, says Osborn.

The value of "base metals and articles of base metal" increased by nearly 23% to R1,4bn, which he attributes to higher prices of nickel and ferro-alloys. Similarly, "mineral products" rose R150m, probably almost entirely thanks to improved coal prices.

Gold, a major component of "other unclassified goods and balance of payments adjustments," increased by 4,6% to R5,8bn. "However, this masks a reduction in volume of production of some 5%," says Osborn. "The rand gold price was 10,2% higher in the first quarter of 1988, compared to 1987, a reflection of the average dollar gold price, which went up from \$406 to \$455."

The net effect of the relative import-export increases was a 47% decline in the surplus on the trade account from first-quarter 1987 to R1,9bn by end-March.

Given a quarterly deficit of perhaps R2bn in services and transfers, the trade figures imply near-balance on the overall current account, in contrast to the R2,6bn surplus in the first quarter of 1987.

"This tightness on the current account has made the money market extremely interest-rate sensitive to credit demand pressures and accordingly is a main factor behind the relentless upward pressures on interest rates," says Osborn.

"Moreover, the implications of the trade figures for growth are not good. On the minister's preliminary estimate of a 10% hike in first-quarter GDE in 1988 over 1987, the decline in gold exports and 25% rise in imports imply a GDP rise of only 2,2%." ■

ECONOMIC OUTLOOK

Fading fast

Say goodbye to the economic upswing. The Stellenbosch Bureau for Economic Research (BER) says at least two factors make growth unsustainable.

Firstly, the recent mild upswing has been accompanied by rising interest rates — a traditional sign of growth in SA — but not, more importantly, a drop in unemployment or rise in fixed investment (besides housing).

"We are experiencing some typical signs of a cyclical upswing in its mature phase," BER says in its latest *Economic Prospects*. "But many traditional signs are not showing up at all — and this is worrisome and symptomatic of a fortress economy."

Secondly, the current account surplus has fallen faster than expected, prompting government to try to curb growth to cut imports.

Back in October, BER was bullishly projecting 3,6% growth in 1988, a stable rand/dollar exchange rate, a boost in per capita disposable income and a fall in long-term interest rates. Even in January, it still saw 3,4% growth this year.

But now it has cut its 1988 growth projection to 2,2% ("with downward potential for

next year,") and says, after inflation and taxes, the average South African will be no better off this year than last — maybe worse.

To top it off, money and capital market rates have moved high above earlier projections (in October, BER was predicting 12,75% prime and 14,9% long Eskom for the

BER'S PROJECTIONS

The year ahead

| | 1988 1st half | 1988 2nd half | 1989 1st half |
|-----------------------------------|---------------------|---------------------|---------------------|
| Average \$ gold price | 449,7 | 441,0 | 452,5 |
| Average rand gold price | 950,2 | 895,5 | 1 040,5 |
| Average R/\$ exchange rate | 0,473 | 0,447 | 0,435 |
| Average DM/\$ exchange rate | 1,662 | 1,638 | 1,620 |
| Gold production* .. | 612,5 | 617,5 | 623,5 |
| % change** | -2,9 | 4,7 | 1,8 |
| Non-gold export volumes*** | 107,4 | 105,2 | 105,2 |
| % change** | -0,8 | -3,3 | -2,1 |

* Seasonally adjusted, annualised. (In tons).

** From same period a year earlier.

*** 1980 = 100. Annualised.

Source: BER

second half of 1988). And the rand, rather than remaining stable against the dollar, has dropped sharply.

Among BER's predictions and comments:
 SA's wage bill will increase a nominal 16,1% this year, not enough to raise per capita purchasing power. "High inflation rates and large personal tax payments are continuing to erode the income of consumers," it says;

The gold price will firm, averaging US\$441 (R895,50) in the second half of the year and \$452,50 (R1 040,50) in the first half of 1989;

Gold production in the second six months of 1988 will be up 4,7% from the same period a year earlier;

Japan will grow a real 3,5% this year, and relatively high growth is expected in the newly industrialised countries of the Far East — good news for exporters, since these countries have not imposed sanctions; and

The rand will average US\$44,7c (R2,24/\$) in the second half of 1988 and 43,5c (R2,30/\$) in the first half of 1989.

The sharp drop in the rand after release of the March trade statistics last Wednesday suggests the exchange rate projections are too kind to the rand. For now, BER economist Glenn Moore tells the *FM* he's sticking by the projections. "The market overreacted," he says.

If imports continue to increase strongly, however, he will lower projections. And he stresses that the trend for the rand against the dollar is down, in any case, as short-term balance of payments pressures combine with the large inflation differential between SA and the US. ■

Stability seen for industrials

ANN CROTTY

With circumstances expected slowly to turn more favourable for gold in the next two years, the JSE's industrial index is unlikely to experience major setbacks from the present levels and could experience the first stages of an upswing in the first half of 1989.

This is the view of George Huysamer's economist Louis Geldenhuys who, in a comprehensive analysis of the factors affecting the outlook for the industrial index, concludes that the key factors determining the value and the direction of this index are:

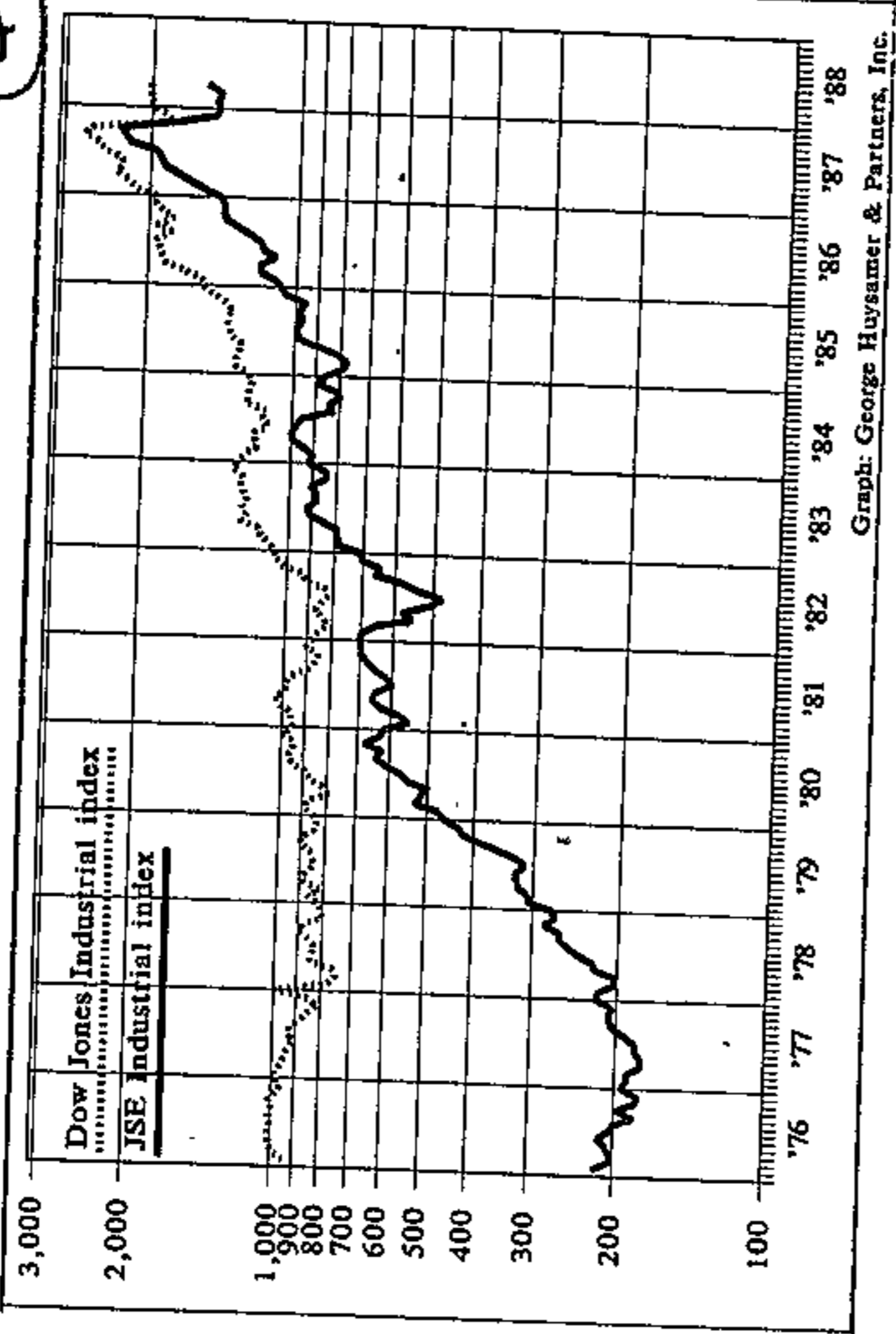
- The price of gold;
- International stock market developments;

- Perceptions of domestic growth potential and;
- Local interest rates.

Of these, the gold price is of overriding importance.

For the purpose of his analysis, Mr Geldenhuys divides the determinants into international and domestic factors, but stresses these variables cannot all be evaluated in isolation.

Among the international eco-



Graph: George Huysamer & Partners, Inc.

nomic considerations, the level of exports has a significant influence on the strength of the index. Rising exports favour the index, while declining exports have an adverse impact.

"The conclusion is that an imminent rise in the index is unlikely. But if I am correct that the world is not heading for a serious recession (or depression), that the initial effect of sanctions has

probably been the worst, that local gold production is nearing its lows, and if cognisance is taken of the adverse effect climatic conditions have had on agricultural exports in recent years, neither is there reason to be overly worried about the index," he says.

With regard to world commodity prices, Mr Geldenhuys believes these are more likely to

rise than to decline in the next two years and that such a development will support the index. The dollar price of gold is seen as the most important single determinant of the strength of the index.

"Although the rand gold price is more closely related to the level of the index, movements in the dollar price correlate more strongly with the short-term pattern of the index." While Mr Geldenhuys is not overly enthusiastic about the outlook for gold, he believes circumstances could on balance become slightly more favourable in the next two years.

Looking to world equity markets Mr Geldenhuys says: "Not only was the crash of Wall Street in October 1987 the crucial trigger for consequent developments on the JSE, but the local index has shown a remarkable relationship with the Dow Jones industrial index since 1980."

Mr Geldenhuys seems reasonably optimistic about the outlook for Wall Street, a feeling he bases on his expectations for continued US economic growth, fairly low inflation, no material upward

pressure on interest rates, a weak dollar and more rapid growth in other industrial countries.

Although these factors may not result in a buoyant Wall Street, they are likely to prevent a renewed crash: "In fact, technically, observers reckon Wall Street to be in a pretty strong position. This sort of scenario should support the SA index."

On the domestic front, Mr Geldenhuys is concerned about investor expectations of growth potential: "A danger at this point is that investors could lower the perceived growth horizons for the economy owing to international economic circumstances and domestic political influences. Should this happen, the index could suffer a substantial setback."

Because interest rates are currently in a rising phase, equity prices cannot be expected to perform well, but Mr Geldenhuys says: "Although the foreseen pattern of short-term interest rates will be negative for the index, it need not actually cause the index to fall meaningfully."

Star 145788

49

Tighter measures needed — bank

Economy may pay price of govt failings

129
B/Low
14/5/88

HELENA PATTEN

THE economy may have to pay the price of government's failure to adopt tighter monetary policy in order to cool it down, says the Standard Bank in its latest economic review.

It says a large 2% or 3% increase in bank rate instead of the small 1% implemented in early May could probably have prevented a continuous upward creep in interest rates for the remainder of 1988.

"It would have brought about a very much quicker slowdown in credit growth and economic activity, because it would have brought home much more dramatically the serious nature of the constraints facing the economy."

The bank says despite Reserve Bank and Treasury efforts to curb future growth, credit demand will retain a strong upward momentum in the near term because the economy cannot be expected to respond immediately to the largely symbolic restrictive policy package put into place on May 5.

"The 1% increase in bank rate in

early May is perceived to have represented no more than a recognition of the status quo, and this has created expectation that this upward adjustment will by no means be the last the Bank will have to make this year."

Fears of a deficit on the current account of the balance of payments in 1988 are unlikely to be realised, owing to the recovery in several export categories and the probability that economic activity and therefore import growth will taper off during the second half of the year.

The review says gold and foreign exchange reserves have declined, because capital outflows exceeded the current account surplus.

The Reserve Bank has been forced to liquidate some of its gold holdings, and its combined holdings of gold and foreign exchange reserves now cover less than two months' imports.

419
19/5/71
19/5/71

LESS THAN three years ago the ANC was talking of moving to the stage of struggle quaintly known in revolutionary jargon as "people's war," and anybody who questioned the great truths of the Freedom Charter was sneeringly dismissed as a limp-wristed liberal.

To mention a bill of rights to certain lawyers was to risk the judicial equivalent of necklacing. To talk of participating in all-white elections was to be damned as an enemy of relevance. Learned men disputed earnestly about the nuances of communist theory, and explained what the local street committee would do to us on behalf of the ANC's politburo when the country had been made nicely ungovernable.

Today, all that has changed. The ANC has modified even the holy writ of the Freedom Charter, and the only person still trying to make the country ungovernable is Archbishop Desmond Tutu, whose reasoning is lost in the Christian mysteries but who seems to want sanctions to do the job.

Today, the choice put forward from the left is not which kind of communism we shall have, but which kind of capitalism — the straight stuff endorsed by Leon Louw and the free marketeers, or the wet version, modified by "radical" ideas about people's democracy. The difference between "radical" centralism and plain old Nat pork-barrel politics is as deeply hidden in the mysteries of Marxist dogma as Archbishop Tutu's doctrine of love is hidden in theology, but the change in leftist thinking is unmistakable.

The left has suddenly developed an obsession with the outcome of the municipal elections in October, which is quite inexplicable in terms of last year's election boycott debates. The Five Freedoms Forum, still pursuing freedom from fear as Christians pursue everlasting life, is wooing even the business community for its crusade.

The left scuttles once again for liberal cover

KEN OWEN

Frederik van Zyl Slabbert, having perhaps undergone a transforming experience on the road to Mbabane, has come to admire the tactics of the Conservative Party, which he upholds as an example for the wet left.

The most fascinating of all these changes is doubtless the ANC's new creed. I am indebted to the London publication, *Southscan*, for the revelation that the ANC now approaches even the question of nationalising the economy with a degree of caution. Ever since the ANC's heavyweights moved from London to Lusaka — in order to be close to the "front line," remember? — they have been developing doubts about some of the ideas stuffed into their heads by European Marxists.

They have seen the consequences of Zambia's seizure of 51% of the Anglo copper mines, and they are beginning to doubt the wisdom of theft as a social policy. "Can we honestly say," Southscan quotes one man, "that on day one we will be able

to replace all the skills, the entire skilled strata, with skilled managers, planners and workers of our own."

In saying things like that, the ANC runs the risk of enraging Archbishop Tutu, who is still on the old tack of trying to reduce the economy by sanctions and drive the skilled strata to Australia. But then, one expects an Archbishop to have more faith in providence than a godless communist.

The ANC is doing other remarkable things. It promises to guarantee the right to strike, which will please the trade unions but may enrage the commissars. It wants to buttress the right of free speech with a "right to know," which will give us access to the secrets of the Kremlin. There is even talk — which Chief Buthelezi will scarcely find credible — of a federal constitution which is being examined by that brilliant intellectual veteran of the hard left, Professor Jack Simons.

There are several explanations for these wondrous events. First and foremost is that *perestroika* in Moscow has shuffled the old Stalinist hardliners into the Siberian cold, and instructions are coming

these days from a gentler breed in the Kremlin. The ANC's headline proponents of a universal revolution against capitalism are finding themselves increasingly alone, if you discount the support of the liberation theologians and militant priests, or undergraduates whose empty heads have been stuffed with feeble theories of "accumulation" (which means getting rich).

The second reason is harsher. The "revolution" of 1976-87 has suffered, after a greater time lag and much greater suffering, the same fate as the "revolution" of 1960-64 (which captured, for a couple of hours, a street in Paarl) but failed to take the police station). The revolutionary leadership which rode the wave in the Eighties is being chopped off, just as the revolutionary leadership which rode the wave in the Sixties was chopped off.

The "revolution" never had a chance against the "total mobilisation" of Magnus Malan. All it did was tempt moderate blacks into fatal postures, and legitimise in the minds

of whites such rightwing measures as censorship, detention without trial, military and police indemnities, and so forth. The political climate has become lethal for both the hard left and the wet left. Both are now scuttling as fast as they can under the ever-accommodating skirts of the liberals whom, only a year ago, they betrayed and whom, some time in the future, they will betray again. The liberal opposition to apartheid — liberal in the broad sense of people who believe in a free society under law — has been much reduced. Those who try to hold the middle ground tend to be shot to bits from both sides.

What is left? Wynand Malan and his charismatics are in an Afrikaner wilderness, and will not survive for long. Denis Worrall is gathering up the old UP remnants, but has no organisational depth. The PFP, driven back into its heartland, has been reduced again to being a moral force in our politics. It is picking itself up and dusting off the principles which, today as yesterday, are essential to the survival of civilised life in this country. It has a small role to play.

As for the trades unions, which were the best hope of the black people for rapid change, they are too cowed now even to fight very seriously against the new restrictive legislation that will further curb their activities, and they watch helplessly as Archbishop Tutu's international campaign for the destruction of the economy wipes out their power base.

We are back to the long, slow, plodding business of trying to widen the space of liberty, millimetre by painful millimetre. The ANC and all its hangers-on, having made a thorough mess of things with their silly theories of "colonialism of a special type," with their pointless violence and their Soviet-made visions, are trying desperately to get back into the game by adopting a new liberal camouflage.

The liberals, fools that they are, will probably let them get away with it. Until the next betrayal.

Focus on role of business

By Inga Moken

The role of business in a post-apartheid South Africa is the focus of an all-day conference being organised for Sunday, May 22 by the Five Freedoms Forum (FFF).

"The FFF hopes that the initiative to encourage people from all spheres of business to consider the challenges of the future will not end when the conference closes," says the chairman of the FFF's business and economy group, Mr Alex Anderson.

COMMITMENT

The conference, "Preparing business for the future", will be held at Sandton's Indaba conference centre from 9 am to 6 pm.

Mr Anderson says: "The conference is part of the organisation's ongoing commitment to create an environment conducive to economic growth in a non-racial, democratic South Africa."

The business community should be informed about what is "really happening in South Africa", he encouraged "to explore the inter-relationship between business and politics and to protest against racism and the infringement of human rights in business practice", he adds.

A variety of workshops on business and education, equalising opportunity in the workplace, labour and management, and combating discrimi-

nation have been planned.

RESPONSIBILITY

Keynote speakers include:

● Johannesburg Consolidated Investments executive Mr Murray Hofmeyr, who will be speaking on "The chief executive's responsibility at senior management levels".

● University of the Witwatersrand senior lecturer in economics Mr Fuad Casim, on "Redistribution and growth dilemmas".

● Business consultants Mr Albert Koopman on "Redefining the rôle of business and justice in the workplace" and Mr Christo Nel on "Reconstructing interdependence through business".

Warning of slow growth rate Signs of siege economy 'now more obvious'

Political Correspondent

South Africa is showing dangerous signs of slipping further into a fortress economy, economists and politicians have warned.

Stellenbosch University's Bureau for Economic Research has warned that the symptoms of a fortress economy are becoming more and more apparent.

And Mr Harry Schwarz, Progressive Federal Party economics spokesman, said yesterday that the Government's recent credit squeeze showed that because of financial sanctions, the existing economy could not grow beyond 3 percent a year without over-heating.

Unemployment

This was because foreign credit was being denied and meant that the economy could not attain the 5,5 percent annual growth rate needed to wipe out unemployment.

Bureau for Economic Research director Dr Ockie Stuart said the economy was showing signs of an "economic cyclical upswing in its mature phase" but the signs of a genuine upswing were missing.

"This is a worrisome trend, since it is a situation that is symptomatic of a fortress economy."

The impact of trade and financial sanctions would be felt in the coming months — compounded by a general slowdown in the world economy.

Dr Stuart warned businessmen that although South Africa was riding relatively high on "a vigorous wave of consumer activity", the time had come for consumers to start tightening their belts.

Once again the balance of payments problem was dampening economic growth, which would contribute to a drop in living standards and further unemployment.

Mr Schwarz said upswings in the South African economy normally caused the current account of the balance of payments to go into deficit because the increase in imports was not compensated by a corresponding increase in exports.

In the past this problem had been solved by acquiring long-term foreign loans but these were not available now because of a lack of investor confidence in the long-term future of the country.

Mr Schwarz said the only way of coping with this "siege economy" was to adapt it through "inward industrialisation".

The way to do that was to concentrate on producing food, clothing and housing in the country itself.

49

MAGUS 17/5/88

Socialism in retreat, says Malan

Parliamentary Staff

THE "sun of socialism" was setting on the period of Soviet expansionism in Southern Africa with the Soviet Union no longer able to afford the price and on its way home, said Defence Minister General Magnus Malan.

Speaking in the House of Representatives yesterday during the debate on his budget vote, General Malan said 10 to 12 years ago there was great optimism in the frontline states that the "sun of socialism was rising".

"Today, that sun is setting behind the hills of collapse and poverty. Socialism has failed, even in the Soviet Union. Pre-

mier Gorbachev says so himself."

Latest statistics from the US showed that Afghanistan had cost the Soviets \$2,5-billion over the past five years. Arms aid to Cuba had cost \$6,4-billion and Angola had taken \$4-billion out of Russian coffers.

"Angola seems to have been an extremely expensive experiment in the exportation of Marxism. Today Angola is in social and economic chaos, Cuba lives on Moscow's mercy and Swapo is generally viewed as a mistake."

The scene and its players in Southern Africa had changed dramatically, he said.

But while the Soviets could

pull their troops out of Afghanistan, what was General Fidel Castro going to do with his "roving forces" in Angola?

General Malan said Africa should be careful that these Cuban soldiers did not eventually become a "nomadic horde" wandering without destination.

"The rumours that we hear about these forces in terms of sicknesses like Aids also portends little good."

General Malan received praise and support from members of the House with Mr Patrick McKenzie, Labour Party MP for Bonteheuwel, supporting the presence of troops — "our men in uniform" — in the townships.

"The unrest has brought our men in uniform closer to the people in the townships," he said. "When we are asleep they are our watchful eyes."

He warned General Malan to approach the (Angolan) MPLA with caution: "You must view every talks with communists with suspicion. They will only talk when they are losing and have their tails between their legs. Perhaps they are talking now after the good hiding we have given them."

Mr G Leeuw said South Africa had gone to Brazzaville with "its flag flying high" while there was "tension among the anarchists" — the people in Brazzaville and Broederstroom who wanted to overthrow South Africa with violence.

Gross domestic production up 3,5%

911 14
07886
CAPL Tunks 18/5/88 (49)

Economy shows strong growth

By AUDREY D'ANGELO
Financial Editor

SA'S gross domestic production (GDP) rose by 3,5% in the first quarter of 1988, compared with a rise of 5,3% in the final quarter of last year, the Central Statistics Office reported yesterday.

But the impression this gives, that the economy is slowing down, is misleading. A detailed breakdown shows that manufacturing production rose by 9%, construction by 6,6% and commerce and catering by 6,6%.

Economists believe gross domestic expenditure (GDE) figures still to be disclosed will show that consumer spending has risen in the quarter by between 5% and 6% with the gap due to a rise in imports, putting the balance of payments under pressure.

Pointing this out, Standard Bank economist Andre Hamersma said the SA economy had performed strongly in the quarter.

"A growth rate of 3,5% does not measure the real temperature of the economy.

"I believe GDE has risen by 5% or 6% which shows that we are heading for trouble with the balance of payments."

Old Mutual chief economist David Möhr said that if mining and agriculture were left out he estimated GDP in other sectors of the economy would have risen by about 6,6% in the quarter.

"That gives a truer reflection of what is going on."

Southern Life economist Mike Daly said the rise of 3,5% still indicated a very strong economy, particularly as no indication was given of spending on imports.

GDP for the whole of last year averaged 2,1%.

The Central Statistics Office said real production rose sharply in the first quarter of this year in spite of a decline of 5% in the mining sector.

In the course of last year mining production fell steadily. It declined by 12,3% in the third quarter, mainly as a result of industrial action.

The position improved in the fourth quarter with an increase of more than 9% but declined again in the first quarter of this year.

Agriculture showed a sharp turnaround moving from a decline of 24,9% in the third quarter of last year to an increase of 25,2% in the fourth. In the first quarter of this year it increased by a more modest 5,2%.

IN FRONT
DAILY
NOV 11 1988

Growth rate climbs to ⁴⁹ 3,5 percent _{16/5/88}

By Magnus Heystek

South Africa's economy grew at an official rate of 3,5 percent in the first quarter of 1988, according to figures released by the Central Statistical Services last night.

Gross domestic product (GDP) at constant 1980 prices increased by 3,5 percent, which was down on the 5,3 percent recorded for the last quarter of 1987. The average for last year was 2,1 percent.

Improved agricultural conditions and the resumption of normal production at the gold mines was given as the main reason for the improved GDP performance in this quarter.

In the first quarter of this year, real production rose sharply in spite of a decline of 5 percent in the mining sector. Manufacturing production climbed by nine percent and satisfactory growth rates were recorded by agriculture (5,4 percent), construction 6,6 percent and commerce and catering services (6,6 percent).

The extent of the rapid upturn in economic activity in the fourth quarter of 1987 and the first quarter of this year caught most economists, and even the monetary authorities by surprise.

The sharp increase in gross domestic expenditure after nearly three years of negative growth resulted in the money supply overshooting its targets and imports picking up.

This necessitated the recent measures announced by the Government.

The sharp upturn in economic activity, coupled with lower export volumes and a lower gold price, resulted in the surplus on the current account of the balance of payments diminishing rapidly.

After recording a merchandise trade surplus of R3,6 billion in the first quarter of 1987, this dropped to a surplus of only R1,89 billion in the first quarter of the year.

Assocom lowers growth sights

By Sven Lünsche

Assocom yesterday lowered its gross domestic product (GDP) growth forecast for 1988 from three percent to under 2,5 percent, saying "there are now more uncertainties about the medium-term outlook for the economy than was apparent a few months ago".

In a statement after its two-day, mid-year meeting of its executive body, Assocom said: "A combination of factors now poses the question as to whether economic growth will be sustained into 1989 on an adequate basis. This will clearly depend on a number of political and economic variables — both internal and external."

The executive council said it noted with concern that the rise in GDP had fallen far short of the increase in population.

It said the shrinkage of the surplus of the current account of the balance of payments from last year's R6 billion to an expected

R1 billion was a clear sign the economy was overheating.

The severe restraints on the growth of the balance of payments had placed a ceiling on GDP growth of three percent under current circumstances.

In the light of these constraints, and taking into account the recent economic restraint measures by the authorities, Assocom expected a levelling off in economic growth in the second half of 1988, which would see GDP growth for the year as a whole fall below 2,5 percent.

Assocom said with the recent introduction by the authorities of an interest-rate package, "the economic signals have changed from green to amber".

"What is important is whether the economy can be kept on an even keel. If the business community was convinced the economy was on a stable growth path, a levelling off of business activity

later this year would not necessarily dampen business confidence."

Assocom believed the economy must avoid a "boom and bust" situation and therefore the economy had to be handled carefully: "There is one cardinal maxim for the authorities: early action is indispensable. If matters are allowed to drift in the face of a balance of payments constraint, the correction will be more difficult and more liable to harmful repercussions."

"This is especially so in regard to monetary policy and interest rates. The economy is probably more interest-rate sensitive now than in previous years, so a relatively small rise in interest rates, could project a strong signal in the right circumstances."

Assocom ratified its name change yesterday and the organisation will now be calling itself the Association of Chambers of Commerce and Industry.

Cosatu tells of problems with big business

49

Sowetan 20/5/88

GROWING national corporations are posing serious problems for workers who concentrate on strengthening their muscle at plant level, writes LEN MASEKO.

This view is expressed by the Congress of South African Trade Unions in the latest edition of its mouthpiece, *Cosatu News*.

Certain companies, says Cosatu, have acquired a lot of capital and have grown into big national corporations with factories spread all over the country. This move had been accompanied by "a concentration of power at a centralised national level."

Cosatu says: "... With bosses concerned only with maximising profits, centralised planning and policy-making at national and international level has become the norm in most national monopoly organisations.

"Powers are delegated from the national and international head office to various divisions within the corporation. But, finally, individual factories and plants become the centres for the implementation of the company's policy," says the federation.

Basic demands

This development had posed serious problems for workers who had — since 1973 — concentrated organisation at plant level and had been content with winning basic demands at individual factories.

But, says the federation, the unions have also expanded their organisational base in the last 15 years and have developed "a truly national profile". They had also built national structures and developed greater resources.

Yet, while winning "limited victories" in their factories, workers had not been able to challenge

company policy or deal directly with those who formulate it.

The result of these developments in both capital and labour had been one union being organised in a company at many different factories in various parts of the country.

Cosatu says: "And each union in an individual factory has had to deal separately with plant-level management, making it impossible for workers to bargain and negotiate directly with the central policy makers in their national or international head office.

"One of the immediate problems the union faces in this situation is that, while management has the resources to cope with numerous sets of negotiations across the country, the union is unable to develop adequate communication structures between factories and plants," the federation adds.

Significant advances

The end result, according to Cosatu, was that workers' organisations were easily "divided and out-manoeuvred". It often happened that, while workers in different factories belonged to the same union, they did not know what their fellow workers in other plants were negotiating or doing.

"Workers have since realised that their old style of organising at the factory gate was not enough to challenge the concentration and centralisation of power within monopolies," says the federation.

Trade unions were now making significant advances in building national shop stewards' councils consisting of representatives of workers employed by giant monopolies. These structures were aimed at challenging the power of big business.

SOUTH AFRICA'S public sector has expanded to the point where it now numbers 1,7m people, who will this year consume the equivalent of half of the national Budget in salaries, wages and benefits.

The effect, as this study will show, is that SA as a whole is getting poorer by the year.

Government usually produces much lower cost figures, as it did this week in Parliament. But its spokesmen and politicians (and, for that matter, the media) are notoriously imprecise about what they mean by "the public sector". The result is confusion. This analysis seeks to chart a course through the maze of official data to determine the true cost to this country of its public sector.

Not even government disputes the fact that the public sector is growing. The real cost is best measured by examining the rate of growth. A series of graphs produced by Rand Merchant Bank chief economist Rudolph Gouws, based on Reserve Bank data, dramatically illustrate the point.

The first graph — headed Employment Growth — compares growth in employment in general government (central government, local authorities, provincial administrations, statutory bodies and national and independent states) with employment growth in the private sector over the period 1973 to 1987.

While the private sector remained virtually static, growing a mere 0,8%, jobs in government grew by 4% — and the rate of growth appears to be accelerating.

The next graph — headed Savings vs Tax — shows the effect.

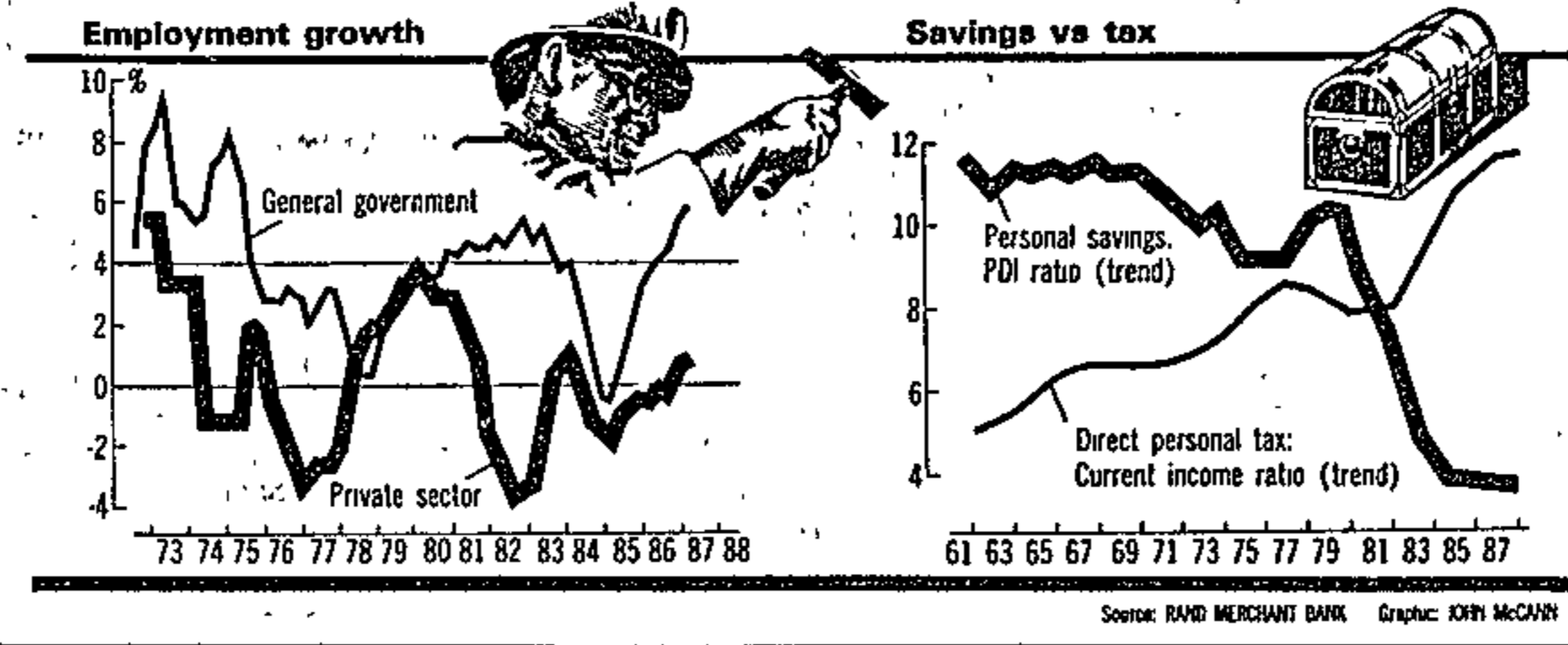
Between 1961 and 1987, personal savings have fallen steadily in relation to personal disposable income (PDI). In Gouws's words: "This decline has been an almost perfect mirror-image of the rise in the ratio of direct personal tax to current personal income. No long-term recovery in private capital formation, which is the basis of private fixed investment and employment growth, can commence before the secular uptrend in the tax burden is reversed."

Wages, salaries and benefits for the public sector consume the biggest proportion of tax revenue. What Gouws is in fact saying is that the economy cannot grow until government becomes smaller. In the meantime, South Africans working in the private sector are becoming poorer to keep public servants in jobs.

Since 1982, government has slid deeper and deeper into a situation of "negative savings," which comes down to funding current expenditure (mainly salaries and wages) by way of loans. The end result, says Gouws, is that our children will one day be working to pay the salaries of today's public servants.

A taxing tale of the public funding State bureaucracy

Ordinary South Africans are becoming poorer to keep public servants in their jobs. And the effect of continuing proliferation of the public sector will be that our children will one day work to pay the salaries of today's public servants. Deputy Editor NEIL JACOBSON reports

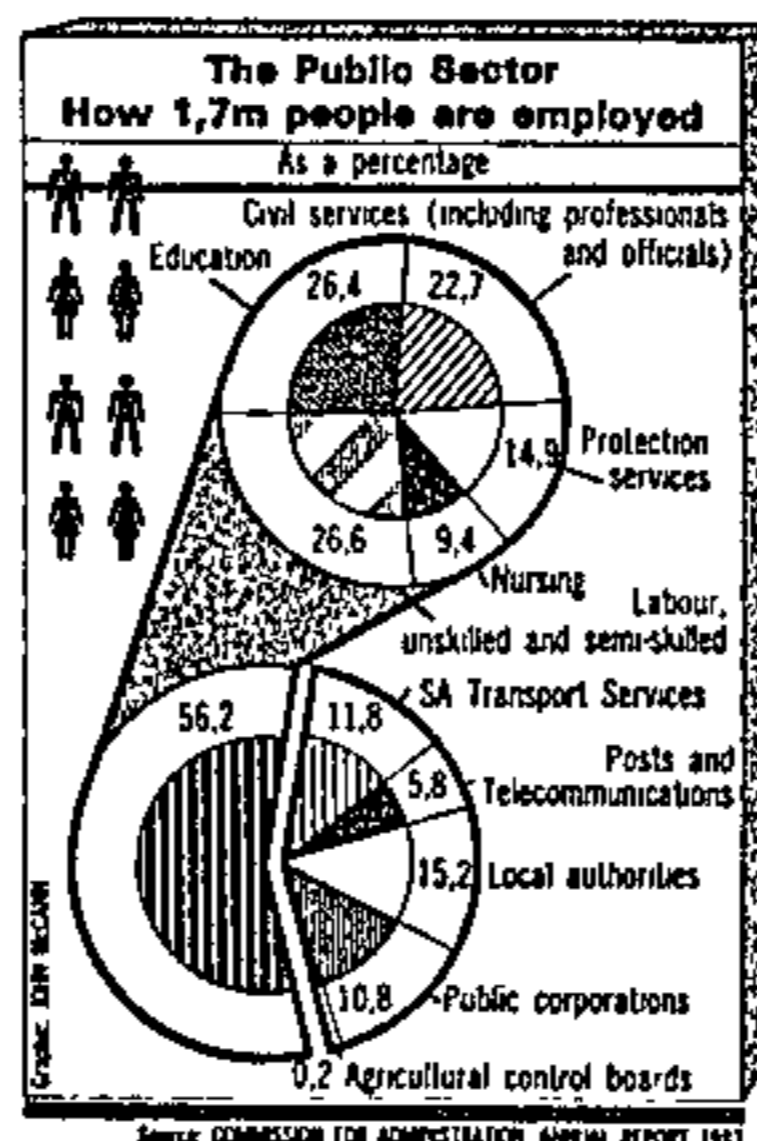


In rand terms, the cost of the public sector is staggering.

Total public sector salaries and wages, according to Central Statistical Services (CSS), amounted to R6,58bn in the last quarter of 1987. Annualised, that mounts to R26,32bn. By comparison, this year's Budget is R53,8bn.

The comparison with the national Budget is only a yardstick, because a number of different budgets are involved. Sats, the Post Office, local authorities and the public corporations, for example, generate some of their own revenue and function outside the main budget. But the national accounts consist of more than just the main Budget, and the cost of these sectors, almost without exception, contributes to the State's economic condition — and the growing budget deficit.

That quarterly figure of R6,58 bn is not an aberration. CSS figures for the previous quarter, the third of 1987, peg public sector wages at R6,01bn, which annualises to more than R24bn. The CSS figures also show the rate of increase in public sector salaries. The third quarter figure of R6,01bn was 3,2% higher than the second quarter (R5,8bn) and 17,1% higher than the first quarter of 1987 (R5bn).



Just what does the public sector consist of?

The Commission for Administration, government's personnel agency, is steadily improving its standards of reporting and its 1987 annual report, plus a booklet released in Parliament this week called Exchequer Personnel 1988, go a long way towards lifting the veil on

the number of people employed by the State.

Its definition of the broad public sector, numbering 1 679 000 people, covers:

- All central and provincial government departments, including own affairs administrations and regional offices, and including Sats, Posts and Telecom, SADF and SA Police;
- The public services of the six self-governing homelands, but excluding officials of the "independent" TBVC countries;
- The staff of all local authorities, the public corporations, such as Iscor, Eskom and the SABC, and the agricultural control boards;
- Staff of the various parastatal institutions, including scientific bodies, such as the CSIR, Human Sciences Research Council, SA Bureau of Standards, Mintek, Medical Research Council, etc; cultural bodies, such as regional arts councils, the National Monuments Council, the National Parks Board of Trustees and other such bodies; and other institutions, such as the staff of Parliament and the Consumer Council; and
- The staff of universities and technicians.

With that broad definition, government differentiates between the following:

□ The Public Service, which numbers 718 504. This is a fairly narrow definition of the public service, often quoted in Parliament, and it encompasses only central government and provincial departments, including the own affairs administrations. Sats and Posts and Telecom staff are excluded; and

□ The Exchequer personnel corps, which numbers 943 861. A broader category, it includes the 718 000 public servants in the first category, and adds the bureaucracies of the self-governing homelands, the parastatals and the universities and technicians. But it also excludes Sats and Posts and Telecom.

The broad public sector figure of 1,7-million then includes, in addition, some 200 000 Sats workers, 100 000 Posts and Telecom staff, more than a quarter of a million local authority workers, 180 000 public corporation employees and more than 3 000 agricultural control board staff.

And the bureaucracy is still swelling. Last year, no fewer than 48 775 additional people were hired by central government. For the last two years, the figure is 135 184 people — only for the exchequer personnel corps.

Pretoria has three main explanations. The first is the cost of achieving racial pay parity, which the commission says it reached in March this year. Equal pay for equal work is a necessary goal, but can SA afford pay parity at the level white public servants have come to expect? Either pay levels must come down — or fewer people must compete for the same jobs.

The second is the growth in education, particularly for black people. Educators, including university and technician teaching staff, number 250 000 and represent 26,4% of the exchequer personnel corps. It is a major and important investment in the nation's future.

The third defence is that reform, National Party style, must by its nature increase the size and complexity of the bureaucracy. The tripling of three houses of Parliament, each with its own bureaucracy, accounts for many of the new appointments — and the party is by no means over.

Pretoria's constitutional plans provide for an entirely new structure for urban blacks, with nine regional committees, a number of national councils and bodies and expanded local authorities. Each will require its own administration — fresh armies of bureaucrats of all colours, shapes and sizes, all with government housing loans, all assured of a government pension, all qualifying for a variety of perks — and all paid by the taxpayer.

As a senior Pretoria official said, in a moment of great candour: "If the white electorate want apartheid, then it must be prepared to pay for it." He is right. But the entire country, not only the white electorate, will foot the bill in the end.

2/28

49

Blday 20/5/88

NEWS FOCUS

THE MAIN reason for the low budgeted rise in (government) expenditure in the present fiscal year is the decision not to grant general salary and wage increases to public servants. This option will not be available next year, and it is not yet clear which other options there will be for cutting the government's current expenditure.

Given the enormous demands which will continue to be made on spending categories, such as education, socio-economic upliftment, protection services and State debt service costs, it is difficult to see current expenditure falling in relation to GDP. After declining for 10 years, capital spending is now a very small proportion of total spending, and is more likely to rise than to fall further after this fiscal year.

Even if government managed to bring about a reduction in the ratio of government spending to GDP, it is not clear that this would also cause the tax burden to reduce in the years immediately ahead. The reason is the need to redress government's "negative savings" which has been allowed to develop since 1982.

Competing

A portion of this substantial funding of current expenditure by way of loans is perhaps tenable because it represents an investment in human capital (i.e., education spending), but there is ample evidence that government considers the present level of "negative savings" as "too high," and it has indeed been stressed on several occasions (most recently in the March 1988 Budget speech) that this will have to be addressed.

For this reason, and also since not too much store can be placed on privatisation proceeds in the short-term, because the goals of increased socio-economic spending and the redemption of government debt will also be competing for these funds, a material tax reduction in the years ahead is unlikely.

The White Paper, in fact, acknowledges (with what seems to be a hint of sadness) that, because of budgetary considerations, little room is left for the kind of adjustments

State spending curbs still the key

Tax reform has little chance of achieving government's macro-economic goals unless government succeeds in curbing its spending, argues Rand Merchant Bank economist RUDOLPH GOUWS. This is an extract from a paper delivered to a tax conference this week

recommended by the Margo Commission.

This reality means that meeting the goal of attaining a satisfactory level of real per capita personal disposable income (PDI) is unlikely to be reached through fiscal means for the foreseeable future. The same conclusion applies to the goal of creating adequate employment.

One of the most important determinants of the rate of growth of private sector employment is private fixed investment. There are some who would argue that the recommended shift of part of the direct personal tax burden to corporate tax will hamper private fixed investment, and that the planned removal of tax allowances will undermine fixed investment and employment creation.

The Commission was, in my opinion, validly sceptical of the benefits of using fiscal measures to boost private fixed investment, and the macro-economic evidence is certainly on the side of the Commission.

Through the Sixties, the ratio of direct corporate tax to total corporate income rose from 16,4% to 18,8%. Over the same period, the average annual growth of private fixed investment was a very high 8,1%.

From 1970, the ratio of tax to income fell back to the level of the early Sixties (and was, in fact, lower on average through the period than it had been in the Sixties), yet private fixed investment growth averaged only 1,3% per year. The sharply declining corporate tax burden was unable to offset the many other forces which caused the weak private fixed investment performance.

However, evidence shows there is little to suggest that a higher ratio of corporate tax to corporate income will have an adverse impact on private fixed investment and job creation. A more fundamental determinant of private fixed investment and job creation is the ability of the private sector to mobilise capital, and this ability has diminished badly since the start of the Seventies as the savings ratio fell.

Commended

But consumers did not save less because they spent more: the decline in savings went hand-in-hand with much slower growth of real consumer spending. The fact is that the sharp rise in the tax burden, and direct tax in particular, has made net new personal savings almost impossible.

(But) government is to be commended for the new approaches to control over departmental spending which are now being implemented, and for setting specific targets for the ratio of government and public sector spending to GDP. Making these intentions a reality is a prerequisite for halting the rise in the tax burden, without which tax reform is not going to bring us much closer to reaching our macroeconomic goals.

Economy seen in sombre light

Sowetan 2/5/88

ON May 5, soon after the release of the March money supply growth figures and the announcement of an unsatisfactorily small surplus on the trade account, the Government announced a package of fiscal and monetary measures.

The explanation for the layman was simple: the measures are necessary in order to sustain the economic upswing within affordable limits for a longer time.

In other words, the package was delivered as a precaution in order to sustain growth and ward off demand pull and import push inflation.

Many economists however, are seeing the state of the economy in a far more sombre light and do not see the recent steps announced as sufficient to ward off credit demand before the pressures on inflation and on the trade account (exports minus imports) amount up.

Car

An indication of the rate of growth of consumer spending in the South African economy can best be understood by comparing some first quarter 1988 figures with the same data in the first quarter of 1987:

- Gross domestic expenditure was up by approximately 10 per cent;
- New car sales rose by 35 per cent;
- Broad money supply rose by 24 per cent;
- Total credit to the private sector rose by an annual rate of 26 per cent;
- Wholesale sales in constant prices rose by 14 per cent;
- Retail sales in constant prices rose by 15 per cent;
- Manufacturing production was up a seasonally adjusted 18

BY AN ECONOMIST

percent from the first quarter to the fourth quarter in 1987; and

- Building plans in constant prices also rose sharply in the same time period.

Huge

The R1894 billion surplus on the trade account during the first quarter of 1988 was almost 50 percent lower than the R3600 billion of the first quarter in 1987.

Trade exports from January to March totalled to R10573 billion and imports totalled R8680 billion.

The huge rise in imports comes as a result of buoyant consumer spending.

This, combined with the weaker rand has caused the value of imports to rise at an alarming pace putting the current account of the balance of payments under pressure.

A surplus is needed on the current account so that South Africa can repay its foreign debt commitment as well as finance local infrastructure developments in the absence of foreign developments.

With a deteriorating export performance and the need to repay our foreign debt, the simple reality is that we do not have the means to maintain our external balance while growing at the same time.

The ultimate result is that the South African economy will have to temper its growth rate to around 2 percent from the ± 4 percent — 25 percent level.

This will obviously have a detrimental effect on the economy domestically as population growth alone increases at a rate of more than 3.5 percent a year.

It is obvious that the authorities are taking the politically expedient route. They are certainly not prepared to let the economy stagnate or go into recession with municipal elections just round the corner in October and general election next year.

Reluctant

The measures they have introduced in the latest package will do little to both import and credit demand in the near term.

The will and capacity to increase consumer spending is far from exhausted. Yet, the authorities are reluctant to use visible and politically unviable.

The recent one percent rise in the bank rate and the consequential one percent increase in the prime lending rate is unlikely to cool the general overdraft demand.

The home loan 1.5 percent rise to 15 percent will probably have a greater impact as

prospective homeowners will find it more difficult to secure bonds than in the past.

People paying off their home loans are likely to face substantial increases in bond repayments following the announcement of the interest rate hike.

In order to try and temper credit demand the authorities have decided to cut down on the easy availability of credit that they supplied to commercial banks who required the credit to meet the private domestic demand requirements.

The Reserve Bank has thus threatened to follow a less accommodative monetary stance than last year.

Other measures introduced by the Treasury to temper credit demand are:

- A tightening of instalment credit;
 - Making leasing transaction subject to legislation governing credit extension;
 - Phasing out the debtors allowance for general sales tax purposes and;
 - Raising motor vehicle valuations for fringe benefit and tax purposes.
- The choice taken by the authorities is clearly one in favour of constrained growth. This, in the absence of punitive interest rates, pressurises the balance of payments and eventually relies on the rand to carry most of the adjustment burden.

Thus instead of placing physical controls on imports, one can let the rand fall to such low levels that it becomes extremely expensive to import.

Unfortunately, most of our imports today are intermediate goods used in local production. In addition, South Africans have shown an incredible insensitivity to price increases earlier on in consumer booms.

Recovery

All this suggests continued import growth in the face of a falling rand and worsening current account pressures.

The rise in imports has implications for inflation as the higher price of the imported component of producer prices caused by the weaker rand, will

tend to place upward pressure on consumer prices.

This, together with tighter labour markets and union demands for wage increases as well as the continued recovery in domestic demand paints the scenario of inflation approaching a bottoming out area soon.

As always, it's a matter of time until we see the true manifestations of policy measures today. The warning signals are all in place but the general public together with the government still appear to be in the denial phase.

Thus for the time being, expect things to continue to ride as they did in the last quarter with interest rates a bit higher, the rand a lot lower, the balance of payments under more pressure and inflation beginning to bottom out.

| MODE. | 1 | 2 | 3 | 4 | 5 |
|-------|-------|-------|-------|-------|-------|
| MAG % | 101.2 | 85.0 | 75.0 | 70.7 | 61.5 |
| REG. | 0.506 | 0.425 | 0.375 | 0.354 | 0.308 |

TOLS ± 0.030 INS. MEASURED FROM LEAD EDGE TO HORIZONTAL REF.

FIELD USE ONLY

VERTICAL REFERENCE LINE 10"

HORIZONTAL REFERENCE LINE 10"

Public service salary hike?

THERE are indications that the Government is considering giving public servants a general pay rise this year after all.

"I think they are going to make some announcement. They seem to be preparing the ground for it," Mr Roger Burrows, the Progressive Federal Party spokesman on the public service, said yesterday.

He said he based his prediction on statements by Dr Dawie de Villiers, Minister of Administration and Privatisation, and on the improvement in the economy and on information from public service contacts.

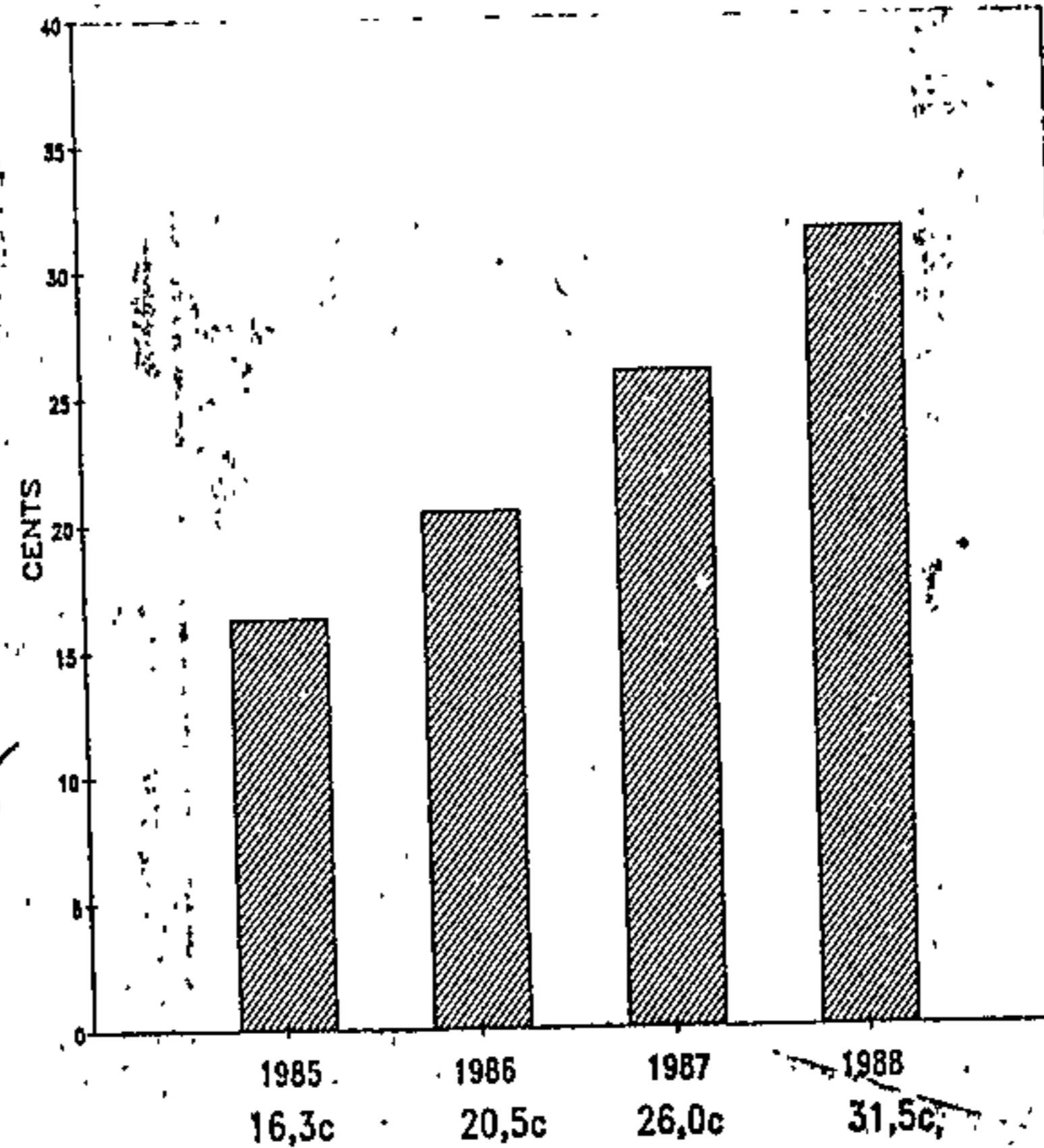
Dr de Villiers hinted at a possible rise earlier this week in Parliament. He told the House of Representatives that the Government was watching the economy very closely and if the economy allowed it, it would give high priority to a "meaningful general increase".

Mr Burrows said that his statement taken with the fact that the economy had grown about four percent in the first quarter, indicated that the Government might make an announcement.

44
LAC

2015/02
2015/02

The Southern Life Association Ltd Dividends per Share



AVERAGE ANNUAL COMPOUND GROWTH OVER THE PERIOD WAS 25%

SA's 'problem': Wealth creation

Handwritten notes: Cape Times, 21/5/84

DURBAN. — The real problem facing South Africa was not state over-expenditure, but the speedy generation of wealth and income needed to meet the constitutional challenge, the Minister of Finance, Barend du Plessis, told the South African Institute of Chartered Secretaries and Administrators yesterday.

He said the whole process of the government's laying claim to an ever-growing share of the Gross Domestic Product had to be reversed so that scarce resources were released for growth.

This reduction in the scale of state activity was already happening and privatization was only one aspect of the exercise.

Even when privatization had run its course, there was still much room for the pruning and restructuring of public expenditure. This was now receiving urgent attention and the State President's Committee on National Priorities was one of the building blocks.

"We are committed to a restructuring of overall expenditure that will create a better balance between consumption spending and the formation of both fixed and human capital," he said.

More funds would have to be channelled towards those needs that had clearly been assuming an increasing weight in the country's political economy. — Sapa

Cape Times 21/5/88 (49)

Parastatals take 'too much capital'

THE parastatals have been absorbing too great a slice of the country's capital investment, a trend which will have to stop. This is the main message government has been receiving from Wim de Villiers, special adviser to the state on all circumstances surrounding these parastatals.

This conclusion was revealed by Finance Minister Bar-end du Plessis at the SA Institute of Chartered Secretaries and Administrators in Durban yesterday.

He indicated that government has been taking cognisance of this criticism, and considerable restructuring — potential and actual — of these bodies has already achieved much to address this problem.

He maintained that capital spending by general government has also recently shown a declining trend as a proportion of total expenditure.

At the same time, he stressed that growth in consumption expenditure was a phenomenon which could not be allowed to continue.

...ectures indices

Economy gets a shot of black power

SVEN LUNSCHKE

MS Trifana Duma spends virtually 14 hours a day selling knitted jerseys and traditional beadwork on the pavements of Hillbrow's busy Pretoria Street.

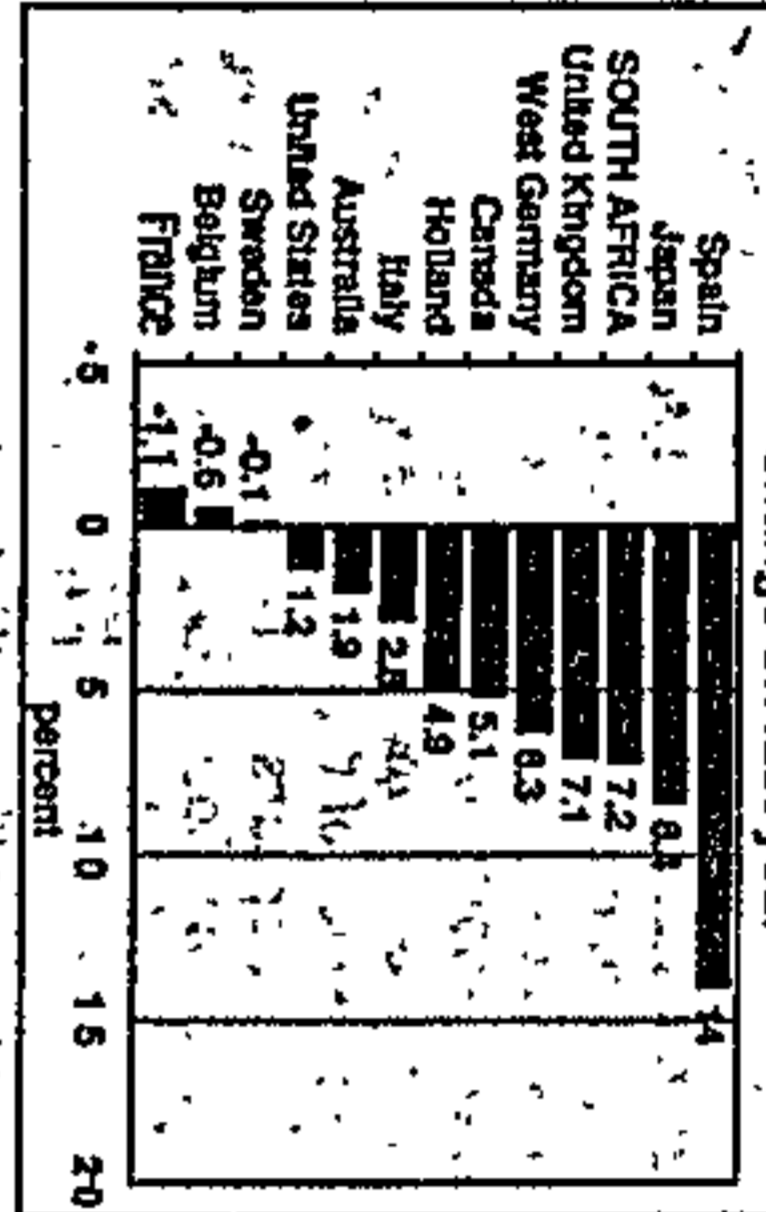
The 51-year-old mother of three is just one of the many thousand hawkers who sell their home-made goods in South Africa's major CBDs, with more or less tacit approval from the authorities.

Most of the hawkers now have licences and the almost daily harassment by the police, which was evident two to three years ago, has decreased considerably, says Ms Duma.

"My jerseys sell well and I can now afford to live in a little room in a Hillbrow flat," she says proudly.

The scene on Pretoria Street repeats itself at an ever increasing rate throughout the country. One needs only to look at the streets around Ellis Park before an important soccer match — a marketplace of hundreds of hawkers suddenly springs up to cater for the

RETAIL SALES VOLUME
change on last year



food and beverage needs of the fans.

The total income of these hawkers, grouped together by economists in the informal sector, is impossible to assess, but recent estimates by officials put the number of people working in this sector at about one million.

Their contribution to economic growth is not listed statistically, but economists agree that it is largely black spending that is giving the economy a major and unexpected shot in the arm.

There are some pointers to this spending boom. Retailers report that sales in black shopping areas throughout the country are soaring, sending

the economy into its biggest growth phase for many years. Shebeen sales are now estimated at more than R1 billion a year.

An international comparison of retail spending increases last year shows South Africa placed at No 3 spot which, economists say, would have been impossible given the prudent spending habits of whites alone (see graph).

Mr Laurie Korsten, executive chairman of merchant bank Corbank, estimates that some of sectors benefiting from this spending could be growing by as much as 10 percent in real terms, although officially, the economy is expected to grow by only 3 percent at the most this year.

Black spending has concentrated particularly on clothing and liquor, though there now appears to have been an increase in spending on food.

The Cape Town-based Bergers cash clothing chain, which caters mainly for middle and upper-income blacks in its 157 stores, reported this week that sales since January were 45 percent ahead of last year.

Chairman Mr Howard Mauerberger expects this trend to continue, despite the recent restrictions on hire-pur-

chase buying by the financial authorities.

SA Breweries, which is concentrating its sales efforts on the "mass market", also experienced a strong increase in sales recently. As inflation was running at around 15 percent, SAB's sales in real terms during the period were up about 10 percent.

Drop-Inn, the biggest independent bottle store group in the country and owners of the Benny Goldberg bottle store near the Alexandra township, said recently sales had been "frighteningly high".

Mr Wolfgang Thomas, deputy general manager of the Small Business Development Corporation in Cape Town, said he was not surprised by the increase in black spending power. The informal sector was highly significant and spending there was much higher than people realised.

He said the upsurge in black spending stemmed from the upturn in the economy which began about the middle of last year. Many firms did not take on additional staff at first, but this had changed. Firms were employing more people and paying higher wages and this money was filtering through to the retail sector.



DIP 23/5188

Government warned about high cost of parastatals (49)

CAPE TOWN — The parastatals have been absorbing too great a slice of the country's capital investment, a trend which will have to stop.

This is the message the government has received from Mr Wim de Villiers, a special adviser to the state on all circumstances surrounding the parastatals.

This was revealed by the Minister of Finance, Mr Barend du Plessis, when he addressed the South African Institute

of Chartered Secretaries and Administrators in Durban.

Mr Du Plessis indicated that the government had been taking cognisance of this criticism and that considerable restructuring of these bodies had already done much to address this problem.

He maintained that the government's capital spending has also shown a declining trend as a proportion of total expenditure, recently.

At the same time, he

stressed that the growth in consumption expenditure — an effective "dissaving" by the government — was a phenomenon which could not be allowed to continue.

Mr Du Plessis recorded that over the last six years this dissaving amounted to R10,7 bn, with no less than R3,5 bn of that occurring last year.

He added that the composition of this consumption expenditure was disquieting. — PS

Du Plessis points to the 'real problem'

Star 23/1/88

DURBAN — The real problem facing South Africa was not State over-expenditure but the speedy generation of wealth and income needed to meet the constitutional challenge, the Minister of Finance, Mr Barred du Plessis, told the South African Institute of Chartered Secretaries and Administrators at the weekend.

He said the whole process of the Government's laying claim to an evergrowing share of the Gross Domestic Product had to be reversed so that scarce resources were released for growth.

This reduction in the scale of State activity was already happening and privatisation was only

one aspect of the exercise.

Even when privatisation had run its course there was still much room for the pruning and restructuring of public expenditure. This was now receiving urgent attention and the State president's Committee on National Priorities was one of the building blocks.

"We are committed to a restructuring of overall expenditure that will create a better balance between consumption spending and the formation of both fixed and human capital," he said.

More funds would have to be channelled towards those needs that had clearly been assuming

an increasing weight in the country's political economy.

"Our whole macro-strategy of 'inward industrialisation', indeed, hinges on just such a structural shift in demand."

Mr du Plessis said that in the post-Margo and coming privatisation era, total taxation was not in line for drastic down-scaling.

Aggregate taxation would not necessarily decline as a proportion of the GDP because of the inexorable demands which the country faced.

"What can be done, however, is to ensure that the revenue to be raised is kept to the absolute minimum necessary and that it

is utilised optimally towards the attainment of the great goals we have set ourselves as a country."

After being challenged from the floor, Mr du Plessis warned that Government reserved the right to implement tax measures retrospectively to the date upon which it issued warnings condemning undesirable practices.

He was asked for an assurance that happened with the new Minimum Tax on Companies (MTC) would never be repeated.

He replied MTC was a temporary measure but could give no assurances: the Government would never again implement a variation of it.

Political mobilisation needed — lecturer

Apartheid to blame for 'slack' economy

Star 23/5/88

49

By Clare Harper

South Africa needed a peaceful, democratic alternative and a fundamental change in its economic system, Wits University economics lecturer Mr Fuad Cassim told about 80 businessmen at the Five Freedoms Forum conference yesterday.

"We are facing a political economy of disintegration, of which the present attack on the trade union movement, the media, the black community and civil liberties is a part," he said.

The first problem facing the economy was traceable to the faltering system of accumulation in the past, which squandered resources, he said.

The key to economic recovery was lifting the bur-

den of waste caused by apartheid.

"We cannot end this costly homage by handing over a blueprint to Pretoria's policy-makers. It requires sustained political mobilisation," he said.

The problem in South Africa was not simply one of economic growth.

Prior to the start of disintegration in the 1970s, South Africa's growth was based on rich inherited resources. Previous economic wisdom was based on the premise that the key to growth was investment.

"The South African economy is slack. There are huge stocks of available resources which could be used, but we forego billions on the structural edifices of apartheid".

The boom in the 1960s produced a very costly superstructure, which became too costly to maintain.

"So, the success of the apartheid boom in the '60s was also its undoing".

"Bothanomics", with its deregulation and privatisation, had come about as a result of the State being unable to contend with the economic demands it was facing.

It was, he said, "an attempt to separate politics and economics" and to deal with the political crisis.

Although Mr Cassim said that raising real output would reduce some unemployment and poverty, the debate needed to shift to methods of changing the structure of economics so that it best served the majority.

"The challenge for us is to try to define the type of mixed economy we want," he added.

Mini-businesses account for 27 percent of national wealth

Informal sector: panacea to unemployment crisis

They commute between Soweto and Johannesburg to operate as street traders selling everything from fresh fruit to hamburgers, shoelaces to cuff links, plastic shopping bags to watches.

They work 9 to 5 as chartered accountants or architects in the bustling office blocks of Rosebank or Sandton, but at weekends at home in the quiet suburbs they retreat to their dens to fatten out their salaries with freelance assignments — out of view to the taxman.

They are housewives in Alexandra who gather in the afternoons to run knitting and sewing circles to make dresses and woollen jumpers — all to go on sale at local Saturday morning street stalls.

They are housewives in Northcliff who skip bridge or tennis twice a week to run similar circles, baking cakes and cookies, embroidering table napkins — padding out their shopping allowances with sales at weekend neighbourhood fleamarkets.

They beat unemployment by running backyard workshops that repair cars or vacuum cleaners, by making furniture in a spare back-room and by operating shebeens.

They are painters and plumbers and electricians known around the neighbourhood, whether Lenasia or Parktown North, to be on call in the evenings and at weekends to do a bit of odd-job moonlighting — cash on the nail, no invoices, no GST or income tax hassles.

The common denominator is that their mini-businesses go officially unrecorded. Most have no trade licence. Their operations make no appearance in the statistics that pour out of Government offices.

Invisible

Together, they form what economists call the informal sector — or, more descriptively, the underground economy.

In combination they form an invisible economic power-house that Mr Theo Rudman, director of the Self-Employment Institute, estimates has grown to such phenomenal dimensions that it can count its annual cash turnover in billions of rands.

He traces the development of the informal sector in a new book whose title might well reflect the vast potential that has yet to be tapped. "The Third World — South Africa's Hidden Wealth".

Although it might be widely assumed that the informal sector is the exclusive territory of the black community, Mr Rudman is convinced that no fewer than 300 000 white families are now running unofficial mini-businesses from their homes — worth about R1 800 million a year.

But it is the black community that dominates the informal sector, with overall income of between R15 and R20 billion a year, sums so vast that they make nonsense of official figures about the total economy. Mr Rudman estimates that the mini-businesses — formed out of sheer necessity as an alter-

By
**MICHAEL
CHESTER**

native to unemployment or as ventures intended to repair the damage caused to family budgets by inflation and high taxation — now account for no less than 27 percent of the entire national wealth of South Africa as it is measured by gross domestic product.

Regulations

Not that Government rules and regulations have made it easy going for the growth of the informal sector. Mr Rudman quotes reports from the African Council of Hawkers and Informal Businesses that street traders in Johannesburg alone had to fork out more than R1 million in fines in 1986.

Yet the authorities should have been thankful over the way the informal sector has been helping to hold the lid on an over-boil of the unemployment crisis in recent years, according to the facts unearthed in the book.

For instance, on figures supplied by the Institute of Futures Research at Stellenbosch University, South Africa needs to create at least 450 000 new jobs every year until the year 2000 even to keep pace with the population explosion.

Mr Clem Sunter of Anglo American, whose High Road and Low Road scenarios of South Africa's future caused a stir a year or so ago, underlines the problem in a foreword.

To create all those extra jobs, he writes, the economic growth rate needs to be pumped up by at least 5 or 6 percent year in and year out. In fact, income per head, in real terms that take inflation into account, actually sank between 1975 and 1985 — by a dramatic 8,5 percent.

Optimistic

Mr Sunter, like the author, nurses a deep-ingrained optimism that South Africa can lick its economic and unemployment in the end — if it selects the correct strategies: "But it must discover the

treasure buried in people and turn it to advantage."

In the mainstream of Mr Rudman delves entanglement of regulations and that have held the huge tide of informal operations.

It builds up to advise Government on measures:

- Eliminating restriction on small enterprises.
- Establishing a marketing programme of informal sector.
- Making small enterprises available to investors.
- Opening business white areas to all.
- Converting the informal into a taxpayer sector.

Mr Rudman also talks on a quick global proof of the success leashed informal such countries as the States, Britain and T

- "The Third World: South Africa's Hidden Wealth" published by Business R16,95 plus GST.



Mr Len Apfel, retired businessman-cum-hawker.



Above: Sotho Letlotlo travel from plies. They are seen Right: Mr Nelson in N-

International wealth

tor: panacea
ment crisis

295
49

BY
MICHAEL
CHESTER

...to unemployment or as
...intended to repair
...damage caused to family
...by inflation and high
...now account for
...less than 27 percent of the
...national wealth of
...South Africa as it is measured
...gross domestic product.

regulations

...that Government rules and
...regulations have made it easy
...for the growth of the in-
...formal sector. Mr Rudman
...reports from the Afri-
...Council of Hawkers and
...Businesses that
...street traders in Johannes-
...alone had to fork out
...more than R1 million in fines
...1986.

...the authorities should have
...been thankful over the way
...the informal sector has been
...holding the lid on an
...boil of the unemploy-
...ment crisis in recent years,
...according to the facts un-
...derlined in the book.

...instance, on figures supplied
...the Institute of Futures
...Research at Stellenbosch Uni-
...versity, South Africa needs to
...create at least 450 000 new
...jobs every year until the year
...2000 even to keep pace with
...population explosion.

...Clem Sunter of Anglo
...American, whose High Road
...and Low Road scenarios of
...South Africa's future caused a
...furore a year or so ago, under-
...lines the problem in a fore-
...boding way.

...create all those extra jobs,
...Sunter writes, the economic
...growth rate needs to be
...pumped up by at least 5 or
...6 percent year in and year
...out. In fact, income per head,
...in real terms that take infla-
...tion into account, actually
...fell between 1975 and 1985 —
...by a dramatic 8,5 percent.

timistic

...Sunter, like the author,
...has a deep-ingrained opti-
...mism that South Africa can
...overcome its economic and unem-
...ployment in the end — if it
...discovers the correct strategies:
...but it must discover the

treasure buried deep in its
people and turn it to its full
advantage."

In the mainstream of the book,
Mr Rudman delves into the
entanglement of red tape in
regulations and restrictions
that have held the reins on the
huge tide of informal-sector
operations.

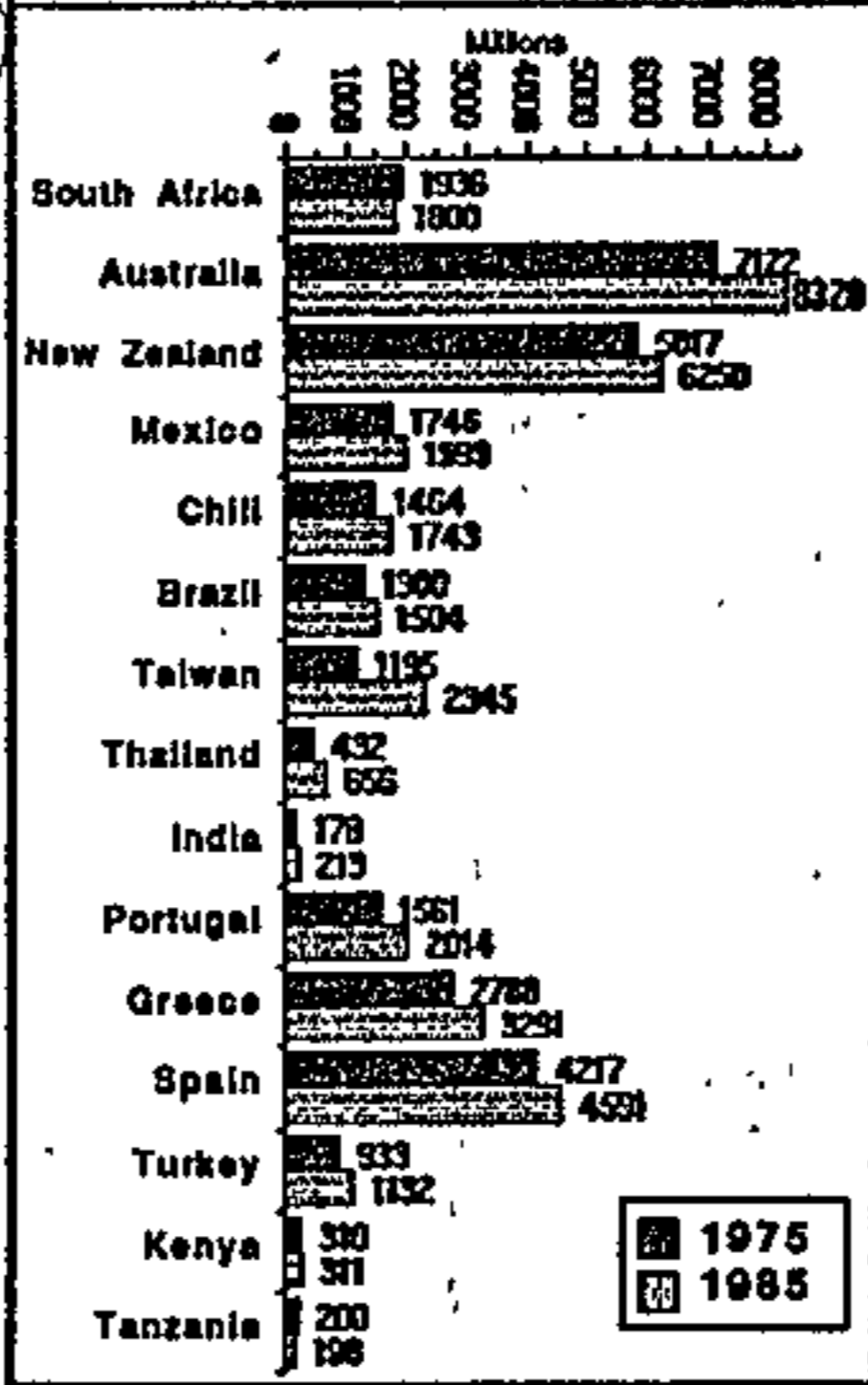
It builds up to advice to the
Government on five major
measures:

- Eliminating restrictive legis-
lation on small enterprises.
- Establishing a national train-
ing programme aimed at the
informal sector.
- Making small loans easily
available to informal ven-
tures.
- Opening business premises in
white areas to all races.
- Converting the informal trad-
er into a taxpayer in the for-
mal sector.

Mr Rudman also takes readers
on a quick global tour to find
proof of the success of an un-
leashed informal sector in
such countries as the United
States, Britain and Taiwan.

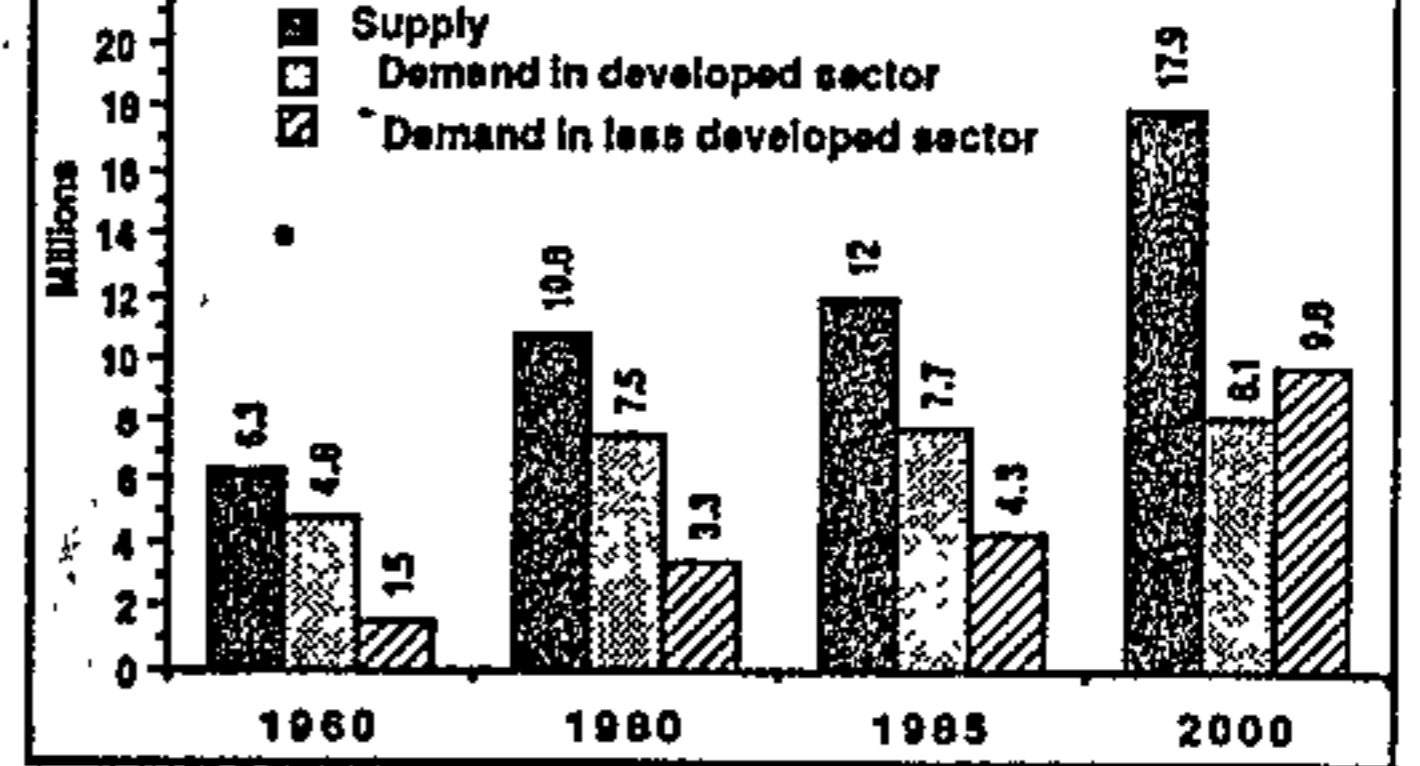
- "The Third World: South Afri-
ca's Hidden Wealth", pub-
lished by Business Dynamics,
R16,95 plus GST.

GROSS DOMESTIC PRODUCT
PER CAPITA (in constant 1980 prices)

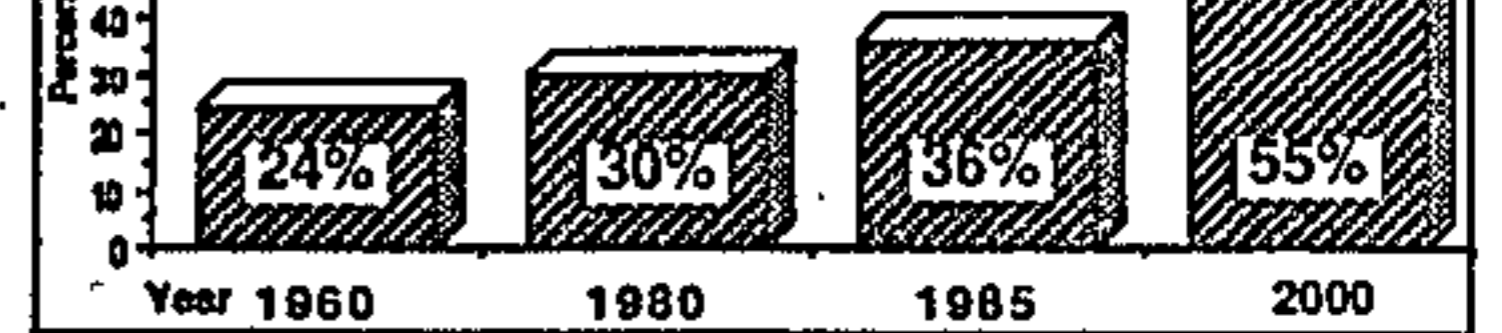


Graphs by Liz Warder

SOUTH AFRICA'S LABOUR
SUPPLY VERSUS DEMAND



PERIPHERAL SECTOR AS
PERCENTAGE OF SUPPLY



Above: Sotho hawkers Mathobo Lomile and Mayselisa Letlotlo travel from Lesotho to Johannesburg to buy supplies. They are served by shop assistant Harriet Lebuso.



Right: Mr Nelson Matlale sells from his pavement "shop" in Noord Street, Johannesburg.

Total market for goods is shifting to black population

Star
25/5/88
49

By Roy Cokayne

Blacks will make up 80 percent of the population by the year 2000 and whites only 12 percent because the natural growth rate of whites, coloureds and Asians is dropping while that of blacks remains relatively high.

The probable implication of this and other demographic factors is that the total market will move numerically more and more towards blacks, said Professor Hentie Boshoff of the Institute for Future Studies at the University of Potchefstroom.

In an opening address to the sectoral commerce congress of the Afrikaanse Handelsinstituut entitled "The Merchant In The Year 2000", Professor Boshoff said the age profile of whites and to a lesser extent coloureds and Asians was tending towards an inverted pyramid — a phenomenon that was not occurring among blacks.

The average age of whites was tending towards middle-age while blacks had a young profile, he said. In addition, whites, coloureds and Asians were already basically urbanised while urbanisation among blacks would increase from its current 30 percent to 70 percent in the year 2000.

Besides the total market shifting towards the black community, the youth market was also shifting increasingly that way.

Turning to labour, Professor Boshoff said whites' share of the active labour market would diminish in favour of other races. White youths would make a poor addition to the labour market but stronger additions would be made by middle-aged whites. The opposite would be true among blacks, he said.

There would be an unmanageable increase in schooled blacks while the

poor training level of black teachers would be a retarding factor for the quality of workers. There would also be a growing inability of the economy to accommodate all job seekers in the formal sector, he said.

Economically, growth would taper off in the 1980s while the redistribution of wealth would be delayed.

The export market would become more high technology, capital intensive and sophisticated while the local market would increasingly be inwardly industrialised and focused on basic demand and lower level technology.

Professor Boshoff said the probable implications of these economic factors were that basic demand for items such as food, clothes, furniture and housing would increase above average in the local market.

Politically, Professor Boshoff said increasing separation and polarisation would take place among socio-political groups, which meant politics would play an increasing role in settlement and sales while value systems would play a greater role in the composition of sales.

Government will not curb rates

Minister's statements confuse the market

Star 27/5/84

(49)

By Sven Lünsche

Financial markets were thrown into confusion yesterday when the government announced a virtual restraint on interest rates, but later retracted that statement.

Late last night Minister of Information, Dr Stoffel van der Merwe, said the government did not intend to intervene directly to keep down interest rates.

He was clarifying an earlier statement by him at a press conference in which he said the government does not intend allowing interest rates finding their own levels regardless of anything else.

Last night Dr Van der Merwe explained there had been no cabinet decision to hold down interest rates and that he "did not recall using the word 'intervene'."

But Cabinet members had expressed concern at the possibility of rates rising to the "unacceptable" levels of 1984. This was at a report-back meeting to Cabinet by the Minister of Finance, Mr Barend du Plessis, after he had implemented measures to curb credit and marginally cool down the economy three weeks ago.

Mr Du Plessis's response to the concern expressed was that the measures should be given a full chance to take effect, Dr Van der Merwe said.

Dr Van der Merwe said his reference to possible further policy adjustments should not be interpreted to mean the Government was now opting for direct measures to achieve its policy.

"It is therefore incorrect to deduce that Government is contemplating deviating from its basic monetary and fiscal policy stance."

He said Mr du Plessis agreed with this statement.

Despite the late retraction, economists said yesterday that the apparent inconsistencies in economic signals from the various financial and monetary authorities pointed to strong resistance within the Cabinet to further rapid rises in interest rates.

As the announcement was made by Dr van der Merwe instead of the Minister of Finance, it inevitably increased speculation of top-level political differences on the issue, especially against the background of strong pressure from farmers to keep rates low.

The earlier announcement directly contradicted policy statements made by top spokesmen at the Department of Finance and the Reserve Bank in recent months.

Nico Czipionka, Standard Bank's chief economist, said he found the earlier announcement

very surprising as the market did not expect the prime rate to move, at the most, beyond 17 percent from 15 percent this year.

There certainly was no reason for thinking the high rates of 25 percent of 1984 would be repeated.

Using economic criteria the statement showed some discrepancies. Artificially keeping interest rates low might appear to help inflation in the short-term, but it also put pressure on the exchange rate — forcing the rand to devalue further and thereby increasing import costs.

In addition, says Volkskas economist Adam Jacobs, it could increase the money supply and inflation — if low interest rates led to consumers continuing to borrow and spend instead of saving.

THE ECONOMY

WHEN State President PW Botha assessed 40 years of National Party for a newspaper last Sunday, he took credit for economic growth: "The years since 1948 have brought great prosperity for South Africa. In the period since then, an average real economic growth rate of 3,9 percent has been achieved."

What he didn't say was that was mostly in the 1950s, when economic growth averaged over four percent a year, and the 1960s, when the average figure was close to six percent.

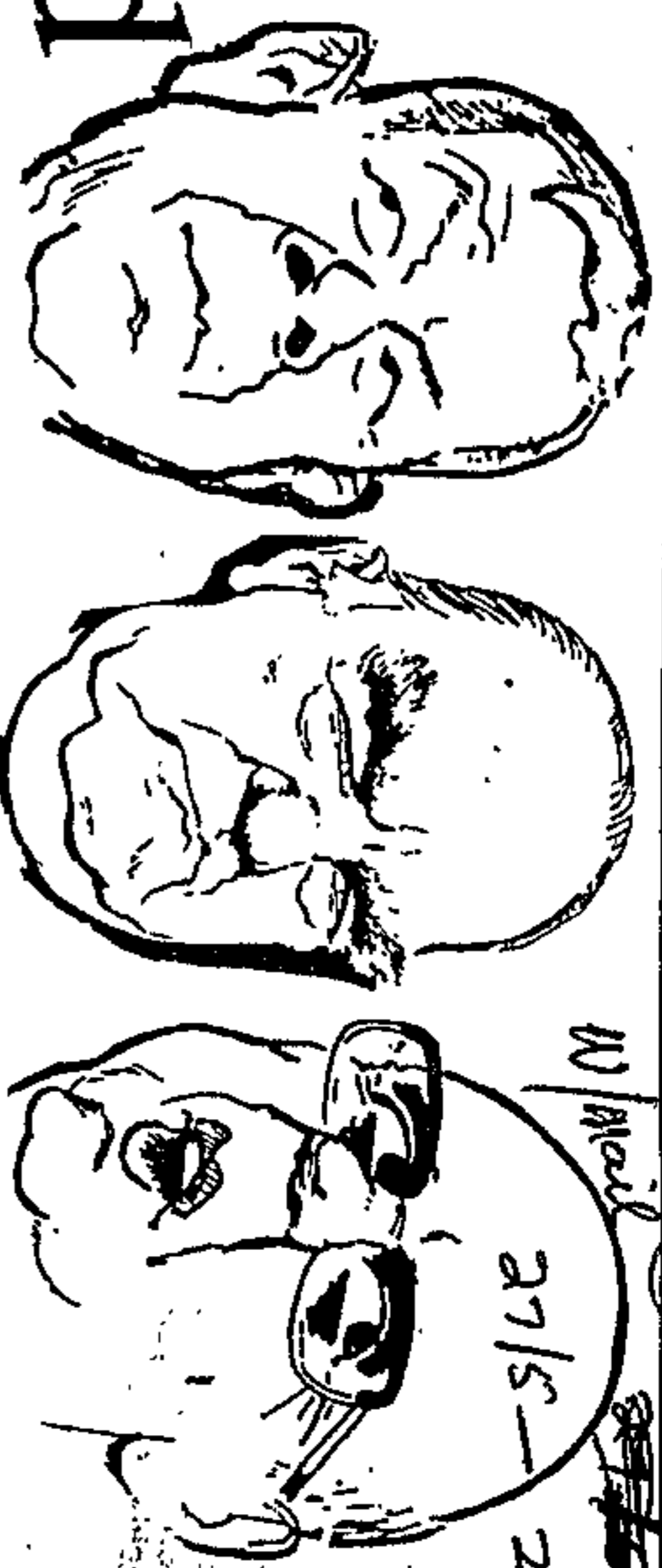
In the 1980s the real average annual rate of growth of gross domestic product has been just over one percent — well below the rate needed to address unemployment. Growth per head of the population has actually been negative.

As a legacy of the past 40 years, the South African economy is in deep crisis. It is in a state of long-term decline, it has been for several years, and it shows little sign of pulling out of it. It's a crisis acknowledged by most in business and government.

Lack of economic growth is one central index of the crisis. But numerous others could be cited: a real decline in investment in the 1980s, a black unemployment rate of 19 percent even on the conservative official figures, double digit inflation, declining standards of living, the balance of payments crisis, the government's fiscal crisis and sanctions, particularly capital sanctions.

Over the past year the economy has improved. But the crisis trend has not

True, PW. Nat rule once suited business. But no longer



Architects of South Africa's economy under apartheid: HF Verwoerd, BJ Vorster and PW Botha

The State President says NP rule has brought economic prosperity. Well, that was true (for whites) about twenty years ago. Today, the economy faces pressures it is ill-equipped to address, reports

HILARY JOFFE

been reversed. The booms are getting shorter and the recessions, longer.

As the state president pointed out, apartheid hasn't always been bad for growth. The period of high Verwoerdian apartheid — the 1960s — was also a period of unprecedented growth. (And as the welcoming by many in business of the stabilising effects of the State of Emergency and

their lack of protest again the Labour Relations Amendment Bill suggest, there are aspects of Nationalist strategy which still suit them rather well).

Ironically it's been the move away from Verwoerdian strategies to the "total onslaught" and the "reform" of the past decade that has played a part in exacerbating the crisis.

In the 1980s an economy ill-structured to cope with them is faced with pressures it cannot support.

An economy which was built on cheap labour has been challenged by increasingly-organised black workers and by youth in the townships.

The government has responded to township resistance since the 1970s with attempts to overcome deficits in education and in township infrastructure. But the substantial resources put in don't even begin to address the problems.

The "winning the hearts and minds" strategy, for example, involving township upgrading, has cost R3,2-billion, spent on 34 townships, with plans to spend R16-billion more on another 200 townships, according to Mark Swilling of Wits University's Centre for Policy Studies.

Education spending has risen by 3 500 percent over the past 15 years. Institute of Race Relations director John Kane-Berman notes this has brought the white/black spending ratio down from 18 to one in the early 1970s to seven to one now — but seven to one was the ratio in 1953.

As great or greater than the cost of reform has been the price of repressing township resistance: reflected in increases in police army and prisons budgets consistently above the inflation rate for the past few years. The trend to upgrading townships

P.T.O.

is relatively new: expenditure to create and maintain "homelands" has gone on longer, incurring costs in the pattern of industrial development it has attempted to impose and in tax concessions and the building of infrastructure. An estimate cited by economists Paul Wellings and Anthony Black in a recently-published book puts the average cost of each decentralised job at four times that of an urban job. The cost of the incentives alone grew from approximately R70-million in 1981/82 to a projected R600-million in 1985/86.

The list could go on to include the financing of "homeland" puppet governments and military incursions into neighbouring countries, not to mention the overblown bureaucracy and costly duplication which goes with tricameralism.

University of Cape Town professor Mike Savage estimated the current direct costs of apartheid, based on 1985 government budget figures, at between 10 to 20 percent of spending. Other costs in the form of lost opportunities, lost growth and human costs, were unquantifiable but potentially far greater.

"Costing apartheid" is a risky exercise. Some spending would be done by any government — and resources aren't entirely "lost", even if the motivation for their allocation is support for the apartheid system.

But perhaps the most striking and direct cost of Nationalist rule in the 1980s has been the direct and indirect effects of sanctions.

One most crucial cost is that of capital sanctions in terms of stifled economic growth.

Another is the way in which sanctions increase the cost of imported resources: oil is the best example. A Shipping Bureau Report put the additional cost to South Africa of oil sanctions at R200-billion in 1981.

Sanctions have meant too that vast resources have gone into developing industries and infrastructure to produce commodities such as oil from coal and arms which, without sanctions or the threat of sanctions, might have been got cheaper on the international market. Some of apartheid's great success stories, such as Sasol, are also some of its costs.

Sanctions handicap exporters in a context where exporting is difficult anyway because of the world economic slowdown and intensified competition for markets, particularly from newly-industrialised countries such as those in Southeast Asia.

And the cost of the sanctions threat in terms of business confidence is unquantifiable but undoubtedly great: after all, why invest if export markets could close up further and if domestic growth is not to be allowed to exceed certain levels?

There was a time when those in both business and government made some attempt to fight the threat with promises of change. That has ended. It is now clear that international factors are low on the government's list of priorities.

BCI levels off at 99,3 pts ⁽⁴⁹⁾

By Sven Lünsche

Business confidence remains at recent high levels, but there are tentative signs it may be on a new plateau, writes Assocom.

Commenting on figures, which show that the Business Confidence Index for May paused at 99,3 points, Assocom says business mood is still positive, but a note of uncertainty has emerged about the medium-term economic outlook.

In the light of the balance of payments constraints and taking into account the recent economic "policy package" introduced by the financial and mon-

etary authorities, Assocom expects economic activity to level off in the second half of 1988. It adds, however, that the measures must be given more time to demonstrate whether they have stabilised or cooled down the economy.

The organisation has lowered its growth forecast of three percent to 2,5 percent this year, as it appears unlikely that growth rates of 2,8 percent will be achieved in the last three quarters of the year which, given a GDP rise of 3,5 percent in the first quarter, would average annual growth at three percent.

WESTERN CAPE ECONOMY

Good and bad news

Commerce and industry in the western Cape are worlds apart in their view of the region's economic future.

The Cape Town Chamber of Commerce (CTCC) believes the prospects are brighter than they have been for years — but the Cape Chamber of Industries (CCI) takes the opposite view.

CCI director Colin McCarthy warns that without regional assistance, the western Cape's industrial base will continue to erode.

CTCC officials point to tourism and leisure developments as sure signs that the local economy is improving. Director Alan Lighton says tourism is "taking off." Projects like the development of the harbour waterfront district into a San Francisco-style "Fisherman's Wharf" leisure and recreation area will make Cape Town even more attractive, he reasons.

A major redevelopment of Cape Town's city centre is already under way and several

department stores are undergoing facelifts.

Industrially, he says government plans to channel export incentives to secondary industry must favour the region. According to CTCC president Michael Boyes: "With its strong consumer goods base and excellent harbour facilities, the western Cape is extremely well-placed to take advantage of the new export dispensation."

Another cause for optimism, says Boyes, is the trend worldwide towards hi-tech industries — and their need for a skilled work force. He says: "An investigation by the President's Council last year revealed that the western Cape boasts higher educational levels than any other region in the country and this bodes well for the years ahead."

Lighton adds that the Mossel Bay synthetic fuel project is also producing benefits for the western Cape: "We are getting quite a spinoff."

Arresting the drift

But CCI's McCarthy is less optimistic. He sees only further problems unless ways are found of arresting the industrial drift towards the Witwatersrand.

"The number of people in secondary industry in the western Cape is much the same now as it was in 1979. That means all our forward running has been needed to replace natural wastage. And by that, I don't mean just those who have dropped out, but also those who are drawn by the magnet of the north. The Reef is a magnet for everything.

"All our charging structures — whether it's electricity, rail or anything else — actually increase that magnetism. We pay more for these services to reach us here, then more again to get our products to the main markets in the Transvaal.

"Unfortunately, I don't think there's a hope in hell of us persuading them to make less of the geographic distance. We will just have to live with a pattern that is likely to accelerate."

Lighton contends incentive-driven development areas like Atlantis, near Cape Town, have successfully brought industry to the region.

But McCarthy counters: "Even Atlantis appears to have lost its dynamism."

Commerce and industry also disagree on the reasons for some of SA's big corporations maintaining head offices in Cape Town. Lighton says their presence highlights the region's positive aspects — such as education, housing and quality of living — and indicates confidence in the Cape's economic future.

But, says McCarthy: "It is worthwhile for some of these companies to be in the western Cape because they can pay lower wages. They are paper factories. They need a lot of clerks. Like the public service, these companies have a huge pool of workers here and can move them round the country.

"The Cape is a net exporter of whites. It would export more coloureds, if housing could be found for them." ■

Margins are under pressure

Finance Staff

The pressure is mounting for yet another increase in interest rates.

Spokesmen for banking and building societies said yesterday that there was a marked upward pressure on rates. SW 27/5/66

They said that margins were becoming very tight and that some were losing money on loans at the current level of rates.

The institutions are expected to approach the Reserve Bank soon to put their case for a officially-led interest rate rise, as their margins were being squeezed by the rising costs of funds flowing from the recent squeeze on credit.

A spokesman for the UBS said: "Banks and building societies cannot exist on the current margins."

A spokesman for First National Bank said that there was no doubt that rates had to move upward by at least 1.5 percent in order for the institutions to remain profitable.

But one of the stumbling blocks towards rate increases remains the attitude of the authorities.

Bankers said that there seemed to be a marked difference between what market forces dictated and what seemed to be politically desirable.

The market needed a rise in interest rates urgently but it seemed that political forces dictated otherwise.

But even on economic terms the Reserve Bank was generally expected to turn down the demand, judging from recent warnings that the situation would tighten considerably and pointing to the decline in the broad money supply, M3, in April.

Dr Pierre Faure of the Securities Discount House said that while in the short term a rise in rates was needed, moves in this direction were premature and that the expected slowdown in the economy would take the pressure off rates.

Course of SA economy being plotted

STR 315758

49

Urgent talks had been held over the past few days on the probable course of the SA economy and a statement would be issued when consensus was reached, the Minister of Finance, Mr Barend du Plessis said in the House of Assembly yesterday.

Two arguments had crystallised during the sessions, to which the private sector had made an input.

One was that the demand for credit would now run down and that the economy would level off by itself in the second half of the year. The other was that, unless action were taken to dampen things down, spending would continue to rise at a tremendous rate, leading to a repeat of the situation of 1983 and 1984.

Asked by the PFP spokesman on finance, Mr Harry Schwarz, whether he was in a position to make a statement on what he planned to do, Mr du Plessis said that when consensus was reached he would make a statement.

The essence of productive debate was that there should be conflicting ideas and he doubted if anyone could speak to economists and other advisers and not get these conflicts.

The Government would go out of its way to avoid dealing hastily with the economy. It would not overreact and throttle the economy.

Nor would it wait too long if it saw the economy was set on a path of excessive consumer spending.

Economy stronger than expected

(49) b/day
31/5/88

7/11/88
25

Estimates of GDP growth rise sharply

MONETARY officials are revising sharply upwards their estimates for SA's economic growth in the first quarter of this year.

Initial calculations for growth in gross domestic product (GDP) indicated an inflation-adjusted rise of about 2% on an annual basis.

"Since then we have been revising the growth in GDP upwards. At the moment it looks closer to 4%. This is good news. The economy appears stronger than many thought. The general feeling is one of satisfaction," says one official.

Higher GDP growth in the first quarter follows annualised growth of 5% in the final quarter of last year.

Although final figures are not yet available, gross domestic expenditure is believed to have rocketed by more than 20% in real terms compared with the previous quarter, largely as a result of restocking of inventories.

Consequently, rises in consumption (around 4%) and government spending (around 4.5%) are relatively modest.

Fixed investment by the private sector barely offset a continued cutback in investment by government.

It appears the sharp rise in imports — by 31% to R11,5bn in the first four months of the year compared with last year — was also largely a result of investment in inventories.

"We are not pushing any panic buttons. Initially we worried when we saw money supply overshooting the target

GERALD PROSALENDIS
Financial Editor

range and bank credit and imports rising. But investment in inventory is a once-off phenomenon." 50

Rising inventory levels are often a prelude to further growth, but officials say some restocking was motivated by expectations of a lower rand and fears of possible import controls.

The monetary and fiscal authorities are now prepared to wait this one out, particularly because changes in policy usually take about six months to filter through into the real economy. Already the credit squeeze announced at the beginning of this month is beginning to take effect, they say.

"We need more information before we act. We are happy with the level of interest rates at the moment.

"The key to future policy will lie in behaviour of fixed investment. If there is a fixed investment boom, the availability of foreign trade credits will become crucial. If business is forced to pay cash for imports this will put pressure on SA's reserves and we could see another 1% to 2% rise in Bank rate."

The behaviour of money supply statistics — with a decline in M3 from March to April — would seem to confirm the official view that growth was a result of something other than final demand.

"Something happened in March that was not repeated in April."

e
e

3% growth rate predicted (49)

THE SA economy had grown so strongly in the first half of 1988 that a real growth rate of around 3% could be achieved for the year, even if the second half produced no further expansion, the Trust Bank said in its latest Economic Report.

It was possible that certain sectors of the economy could experience a moderate decline in activity in the second half, it said.

Total real personal consumption expenditure would probably register a small further increase from the levels reached in the first half of 1988 in the second half of the year.

"This would comprise a moderate improvement in the consumption of services and non-durable articles, stable spending on semi-durable products like clothing and footwear, and lower purchases of consumer durables."

The manufacturing sector was un-

GERALD PROSALENDIS

likely to register further growth in production volumes in the second half of the year. However, the production and sales of a variety of building materials — and basic household goods such as furniture, carpets, curtains and linen — were set to rise further in line with the continued growth foreseen in house-building activity.

The building and construction sector was expected to perform still better in the second half of 1988 because of higher roadbuilding activity, the development of black residential areas, and mining development.

"As far as the other components of fixed investment are concerned, the apparent rapid increases in production and sales volumes during the first half of the year will not be maintained."

Bldg
31/5/88

Likely GDP growth closer to 4%

49
31/5/88

By GERALD
PROSALENDIS

JOHANNESBURG. — Monetary officials are revising sharply upwards their estimates for SA's economic growth in the first quarter of this year.

Initial calculations for growth in gross domestic product (GDP) indicated an inflation adjusted rise of around 2% on an annual basis.

"Since then we have been revising the growth in GDP upwards. At the moment it looks closer to 4%. This is good news. The economy appears stronger than many thought. The general feeling is one of satisfaction," says one official.

Higher GDP growth in the first quarter follows annualized growth of 5% in the final quarter of last year.

Although final figures are not yet available, gross domestic expenditure is believed to have rocketed by more than 20% in real terms compared with the previous quarter, largely as a result of restocking of inventories.

Consequently, rises in consumption (around 4%) and government spending (around 4,5%) are relatively modest. Fixed investment by the private sector barely offset a continued cutback in investment by government.

It appears the sharp rise in imports — by 31% to R11,5bn in the first four months of the year compared with the same period last year — was also largely a result of investment in inventories.

"We need more information before we act. We are happy with the level of interest rates at the moment."

ECONOMY — 1988

July — September

Economist advocates use of import controls

49
~~224~~

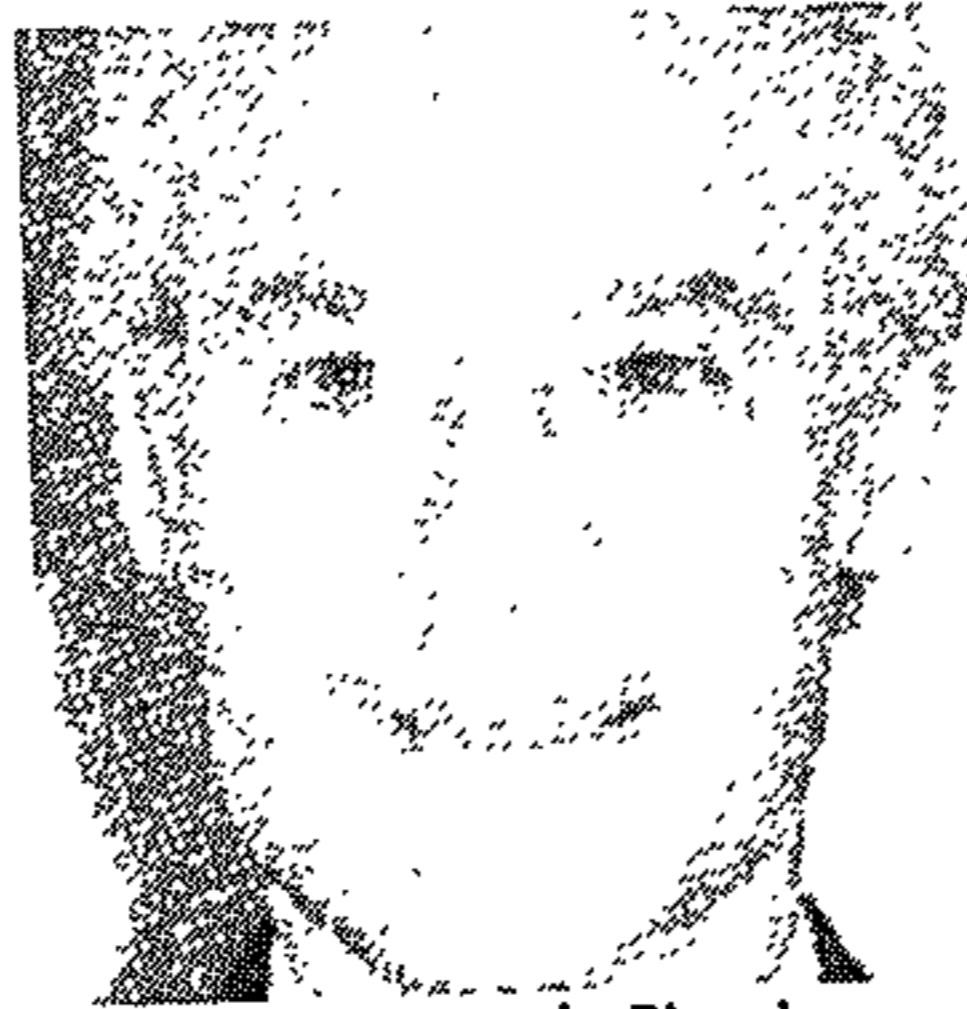
Star 11/7/88

By Sven Lünsche

A leading economist has called for more direct measures, including selective import controls, to control economic growth, rather than "blunt" instruments such as increases in interest rates and currency depreciations.

Echoing recent similar calls by Volkskas economists, Senbank's chief economist Dr Johann du Pisanie writes in the bank's latest *Economic View* that the use of interest rates and the currency to limit imports by restraining domestic demand is unacceptably expensive.

"Increases in rates not only depress consumption, but discourage investment and increase the interest burden on the existing debt of consumers, businesses and government, thus creating adverse and uncalled-for side effects," Dr du Pisanie says, adding that consumer spending is slow in reacting to changes in rates.



Dr Johann du Pisanie

"The private sector's total debt to the banking sector amounts to about R62,6 billion and any increase in the interest payable on that amount will reduce profits or will have to be recouped from higher prices.

"Lower profitability will discourage further new employment, as well as investment in stock and fixed investment," Dr du Pisanie says.

He says the economy has not yet reached the point of being

overheated — the year-on-year increase in real gross domestic product (GDP) from the first quarter of last year to the first quarter of 1988 was a mere 2,7 percent — and that these measures are too unselective and too slow to solve the problem without hampering growth in general.

"Moreover, foreign demand for South African exports is fairly insensitive to exchange rate fluctuations as 70 to 80 percent of the prices of export products on international markets are determined in foreign currencies," Dr du Pisanie writes.

He concludes that South Africa, therefore, needs policy measures specifically aimed at limiting imports of certain products, which are coupled with the sharp increase in consumer spending on durables.

He lists four different measures:

- Shortening the repayment

period for new hire purchase and lease contracts and, if necessary, further increasing the deposits required.

- Increasing tax on fringe benefits necessitating the use of foreign currency.

- Instituting or increasing import duties for less essential consumer goods and the parts needed for their manufacture.

- Selective import controls if a crisis situation over the current account of the balance of payments arises, despite other measures.

"Import control has the important advantage that it can be selectively applied and that it will reduce the volume of imports almost immediately," Dr du Pisanie says.

"This measure is opposed by the authorities and the free-market economists, but the fact is that South Africa simply cannot afford to ignore any option simply for ideological reasons," he says.

THE ECONOMY

Twist in the tale of economic growth

49

The latest growth figures look good — but not good enough to arrest the economy's long-term decline. By BRIAN GOLD

THE latest figures on economic growth from the Central Statistical Services and the Reserve Bank show broad based improvements across most sectors of the economy but the underlying picture is a gloomy one. The CSS reports a 3,5 percent real growth rate for the first quarter of this year (annualised, with 1980 as a base year). The Reserve Bank, using a 1985 base for its figures, gives the first quarter real growth rate as 3,9 percent.

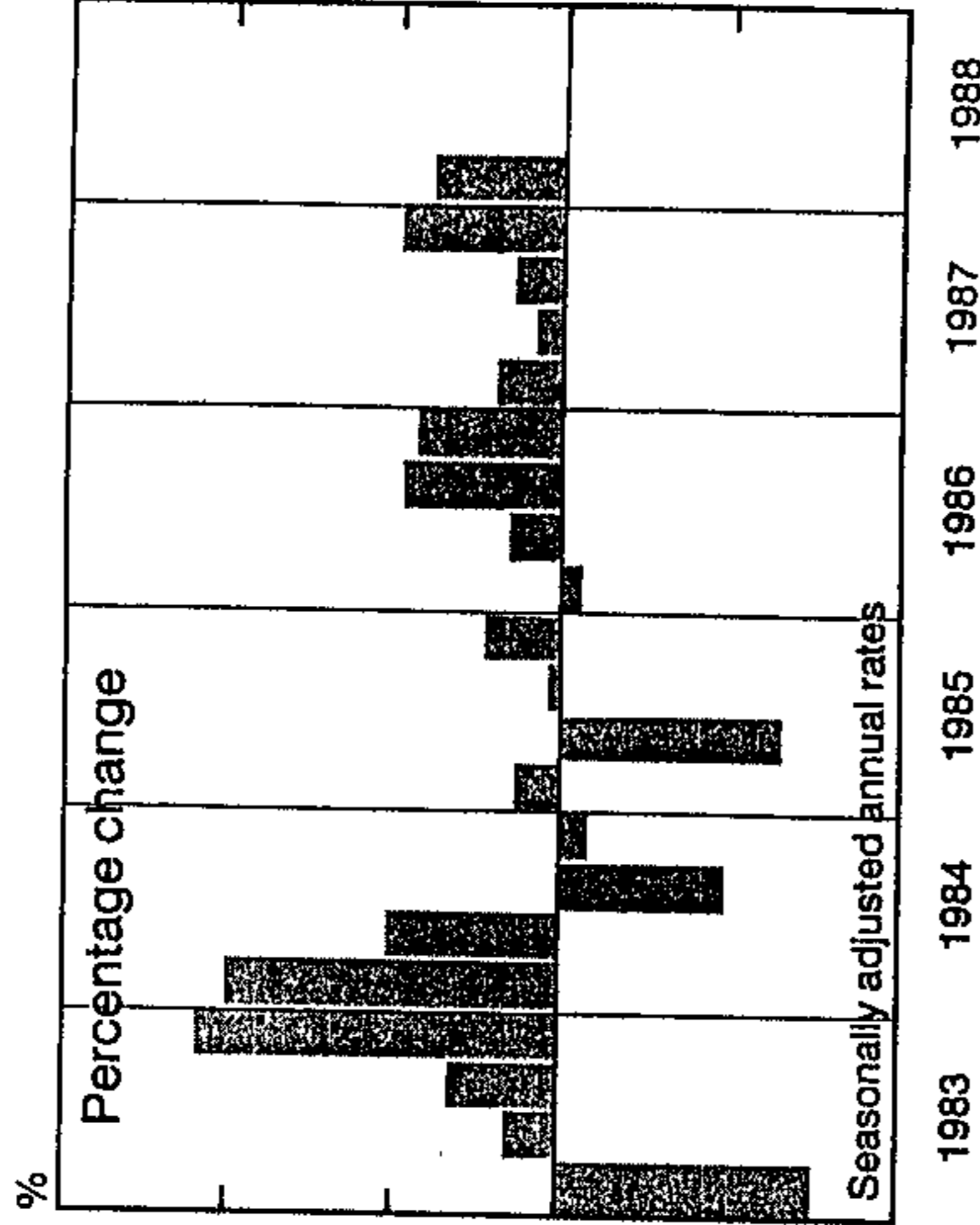
South Africa's gross domestic product is now a real R68,4-billion, measured at 1980 prices — no great shakes when one considers it was R65bn in 1981, only a 5,2 percent expansion over six years. This is what South Africa as a developing country should be achieving annually, not every six years.

More encouragingly, the CSS figures confirm that the first quarter's expansion, for the eighth consecutive quarter, was broadly based.

The only sorry tale was mining where production was falling by five percent. But agriculture was growing at 5,4 percent, manufacturing by a whopping nine percent, secondary industry 7,7 percent and tertiary industry by 3,8 percent.

The Reserve Bank's latest Quarterly Bulletin, released last week, shows that in the first quarter real gross do-

Real gross domestic product



Eight quarters of economic growth ... but it's likely to slow
Graph: Reserve Bank

estic expenditure, at a seasonally adjusted annualised rate, was more than 10 percent higher than in the first quarter of 1987. This was also broadly based. The three main components of GDE, private consumption expenditure, general government consumption expenditure and gross domestic fixed investment were up by 3,6 percent, five percent, and 1,7 percent respectively over this period. GDE increased faster than GDP, reflecting the fact that as the economy

improved more was spent on imports so that, as a recent Volkskas Economic Spotlight explains, "local producers did not obtain full advantage of the stronger domestic demand owing to import leakages." Reserve Bank figures show a 23 percent rise in imports from the first quarter of last year to the first quarter of this one.

It is investment that remains the major cause of concern as it is the engine room for any economy and the source of future growth and job gen-

eration. Although GDFI showed a real increase in the first quarter, South Africa's economic base is becoming alarmingly eroded. It is now 29 percent lower in real terms than it was in 1981.

And the recent economic upswing has had only a limited effect in reversing the trend of declining real incomes and rising unemployment.

The Bulletin shows the remuneration per worker index, with 1980 as a base year, was only at 106,6 in December — so those with jobs were only 6,6 percent better off than in 1980. Of this the index in December for public sector workers was 108,2 and 105,3 for private sector workers.

Average real wages shrank 0,4 percent in 1987, the best growth year South Africa has had since 1984.

According to the Reserve Bank's figures, black unemployment increased from 462 000 in 1980 (8,5 percent of the economically active black population) to 924 000 in January this year (14,4 percent).

Employment in the non-agricultural sectors increased by a mere 1,5 percent in 1987 although GDP grew by 2,6 percent. And official unemployment figures are probably the least credible statistics in the Bulletin. The Congress of South African Trade Unions talks about five million unemployed and a President's Council report last year estimated 3,3-million blacks were not in formal employment.

The economy might be in an upswing but, as any worker or unemployed person will be able to confirm without looking at the Bulletin,

the story is dismal.

Worse still, few hold out prospects for any significant improvement.

For South Africa to achieve a three percent growth rate for 1988 an average annual growth rate of 2,8 percent is needed in each of the remaining three quarters. Three percent is looking steep especially after the clamps on credit imposed by the financial authorities in May, designed to slow down the economy.

Even three percent is regarded by the authorities as dangerous, given the constraints on South Africa's economy.

It is structurally constrained by high inflation. More importantly it has to export credit on a net basis to pay foreign debts, and the financial authorities are doing so by carefully nursing the surplus on the current account on the balance of payments.

As Reserve Bank governor Gerhard de Kock puts it in an article published in the Bulletin: "If South Africa had enjoyed reasonably normal political relationships with the rest of the world, such a current account deficit would have been a logical and desirable consequence of the cyclical upswing, and would automatically have been financed to a considerable extent by a normal inflow of foreign capital. But because of our unique political position in the world we cannot depend on such a capital inflow."

The bank's figures show the current account was in deficit to the tune of R400-million in the first quarter of this year, compared with a surplus of over R6-billion in the fourth quarter of last year.

Freedom for growth

49

■ Speed, determination and conviction are essential to change expectations



No people in this country — whether in government, business or ordinary working folk — can afford to be complacent about our deplorable rate of economic growth.

At the current 3% expected growth in GDP — which is an increase on the years immediately past — the annual increase in the birth rate of about 7% is outstripping the economy's ability to supply the basics of life to a growing number of people.

As years pass, this will lead to economic decline and growing social problems which will dwarf what we face now.

Yet conventional wisdom is that our economy cannot now be allowed to grow at more than 3% a year because of what has become known as a balance of payments constraint. The reasoning is that, unless we earn more from exports than we pay for imports, we will not be able to pay our way in the world.

We are in this position because, when in the past the economy has been growing (and the balance of payments was similarly in deficit), there was sufficient capital inflow, as either fixed capital investment or loans, to enable us still to pay our way. This dried up because of the capital boycott which began in 1985 and disinvestment, while the deficit is probably being increased by trade sanctions.

Nor can we rely on domestic savings even partially to substitute for the lack of foreign capital — for inflation, at more than 10% a year for about 15 years, has encouraged profligacy. As a nation our savings are

pretty thin. And foreign creditors are more pressing than they have ever been.

Inevitably, the reasoning goes, government in these circumstances will print money (debase the currency). This will mean rising inflation and ultimately what economists call an overheated economy: one in which demand constantly exceeds supply and a general price rise gathers momentum.

To accept this is to accept inevitable poverty. It is to fall prey to fatalism and, thereby, foster our own despoliation.

Of course, to describe the constraint on growth as the balance of payments deficit is to obscure the real reason — our trading partners' frustration at what they perceive as a too-slow move away from inequitable and ultimately unstable social policies.

We are also facing the consequences of running for too long our vibrant First World economy with the collectivist panache of governments to the north.

These are realities that are not going to disappear. We know we could be much richer without apartheid. Nor would reasonable people wish to swap the mild socialism of the National Party for the surefire instant poverty of totalitarian socialism that is creating misery, on an unprecedented scale in modern times, to the north.

But we must also beware, in facing political realities, of accepting what amount to economic misconceptions: for instance, that we cannot afford prosperity, that sound economic policies are nullified by apartheid. Not only has experience shown that to be untrue, but it leads to a paradigmatic error: that the economy needs to be closed and administered along collectivist lines instead of increasing freedoms and the spur of greater foreign trade.

Sanctions, unrest, apartheid and states of emergency may interfere with, but don't change, basic economic principles.

Policymakers have a choice. If they accept that 3% growth is all we can "afford," they opt for

eventual, and probably extreme, poverty. If they are prepared to accept the challenges of a progressively more open society and economy, prosperity will be the reward.

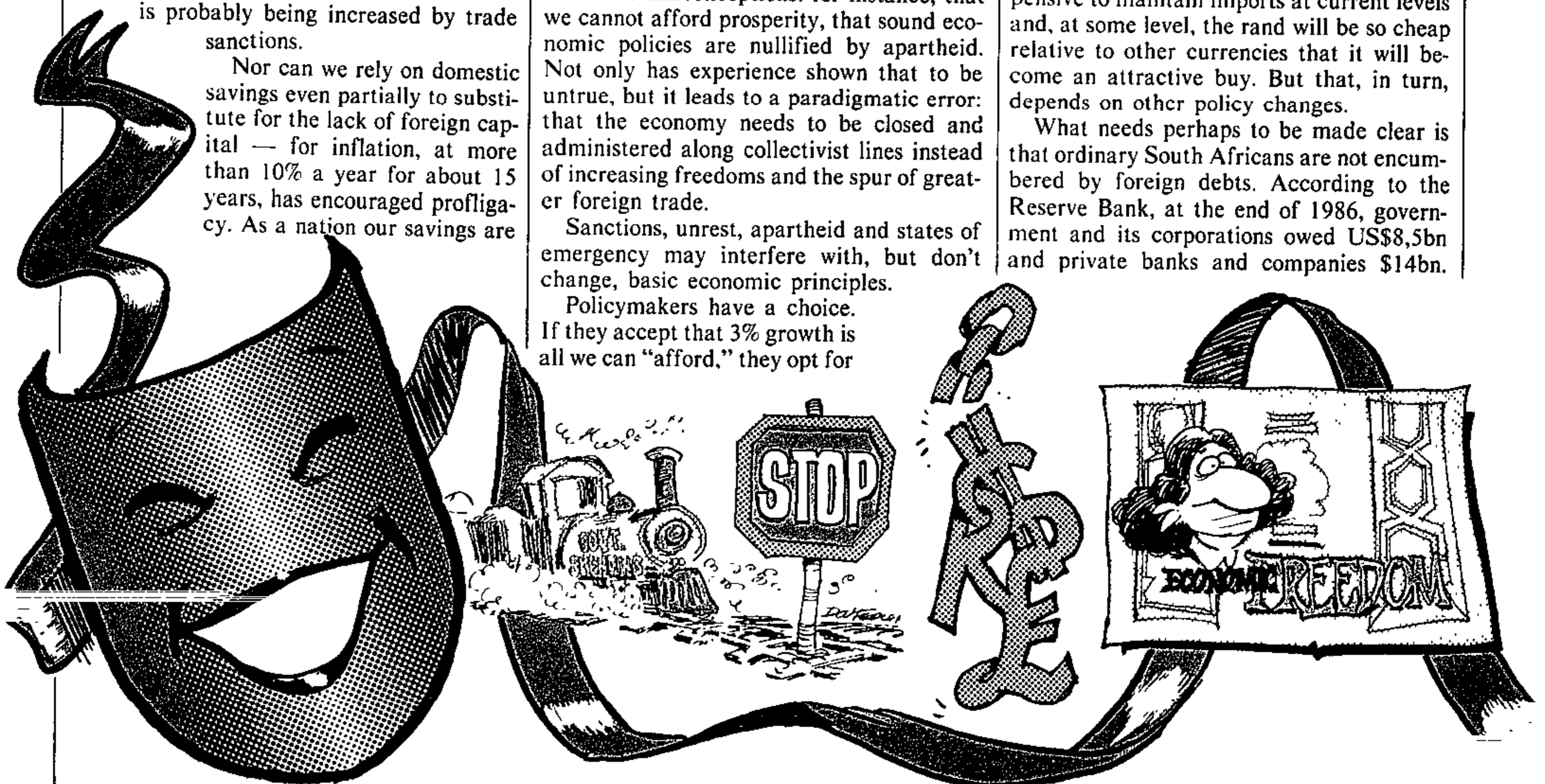
We do not as a nation have to accept a limitation on prosperity if we implement the following policy measures. Their beneficial consequences will probably be reduced and often distorted by political actions here — and by the illogical attitude in many other countries where racism has become a heresy.

So they represent the economics of the long haul; but they will also ultimately work. And they are certainly better than torpid acceptance of advancing economic decrepitude — which appears to be policy now — despite February's grand gestures towards free enterprise that have subsequently been submerged in quiescence.

To begin with, exchange control needs to be abolished so that those who find they have to repay foreign debt are free to buy whatever currencies they need in the world currency market. There will also be some who wish to transfer assets out of this country, adding to the demand for other currencies and consequent pressure on the rand.

There will probably be pressure on gold and foreign exchange reserves, but the rand exchange rate will probably fall faster. That will, in turn, take care of the balance of payments deficit, for it will become too expensive to maintain imports at current levels and, at some level, the rand will be so cheap relative to other currencies that it will become an attractive buy. But that, in turn, depends on other policy changes.

What needs perhaps to be made clear is that ordinary South Africans are not encumbered by foreign debts. According to the Reserve Bank, at the end of 1986, government and its corporations owed US\$8,5bn and private banks and companies \$14bn.



Slash government spending ... abolish exchange control ... eliminate red tape

This is reality



■ The pass laws are two years dead: now the focus is on affordable housing

President P W Botha and his administration are irked that reforms they introduce go unacknowledged. This is very often true. Unfortunately — to placate the Right — such changes are generally accompanied by some negative step which dilutes a lot of potential goodwill. Take influx control.

It was abolished two years ago this week. Even initially this historic step was substantially weakened by the exclusion of the residents of Transkei, Bophuthatswana, Venda and Ciskei (the TBVC states) from the decision to restore SA citizenship to black South Africans. The question of TBVC citizenship remains unresolved, although fears that government would use the Aliens Act against these people have so far fortunately proved unfounded. Transkei's military leader Major General Bantu Holomisa has recently put the issue back on the public agenda by requesting dual citizenship. Perhaps this issue will now be resolved.

However, the bad publicity it generated at the time served to eclipse the death of the *dompas*. Of course, for many, both inside the country and abroad, with their black and white view of SA affairs — a question of Hitler vs the Cosby Family — government can do no good. But there is no question that the demise of the dreaded pass raid has alleviated the daily suffering inflicted on countless blacks.

Says Geoff Budlender of the Legal Resources Centre: "Until 1986 a large amount of my time was spent assisting people who could not get on with their lives because they didn't have the required stamp to be in the urban areas. I counselled grown men who cried in my office, and we are not seeing this any more."

The Black Sash's Sheena Duncan agrees that the level of harassment endured by blacks has diminished. Previously the organisation's major case load concerned influx control; today the emphasis has shifted to sorting out problems such as incorrect data in the new ID books, work problems involving non-unionised workers such as domestics, and homelessness.

But now government's good faith is again being questioned with the introduction of the controversial Prevention of Illegal Squatting Amendment Bill.

Critics of the new squatting laws say they are designed to replace the pass laws. When the *dompas* was abolished it was stated that "orderly urbanisation" was to take its place and that squatting legislation would become the legal mechanism to enforce this. Yet if these laws are meant to replace influx control, they are doomed to fail.

After all, influx control was abolished mainly because it had become impossible to

enforce any longer. Long before its abolition people were moving into the cities and what we are witnessing now is merely a continuation of that process. In fact, fears that the cities would be overrun when influx control was removed have proved largely groundless. Many of those setting up home in the squatter camps are not even new arrivals to the cities but the overspill from overcrowded townships. The Urban Foundation's Ann Bernstein says we are now witnessing the emergence of what was a hidden population daily gaining confidence.

Rural people are still drifting into the belt of squatters that surrounds Durban and into the Cape Peninsula — but not in dramatic numbers. In the PWV there does not seem to be any major influx. The inhabitants of KwaNdebele still endure their long daily bus rides to work, as do those of Winterveld and Botshabelo.

Land for black settlement in the urban areas, however, remains limited. So the decision to tighten up on squatting does seem to substantiate the belief that government still harbours the dream of trying to stem the flow — at least to some extent — of black people to the cities.

However, this legislation is qualitatively different to the pass laws. Squatters' shacks may indeed be demolished by government — and this is happening in places like Alexandra and Duncan Village where people are being moved to make way for redevelopment schemes. But, as Bernstein points out, government no longer has the means to kick out of the cities those so evicted.

She notes that the abolition of influx control represented a decisive first step in unlocking the larger debate on a new positive strategy for urbanisation in SA. It has brought into focus other pillars of separate development such as the Group Areas Act, decentralisation and the homelands policy. For this reason she cautions that we should not regard *any* urbanisation policy as a single event but rather as a process.

This debate at the moment, Bernstein adds, hinges around the question of *where* urbanisation will be allowed: where in the cities, still governed by the Group Areas Act, and where in the country as a whole, which continues to be manipulated by the homelands policy based on the Land Acts.

Bernstein is concerned that government policy continues to discourage growth in the major metropolitan areas, preferring to push black settlement to fringe areas and decentralisation points — at great cost to the taxpayer. She notes, however, that there have been some rather more positive steps recently. They include the anticipated amendments to the Group Areas Act and

some momentum in the identification of land for black settlement within city areas.

Also crucial to the debate, says Bernstein, is the question of what *kind* of housing will be allowed. The major thrust in black housing at the moment is in middle-class or low-income housing, rising in price from R10 000. But even this is too expensive for the majority — the solution lies in allowing the growth of informal settlements.

However, government's post-influx control housing policy has dovetailed with its attempt to regain the political initiative in the townships. As Stoffel van der Merwe puts it: for a revolution you need the agitators and the grievances. The State of Emergency is there partly to remove the "agitators" while government attempts to sort out the grievances with massive upgrading schemes. Much of the development is concentrating on middle-class housing — not, unfortunately, affordable housing for the poor.

The question that arises is: if the major thrust of housing in the urban townships is to be for formal dwellings, where are people going to construct informal ones? Will only those who can buy their way into housing be accommodated close to the urban areas?

If this is so it means we can expect more bungled attempts at removals which — in the language of government — will not win any hearts but will rather turn them into wells of bitterness.

This is part of the pattern. On the one hand government is assiduously wooing blacks to participate in reform plans, encouraging them to participate in the forthcoming local authority elections and the tricameral parliament. On the other it introduces new mechanisms that can only be used against those it should regard as potential supporters — the poor and the newly urbanised. It is the poor who really can be brought into "the system" by material benefits, since this is what concerns them most immediately.

Another problem is that if it is up to black local authorities to enforce the squatting legislation, for the benefit of an elite which includes them, it will further isolate them from their constituencies.

In the end urbanisation is always messy and any attempts to block it will make it messier. Pretoria seems to have accepted half an equation — black urbanisation — while stalling on the requisite measures.

In essence, what is needed is a dynamic approach. The only solution to our housing problem will be the freeing of massive tracts of land with minimal services close to the urban areas for the poor to build what they can afford. We are only beginning to move down that road. ■

FINANCE

WITH the official economy seemingly heading towards a period of slower growth, it seems the unofficial or informal sector of the economy will have to be the main creator of employment opportunities.

I use the word "official" on purpose as even the Government has now recognised the existence of a huge and rapidly growing "unofficial or informal economy".

Some economists are of the opinion that this informal economy constitutes anything between 10 and 30 percent of the Gross Domestic Product.

The informal sector is made up of any business-related activity which ranges from the casual gardener you employ to the proliferation of hawkers and taxis on our roads.

After decades of trying to regulate the economy the authorities seem to have realised this is an impossible task.

By freeing the econ-

Sector with best future

2003
49
Star 2/7/03

omy from this stranglehold on entrepreneurship, of the black community in particular, it is creating jobs and output at a much faster rate than the official economy could ever hope to do.

To create a job in the official, or regulated economy, costs anything up to R40 000 depending on the level of technology used.

But for a couple of hundred rands an enterprising person can set up a shoe-cleaning operation which can earn him and his family a living.

Although difficult to measure, economists use several indicators to

MONEY MATTERS

by Magnus Heystek



keep track of the informal economy ranging from wholesale trade figures and the growth in the money supply to sales of beer and matches.

Using these figures it is calculated that the informal economy in the last two years grew at annualised rates of around 10 percent as opposed to only 3 percent in the formal economy.

Growth in this sector of the economy is also less import-intensive, which means less pressure on the current account of the balance of payments.

It's another reason why

the Government is urged to speed up its programmes for deregulation and privatisation.

An example of what can be achieved by the informal economy is the phenomenal growth in the black taxi business.

(However, it's ironic that the SA Black Taxi Association (SABTA) is now calling on government to regulate the industry to guard against "outsiders" entering the industry.)

With greater freedom on the movement of capital and labour in the black communities I won't be surprised to see the emergence of a black Sanlam in the next decade or two.

Sanlam was started with the combined savings of Afrikaners 70 years ago and is today one of the largest financial-industrial groups in South Africa. Don't be surprised to see something similar happening in the black community.

Louw scales down growth predictions for 1988

By Sven Lünsche

Sanlam's chief economist Johan Louw has significantly scaled down his growth predictions for 1988, following the restrictive measures taken by the authorities in May.

In the group's latest *Economic Survey* Mr Louw forecasts that the growth rate in real gross domestic product (GDP) should amount to about 2,3 percent in 1988 and 1,7 percent in 1989.

"We expect that the higher interest rates and the other restrictions placed on expenditure will in time lead to a marked decline in total real domestic demand," he writes.

"During the first half of 1989 the economy will probably begin to show recessionary tendencies, and these could last up to the middle of 1990."

For the remainder of 1988 and next year Mr Louw predicts the following broad growth trends in real expenditure:

- A distinct levelling off in 1989 in the growth rate of private consumption expenditure after an estimated strong growth in 1988. The slower growth will be particularly noticeable in the case of durables and semi-durables.

- Relatively slow growth in 1988 and 1989 in the current expenditure of general government, in keeping with the government's policy of reducing its share in the economy.

- A renewed decline in the growth rate of fixed investment in 1989 after the modest growth expected this year, which in any case has been largely limited to expenditure on houses by the private sector.

- A build-up of real inventories in 1988, followed by a turnaround in 1989.

- A reasonably large negative contribution to economic growth by South Africa's net foreign earnings in 1988 and a slight improvement in the position in 1989.

On prospects for inflation Mr Louw writes that he expects an average rise in the consumer price index of 13,8 percent for 1988 and 14,5 percent in 1989, as opposed to 16,1 percent in 1987.

"If increases in food prices do not decline materially in the coming months we are convinced that the inflation rate will not drop much below its present level and will start moving gradually upwards from about the middle of 1988," Mr Louw says.

SA's economic crisis was so potentially devastating that in 10 years the country could be as poor as India

49 5/31/88
Grim warning on economic crisis

and Brazil were today, Self-Employment Institute executive director Theo Rudman said last night.

Addressing a seminar held jointly by the Long-Range Planning Society and Black Enterprise Magazine, Rudman said: "If we do not quickly inject Third World vitality into our critically ill First World economy, we will plunge into pov-

THEO RAWANA

erty, crime and revolution.
"Between 1980 and 1987 more than 2.5-million extra jobs were required to keep step with the population growth. In fact, we went backwards — there were actually 150 000 fewer jobs in 1987 than in 1980."

Indicators signal economic slide

49 8/10/88 5/3/88

GRETA STEYN

ECONOMIC activity should start slowing down in the next few months with the Reserve Bank's leading indicator signalling a likely downturn in the business cycle after strong demand during the first half of the year.

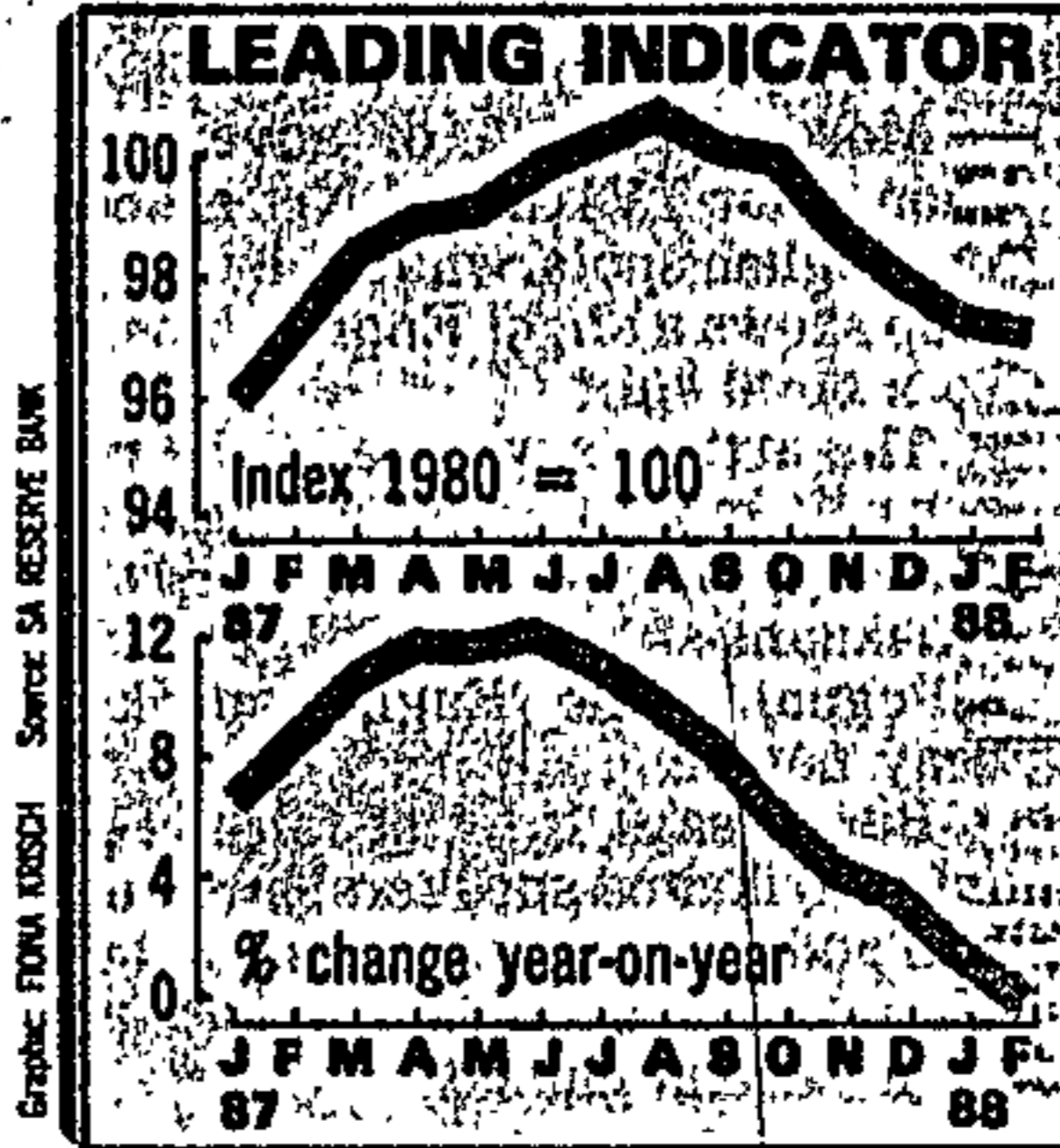
The leading indicator, an index that has accurately shown the future direction of the economy, continued its gradual decline for the sixth successive month in February. No later figures are yet available.

The index dropped marginally from January's 97,4 to stand at 97,2 in February. It has been sliding since September after its August peak of 100,8 — indicating the business cycle would reach a high point around mid-1988.

However, the index is still at a high level and is not indicating a slump but only a weakening in domestic demand.

The leading indicator can also be interpreted by looking at percentage changes in the index from a year ago — also signalling a slowdown in economic activity. The year-on-year rate of increase in the index has slowed to 0,1% in February from a peak of 12,3% in June 1987.

The index is compiled by combining statistics — including the value of re-



sidential building plans passed, the London gold price, share prices, new companies registered and exports (excluding gold). In February, weaker exports and lower share prices contributed to the decline in the index.

The volume of exports dropped by more than 5% between the last quarter of 1987 and the first quarter of this year. And according to Central Statistical Ser-

● To Page 2

Slowdown in economic activity forecast

vices' index of share prices, the value of gold shares dropped by almost 16% in February from January.

However, other statistics used to compile the latest index rose between January and February, such as residential building plans passed and the number of new companies registered.

While the Reserve Bank's leading indicator has been slipping, the coinciding indicator is still on an upward trend.

49 8/10/88 5/3/88

This index shows the current position of the business cycle and has been on an upward trend since mid-1986 when the upswing started.

It moved to 89 in February from 88,4 in January and should peak in the first half of 1988 — if the leading indicator's prediction comes true.

● From Page 1

Reserve Bank pours dollars

into system

With the rand under pressure, the Reserve Bank is moving dollars into the financial system, says Trust Bank in its foreign exchange round-up.

It says: "Month-end importer pressure on the rand is a well-known seasonality, but when it coincides with unprecedented dollar strengthening, it can be chaotic, especially when the price of the mainstay of foreign earnings — gold — collapses in the face of dollar gains.

"Developments in the currency markets this past month have been dramatic — the gold price has lost around \$9 since the beginning of June, with the gold/oil price link asphyxiating the performance of the metal."

The bank says that over this period the dollar has gained 4,6 percent against sterling, 4,02 percent against the Dm and 6 percent against the yen.

"In the process the rand has lost 2,2 percent against the dollar, but gained 2,3 percent against sterling, 1,3 percent against the Dm and 3,45 percent against the yen."

It is clear that for as long as the rand is defended against a severe slide on the dollar leg, the gains on the crosses will stabilise the real effective exchange rate.

"On a trade-weighted basis, the rand has gained 0,5 percent, with the index strengthening from 2,7228 to 2,7082, giving our exchange rate management a decidedly anti-inflationary accent."

— Sapa.

'Siege approach recipe for disaster'

49 B/day

6/7/88

Reform vital for economy — De Kock

SA WOULD be naive to believe it could maintain the political *status quo* indefinitely and still achieve optimal economic growth and stability, Reserve Bank governor Gerhard de Kock said yesterday.

He said in Durban it was wrong to think the country's economic salvation lay in becoming a "siege economy" through direct controls such as import restrictions and bank-credit ceilings.



● DE KOCK

While government had rightly rejected the "siege economy" approach, it still survived in other circles.

De Kock said: "Such an approach would be a recipe for disaster. In the long run, economic isolation and a siege economy will most certainly mean lower economic growth and a lower standard of living for all population

GRETA STEYN

groups than would otherwise have been possible."

Opinions would no doubt continue to differ on the desired nature and tempo of political and constitutional change.

"But the crucial inter-relationship between political and economic reform makes it essential for SA to move forward on these two fronts simultaneously."

Foreign perceptions of political and economic conditions in SA had improved considerably and were now better than at any time since 1984. But international banks and corporations remained under pressure from the worldwide anti-apartheid lobby to sever business ties with SA.

De Kock said: "Even in Europe, banks doing business with SA have, in recent months, been subjected to increased

● To Page 2 →

49 B/day 6/7/88

Reform vital for economy — De Kock

pressure in the form of anti-SA demonstrations, threats to withdraw deposits and various other ways."

Foreign bankers had taken note of the fact that SA had achieved balance of payments adjustment, had met its foreign interest and dividend commitments and had adhered to the First and Second Interim Debt Arrangements.

Improved foreign perceptions had led to the increased availability of trade credits which eased the constraint that

the balance of payments imposed on economic growth.

However, SA had to heed the message from its continued inability to raise foreign capital other than short-term trade credits, the strong support for sanctions and disinvestment and the pressure on foreign banks not to do business with SA.

← ● From Page 1

Pressure on rand seen continuing

Star 21.7.58

Finance Staff

Although capital inflows are expected to keep the rand under pressure, this could be offset by an improvement in the current account of the balance of payments, says Trust Bank in its latest *Currency Report*.

Yesterday the rand closed at R2,3388 to the dollar after depreciating to R2,3008 last week. Active Reserve Bank intervention bolstered the currency and contributed to its strengthening against third currencies, such as the Deutchemerk, yen and sterling.

Trust Bank predicts the rand will remain under short-term pressure, but in the medium and longer term should rise moderately against a generally weaker dollar.

The bank says an improvement in the balance of payments situation could also allow short-term interest rates to decline moderately towards the end of the year.

The report attributes the re-

cent weakness of the rand against the dollar partly to the deterioration in foreign trade and gold and foreign exchange reserves.

"With the oil price under pressure, while the gold price remains steady and many other commodity prices continue to rise, a moderate improvement in the foreign trade surplus is expected."

Standard Bank in its latest *International Report* says the strong support for the dollar will keep the rand weak over the next few weeks.

The report says, however, that the rand's performance on the cross rates has been encouraging.

"Since the turn of the year, the rand has declined by less in terms of currencies like the Dm, yen and sterling than against the dollar.

"Historically speaking, the rand tends to fare better on the cross rates than against the dollar during bouts of dollar strength."

Star 7/7/88

Investors in troubled mood

(49) (20) (22)

The investing community is worried that the record growth recorded by listed companies in the 1987/1988 financial year is not going to continue in the current year.

The two main factors against a continuation of profit growth are an expected recession and the disinvestment campaign.

Brokers Frankel, Kruger, Vinderine said yesterday they expected recessionary conditions from the middle of 1988 through to mid-1990.

On the future performance of the industrial board, the brokers said: "The general effect of overseas disinvestment will be to pose new opportunities for cash-strong South African companies. Most of

the listed companies in sectors where probable disinvestment has been identified have started planning for future takeovers."

It said sectors that would be adversely affected by a declining rand were motors, pharmaceuticals, electronics and chemicals.

Its predictions for the various sectors were that in building and construction, steel and engineering the outlook for growth was not good because of the lack of fixed investment and that Mosgas and the local construction industry would be the main sources of income.

Sectors that were almost recession-proof were pharmaceuticals and medical, food and transport.

Arthur Anderson's Sam Abra-

hams is worried about profits and the state of the market next year.

A large number of groups that floated before the October crash have significantly exceeded their forecast earnings. In a large number of cases increased earnings were owed to mid-period acquisitions rather than to the operations the groups had at the time of flotation.

Mr Abrahams says: "One cannot help but feel, however, that in the current environment, the pressures of the business community expecting improved results from groups have led to major acquisitions which, although contributing positively to earnings in the short term, may cause severe "indigestion". — Sapa.

④ B/day 7/7/88.

World economic recession possible

WASHINGTON — The world faced the threat of recession and more volatile financial markets unless leading industrial nations improved their economic policies, the World Bank said yesterday.

In a largely pessimistic annual assessment, the bank said the delicately woven global economic tapestry could easily unravel, causing widespread suffering.

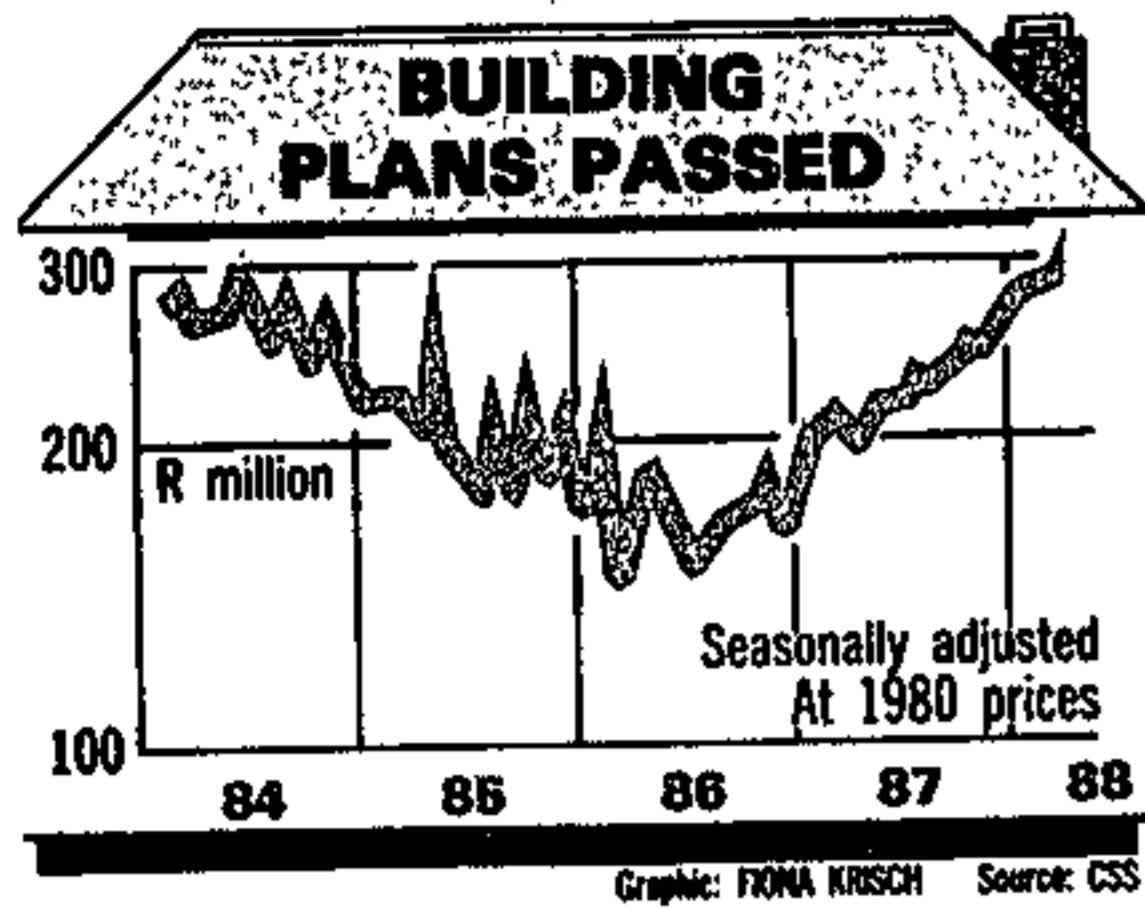
"Without significant changes in these policies, the present economic uncertainty may soon be followed by a worldwide recession," the bank said.

It said lasting divergences in economic policy among the leading industrial countries threatened the global economy.

Bank officials conceded that improved co-operation had reduced the immediate threat, but underlying problems remained.

The bank proposed a three-point remedial strategy: leading industrial countries must persevere in their policies designed to reduce trade and budget imbalances; developing countries must reform their economies even if the international economic environment is unfavourable, and more outside funds must be made available to debtor countries.

It stated that considerable progress had been made in the past few years in averting a much deeper crisis. — Sapa-Reuter.



Economy is still buoyant

GRETA STEYN

FIGURES released by Central Statistical Services (CSS) show the economy was buoyant between April and June with production volumes steady, utilisation of capacity improving and the residential property market booming.

First signs that the economy may be cooling — such as a slackening in credit demand — have not yet translated into CSS figures.

Real retail sales are expected to grow by 3,5% between the first and second quarters of this year, beating the expansion achieved in the first quarter. However, the expected real sales for June show a decline of 1,6% from May.

● To Page 2 → B/day

Property sales lead buoyant economy

Expected wholesale sales rose slightly in real terms in the three months to May from the previous three-month period.

On a seasonally adjusted basis, there was little change in manufacturing production volumes in the three months to April this year from the previous three-month period. Production in April rose by a seasonally adjusted 0,5% from March but was down from January and February.

Utilisation of production capacity rose to 82,7% in February from 81,8%. Reasons for under-utilisation of capacity included a shortage of raw materi-

als and skilled labour and insufficient demand.

The domestic property market was booming in the first four months of the year with the value of housing plans rising by 45% in current prices compared with the same period last year. The residential property market has been particularly buoyant — the value of building plans for flats and townhouses rose by 82,7% in the four-month period to April 1988 from the corresponding period last year.

● From Page 1 ←

7/7/88

49

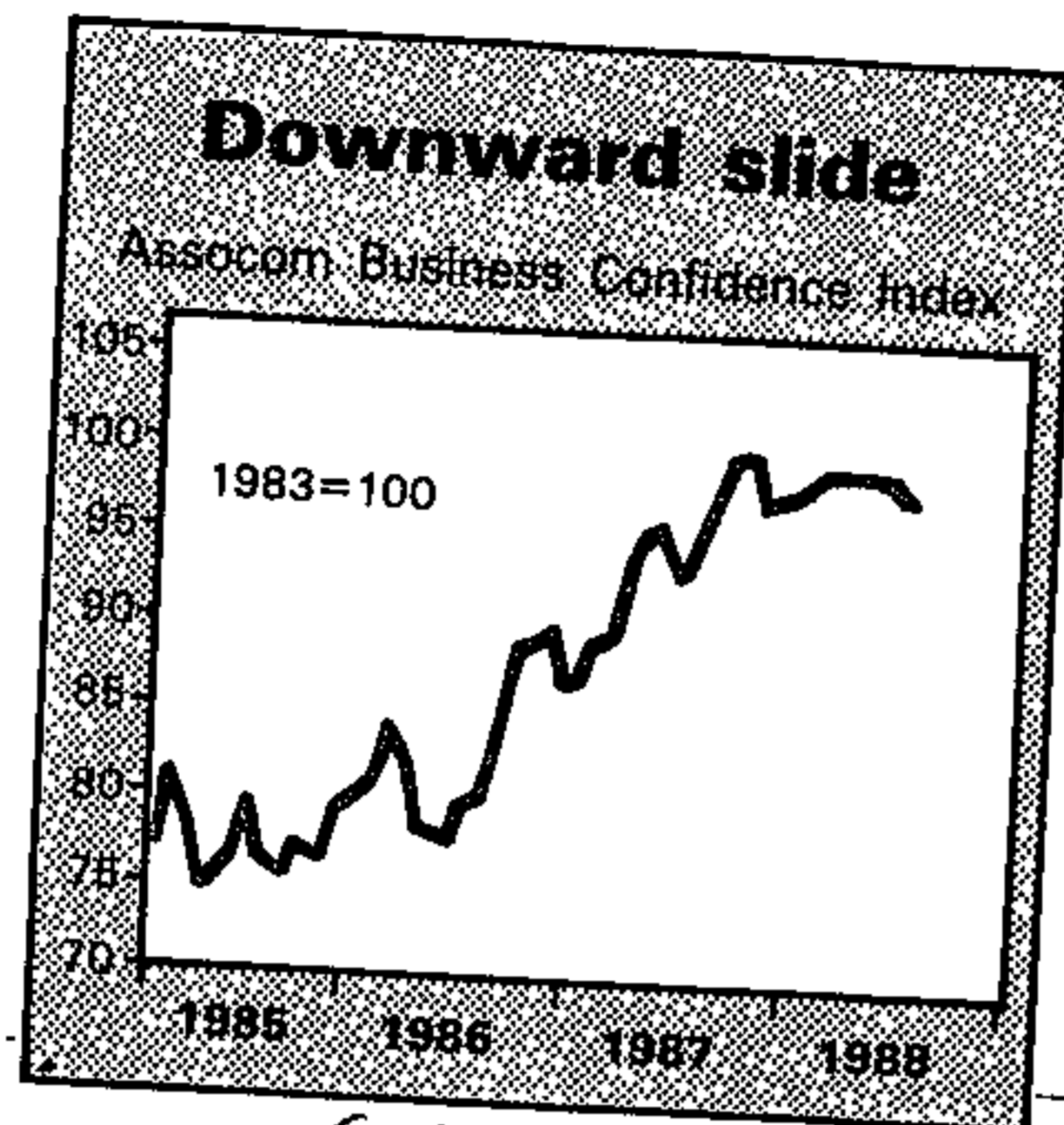
49

B/day

BUSINESS CONFIDENCE

On the decline

Assocom's Business Confidence Index (BCI) has started a decline, dropping by 1,2 percentage points in June to 98,1 (base year 1983=100) from 99,3 in May. This follows a five-month climb that reached 99,3 in April. However, the 98,5 average for the year so far is higher than 95,3 in 1987, 84,3 in 1986



FM 8/7/88

and 79,1 in 1985.

The decline reflects a downgrading of 1988 GDP growth hopes to less than 3,0%.

BCI is formed from a combination of 15 economic indicators. Those that reflected positive sentiment in June included the following:

- The dollar price of gold rose slightly;
- CPI continued to decline, to 12,9% in May; and
- JSE prices — the overall market index rose during June.

Negative influences included the following:

- The rand/dollar exchange rate again showed a small decrease;
- The bankers' acceptance rate on balance fell slightly, while the May increase in prime lending rates of commercial banks was in force for the first full month; and
- Merchandise import volumes fell in May.

That BCI has adjusted downwards need not mean it will continue to deteriorate for the remainder of the year. "There are some positive factors in the situation," says Assocom, citing the continued improvement of international commodity prices, such as platinum, and the firming of grain prices. ■

Higher rates cannot be afforded

The anticyclic approach of the government's short-term economic policy measures will have a dampening effect on real business activities in the year ahead, Volkskäs chairman Albert Marais says in the annual report.

(49)
"Although it is accepted that monetary policy action has a contributory role to play in timeously curbing the rate of consumption expenditure, it is a positive sign that the indications also reflect stronger dependency on fiscal and other measures," he says.

"This is in many cases simply a more direct and selective manner in which the intended results can be achieved.

"Such a package of measures, as announced early in May, is welcomed as the disruptive effect of abnormally high interest rates can

SVEN FORSSMAN

hardly be afforded again — especially not by the homeowner and even less so by the agricultural sector, which is still crippled by serious financial problems."

Mr Marais says in view of the deceleration of the world economy, it seemed to be a realistic view that exports would not make a positive contribution to economic growth in the year ahead.

"It must also be remembered that the financial position of the average consumer is of such a nature that private consumption expenditure will soon, in its own right, lose much of its present strong impetus.

"Bearing all this mind and in the absence of unforeseen circumstances such as serious strikes, it appears as if the economic growth rate for the coming year should not

be much lower than that of the past year. SKV 917788

"Such a scenario predicts a fairly slow-growing market for the banking sector."

However, Mr Marais says the group is ready to cope with such a scenario, and is well equipped to make optimal and profitable use of all the possible opportunities offered by the market.

During the year under review, the group's net income before extraordinary items increased from R60,8 million to R71,3 million, representing an increase of 17,3 percent (14,3 percent in 1987).

The dividend also increased, from 66 to 73 cents a share.

The total assets of the group and its subsidiaries increased by 14 percent from R13 136,6 million to R15 098,0 million.

CARTE BLANCHE



by David
Carte,
BUSINESS
TIMES
Editor

Economic stagnation for the 12 years left in this century would increase the number of unemployed in SA by 2-million.

Given the high number of dependants a worker in SA, that could mean 8-million hungry, destitute people.

This sobering reminder of the imperative for economic progress comes from an important new book on SA economics and politics — "Economics in a Revolutionary Society" by JCI economist Ronald Bethlehem, published by Ad Donker and reaching the shops this week.

In this depressing zero-growth scenario, the better-positioned First World group in the socio-economic hierarchy, the well informed and educated will fare better than the unskilled and uneducated.

In short, most the misery will be borne by the black community.

Dr Bethlehem reasons that it is thus nonsense to argue that sanctions, which undermine economic growth, can help the cause of black liberation.

"The main argument of the book is that a transition either to a non-racial democracy or black majority rule is unlikely to be achieved either through armed force or even through internal destabilisation and sanctions."

Dr Bethlehem argues that for Afrikaner nationalists, the transcending consideration is survival and the securing of power. He thus doubts they can be dislodged forcibly.

Even if black nationalists did succeed by military means, victory would be Pyrrhic.

"The emerging post-apartheid society would stand little chance... of meeting the challenge of reconstruction and population growth. And without that hope, the prospect of a restoration of peace would be minimal."

Explaining his objectives in an interview this week, Dr Bethlehem said: "SA faces a major demographic transformation. Its population is expected to reach 47.5-million by the end of the century and the urban black population is expected to rise from 10-million to 27-million. These trends are important forces driving politics and economics.

"I have had a look at sanctions and what they could do. I am not saying sanctions will work, for I do not underestimate the ingenuity of SA business in sidestepping them. But my most important finding is that they do not need to destroy the economy to cause a tragedy by 2000. They only have to stop it from growing."

For blacks, he argues, the way to political power is economic power.

"The black share of non-agricultural income has grown impressively in recent years to 29%. Without sanctions, this would tend to grow to 35% by 2000. With sanctions, it could shrink to 25%. The political leverage of a group with 35% of total income is a lot greater than that of a group with only 25%."

Another key to political and economic power is education. The damage done by educational upheaval is untold. He points out that education's share of the Budget rose from 6.4% in 1970 to 18.6% in 1987, while Defence's share went from 13% to 15.2% and police, prisons, etc, fell from 11% to 6%. This shows changing priorities on the Government's part.

"Without the threat to State power posed

Economics of black power bid

by a black rebellion and the linked activities of the ANC, the requirement of defence would be much less."

The changing socio-political situation confronts business, the Government and black liberation leaders with different challenges.

Of the Government, Dr Bethlehem writes: "It is understandable that it should want to have nothing to do with revolutionaries bent on its destruction. But the ANC is too important... and too representative to be left out of the Government's reckonings." The business community, he believes, has to reconcile the Government on one hand and black trades unions on the other. Dr Bethlehem thinks business will not be able to persuade blacks of the merits of free enterprise.

It will have to settle for a "mixed market economy", promoting worker and consumer co-operatives, even if it means sacrificing market share.

Business will have to deal not with black business but with black unions, the only organisations equipped to advance the cause of black economic advancement.

The book says: "The challenge to the leaders of the black liberation struggle is no less daunting... For more than 25 years an armed-rebellion against the Government has been waged, but this has done little in shaking the foundations of its power..."

"On the contrary, in many respects the Government's power has increased, not diminished... the Government's ability to deal with armed rebellion through repression and adaptation has been seriously underestimated..."

"But the alternative to armed rebellion is no longer resignation to white domination, for whites themselves are seeking ways out of a situation which casts them in a role inconsistent with Western values. Instead of violent confrontation, constructive confrontation has become a credible alternative."

The quotations I have used might suggest that this is a political book. It is not. It is mainly a rigorous economic treatise that no thinking South African can ignore.

T
W
C
G
st
in
up
st
lat
wi

De Beer finds flaws in budgetary provisions

Star 11/7/88

49

By Sven Forssman

The Budget for 1988/89 deserved the mixed reception it received, chairman Zac de Beer says in Southern's annual report.

"It was rightly praised in as much as it plans to hold the increase in government expenditure below the projected inflation rate, thus effecting a marginal transfer of resources in the private sector," he says.

"The small reductions in personal tax were likewise welcomed. However, on closer examination, one sees that the curbing of government expenditure was achieved largely through the near freezing of civil servants' emoluments and partly through very severe limitations on capital spending.

"There must be a measure of doubt as to whether these economies can be sustained in the future. One also notes with some foreboding that defence expenditure is to increase by no less than 22 percent: it seems that we must continue a life of conflict with our neighbours and others."

Dr de Beer says the Government's published reaction to the Margo report on tax was not well received by the life assurance industry.

"The report contained two alternative proposals for the taxation of life companies. The industry, while not exactly pleased with either, was and is inclined to believe that some acceptable formula can be negotiated on the basis of deduction of expenses from income for the purposes of tax calculation. It seems that this may be introduced in a year's time.

"In this Budget, however, the Minister saw fit simply to increase the proportion of investment income subject to taxation



Zac de Beer . . . doubt whether economies can be sustained

by 75 percent, and he also abolished the rebate previously available on premiums paid.

"There is no doubt that these changes will have the effect of reducing net gains by policyholders. However, it seems to me that even after this setback,

our policies continue to offer the most effective method of long-term saving in all foreseeable circumstances."

Dr de Beer says he, in common with other businessmen, has in the past expressed a strong wish to see rapid reform

of society towards government by consent, achieved through democracy.

He says: "Sadly, the year under review has yielded no encouragement in this regard.

"On the contrary, the state of emergency has been maintained and on February 24, the limited freedoms available to extra-parliamentary organisations were drastically curtailed by proclamation.

"Furthermore, three recent by-elections have demonstrated a tendency for the white electorate, in the Transvaal, at least, to desert the Government in favour of more outspokenly racist and authoritarian candidates.

"We can only hope that this tendency will prove to be localised and short-lived, and that national unity on the basis of a fair deal for all South Africans remains achievable."

Dr de Beer says there seems to be little doubt that American politicians are preparing more severe sanctions.

"It is cold comfort that their decisions are based more on domestic electoral considerations than on any understanding of the true situation here. In Europe, by contrast, there is a much better appreciation of South African affairs; but I fear the proclamation of February 24, and certain more recent events, have done much to discourage and disable the friends we have."

In the year under review, Southern's earnings grew by 23 percent from R64 million to R78,8 million. A total dividend of 31,5c per share was declared, representing a growth of 21 percent over the previous Total new business grew from R302,3 million to R677 million — an 81 percent increase.

Deliberate new Reserve Bank policy

Ⓟ 49 11/7/88
B/day

Credit 'pumped in' to control interest rates

DELIBERATE policy by the Reserve Bank to keep interest rates down has seen the Bank pumping credit into the banking system, money market experts say.

First National Bank said in its latest Financial Market Round-Up: "The new policy motto may just be: If it troubles you, throw money at it."

Experts note that market shortages — the amount the banks need to borrow from the Reserve Bank — have been large, but short-term rates have not moved up in sympathy.

The market shortage has widened since the last week in June when it was still below R1bn to Friday's R1,3bn, but the three-month liquid Bankers' Acceptance rate moved only marginally to 12,15%.

Afrikaanse Handelsinstituut econo-

GRETA STEYN

mist Martin van den Berg, formerly of Interbank Discount House, said at an Economics Society seminar last week that large amounts of money had been placed in the market through the strategic oil fund. This had been done in May, at a time of strong upward pressure on short-term rates. He said: "I don't know whether the politicians said 'cool it', but the change in the market was very obvious."

First National said: "When interest rates tended firmer, Public Investment Corporation money flooded the markets to reverse the direction of rates in the money market and the mood in the capital market."

Van den Berg said it was possible

the economy was slowing down, making further measures to damp demand unnecessary. But, if balance of payments problems continued, strict curbs might still be necessary.

"In that case, the authorities will hold back as long as possible, probably because of politics."

He believed the slowdown might be sufficient to make further curbs unnecessary, and short-term rates would continue to move sideways.

First National said the higher-than-expected shortages indicated a continued increase in the demand for money. The Reserve Bank, as lender of last resort, has two policy options when faced with a continued increase in the demand for money.

"It can either allow interest rates to rise and in this way curtail demand. Or if it does not want interest rates to rise it must be prepared to meet the higher demand for money by accommodating institutions.

"It is quite clear that the Bank has adopted the latter policy."

● See market report — Page 10

Forex (49) priorities Star questioned 12/7/55

Finance Staff

The international economic scene will not be conducive to economic growth in South Africa, warns Volkas in it latest Economic Spotlight.

For the next few years the country will have to face a net outflow of foreign capital.

"This is a thorn in our side as South Africa has indicated very frankly in the past few years that it is prepared to allow the standard of living to decline so that foreign debt can be repaid.

"The country is far from being over-borrowed at this stage and can easily meet its interest and dividend obligations. In fact, our position in this respect appears very favourable, even if measured against the standards of certain first-world countries."

"A cause of increasing concern, however, is the increasing disruption of normal trade channels owing to political interference by countries"

The bank goes on to state: "The question is now whether South Africa can continue under such circumstances to spend its foreign currency reserves on imports that are not absolutely essential or where locally produced products or substitutes for imports are available.

"If so, the eventual consequences will be an even further substantial drop in the standard of living and yet greater unemployment."

DA
6/80m
13/2/88

BUSINESS has picked up quite considerably since mid-1987. In the six months ended March 31, real gross domestic spending in SA grew at an annualised rate of more than 10%. Bankruptcies and bad debts are sharply down, while the demand for credit is significantly up.

Consumer spending is racing ahead and corporate cash flows have shown vast improvement. Business outlays have begun rising for the first time since 1981. Employment is increasing marginally, and the socio-political situation appears more stable than it has been for some time. Business and consumer confidence is on a comparative high.

Indeed, the fact that the economy is now at its strongest since 1981, despite having suffered a net capital outflow of more than R20bn over the past four years, is seen by some of my banking counterparts in Europe as a latter-day economic miracle.

However, South Africans should know better than to wax euphoric about this economic recovery, which has occurred from an extremely low base.

Total manufacturing production in 1988 has not yet reached the level of 1981, while real domestic economic activity in the first quarter of the year was only 6% above the level of the fourth quarter of 1981.

We realise, to our dismay, that the balance of payments constraint makes further expenditure growth in the short-term impossible. Indeed, the adverse impact of sanctions and disinvestment have become evident far sooner and more brutally than most South Africans might have expected.

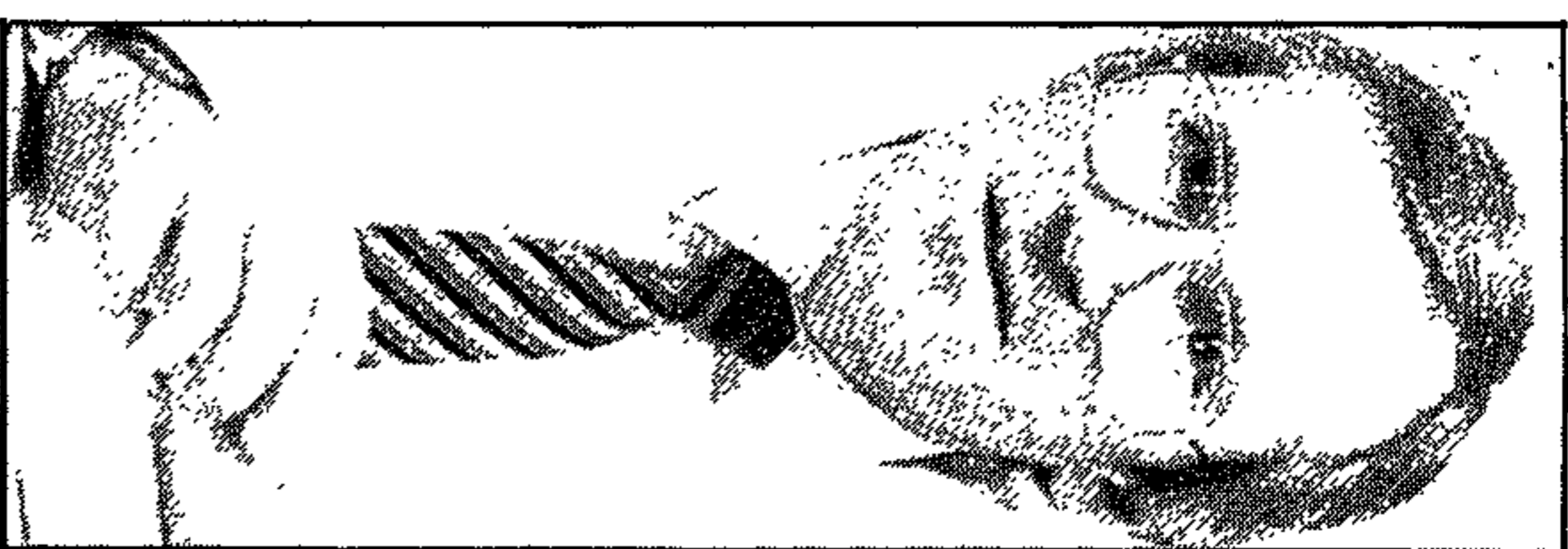
This, together with our squandering of human potential in the face of these adverse developments, implies that over an extended period of time the average South African could be at least one-third poorer than he or she otherwise would have been.

Moreover, sanctions and disinvestment are making it increasingly difficult to reach political solutions and accords; they retard the process of reform in SA. Sanctions have strengthened the hand of the ANC and the AWB whilst weakening the moderate centre group so necessary for a stable political future in this country.

Whatever the reasons why sanctions and disinvestment are propagated and applied from abroad, the consequences are destructive. The sanctions campaign is becoming progressively an integral part of the

A break-out strategy for South Africa

In a major speech delivered last month, TrustBank MD CHRIS VAN WYK argues that South Africans must shed their negative mind-set about the future and focus instead on a "break-out strategy" for South Africa



□ CHRIS VAN WYK

"struggle" to violently overthrow the SA set-up.

It is crucially important for the Western world decision-makers to realise that sanctions form part of a violent "solution" and that they do not achieve constructive results.

More than ever before, the undistirable economic and political consequences of the sanctions campaign are impelling all South Africans to reflect on strategies with which to counter sanctions and combat their effects.

We cannot afford to accept the prospect of less than 3% real economic growth a year, with all the unemployment, poverty and other adverse social and socio-political consequences which they entail. Similarly, we cannot afford to be content resigned by believing significant political progress to be impossible.

Now, as never before, all South Africans have to reflect positively and enterprisingly on the handling of our political and economic challenges.

Politically, there are three main areas requiring concerted effort:

- First of all, law and order, security and socio-political stability must be maintained;
- Secondly, no stone should be left

unturned in an unstinting and enterprising search for political breakthrough. But for that to happen, the whites will have to have the courage to face the fact that a speedy and complete dismantling of the remnants of apartheid is a prerequisite; and

□ Thirdly, it is important to launch a pro-active campaign to normalise SA's international economic and financial relations.

This brings me to the questions of mind-set. It appears to me that a major obstacle to SA's surging ahead on many fronts is an almost pathological preoccupation in many decision-making echelons with the so-called "limits" to what can be achieved. The "limits" to political progress, the "impossibility" of rolling back the process of isolation, the "ceiling" on our economic growth potential.

We are rapidly becoming experts at drawing up lists of what cannot be achieved. This trend has to be reversed. Such a mind-set has to be blown apart.

I believe that the severe constraints which growing international isolation imposes on our economy

could bring to fruition another wave of economic and business potential. SA has the necessary brains trust and entrepreneurship to think and manage it ways to success.

Let us turn to possible components of such a break-out strategy for SA, which could bear fruit by the turn of this decade:

Firstly, the national housing drive. The past two years have witnessed praiseworthy initiatives from the public sector. These, aided by crucial legal reforms, have already been reflected in a recent year-on-year growth of 170% in building plans passed for black residential areas. Home building activity has begun to develop a massive momentum.

But this is only the beginning. The second wave of stimuli will be rising demand for basic household goods during the next few years. Private enterprise should be planning and gearing for massively increased purchases of tables, beds, cupboards, carpets, curtains, utensils and electrical appliances.

At the same time, the national housing drive improves quality of life, enhances self-esteem, promotes social stability, increases economic activity without burdening the balance of payments and creates em-

ployment. This links up with another strategy — i.e., to accelerate the provision of electricity to the entire nation.

This again is closely linked to my third suggestion: hand-in-hand with "electrifying" the nation, it should be "televisioned" without delay.

Besides boosting job creation in the electronics industry, to have a functional television set in every home will enable massive strides to be made in delivering audio-visual education as a fraction of the cost of classroom education.

Moreover, evidence in many high population growth countries suggests that nationwide access to television sets is a most effective means of reducing high birth rates over comparatively short periods.

On another front, we should be working far more aggressively towards developing a vibrant jewellery manufacturing industry ... which could easily become one of SA's top foreign exchange earners.

Tourism... is a supreme example of a crisis that was in no time converted into a major success story by enterprising South Africans.

In 1984/85 the tourist industry moved into a major slump; by the end of 1988 the number of foreign visitors will have risen by 35%. A combined action plan of State and private enterprise should imaginatively aim at developing a tourist industry that will be five times its present size by the turn of the century. It is achievable to turn tourism into SA's largest foreign exchange earner after gold by that time.

The urgent needs of the present situation demand a co-ordinated national attempt at finding a solution. When all is said and done, our circumstances are by no means traditional or normal.

Is it not time for the State President and a small team of top business leaders to meet on a regular basis to plan, implement and execute strategies to break out of the current impasse? Let us talk about a kind of break-out action cabinet.

The challenges that we face require unconventional thoughts and actions. We must be prepared to discard all our preconceptions and take an unbiased look at national questions and their solutions.

Time is not on our side. The strategies that we devise and execute must be able to produce sparkling results in not more than a decade. And that will require that we pool our resources in the interest of the common good.

Consumer confidence on the wane

49 5/10/88

Economy set to slow down by year's end

GRETA STEYN

ECONOMIC activity should start slowing down before the end of the year and should continue winding down next year, economists said yesterday.

However, it is not clear whether the slowdown has started and economists could not rule out more stringent monetary policy to protect the balance of payments (BoP).

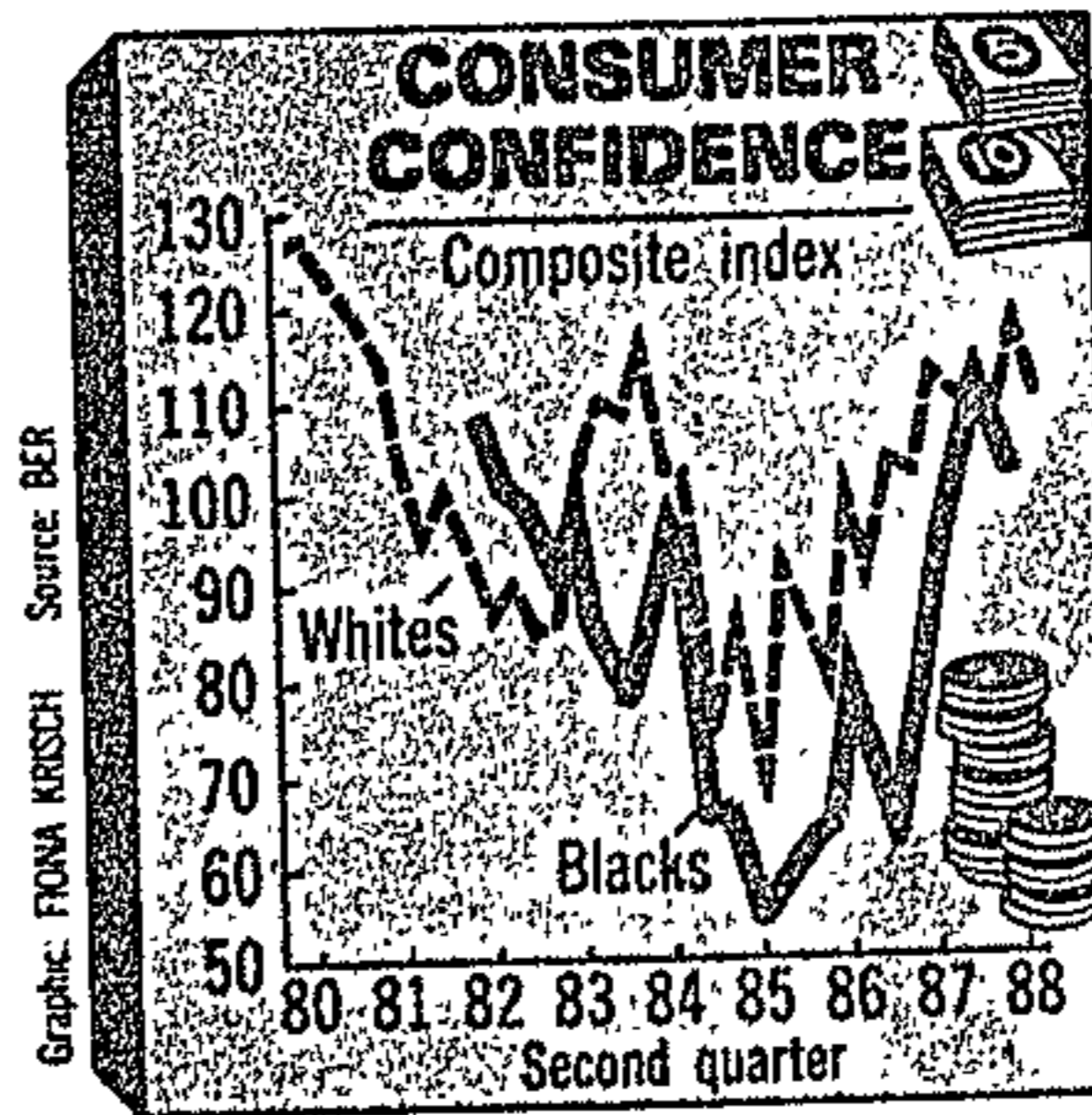
At the same time, they predict next year's downswing will not sink into recession and are forecasting real growth for 1989 — albeit significantly lower than this year's forecast of about 2.5%.

The Bureau for Economic Research (BER) expects the economy to cool down rapidly during the rest of the year. BER economist Glenn Moore said the slacker demand implied that SA could still achieve a surplus of R2bn on the current account of the BoP.

The BER forecast is based largely on surveys among consumers and business. Surveys showed consumer confidence, though still high, had diminished significantly by the end of the second quarter.

Motor-car dealers had become less optimistic, expecting the rate of increase in sales to slow down in the third quarter.

Economist Louis Geldenhuys, of stockbrokers George Huysamer, said the upswing was unlikely to continue for much longer, as it was built on a fragile base. It was a consumer-led upswing and



the underlying financial position of consumers was not strong enough to underpin continued strong demand.

Rand Merchant Bank economist Rudolf Gouws said the downswing, which would start this year and gain momentum next year, would not be recessionary.

Since the economy had not overheated, a recession was unlikely. Factors normally associated with an overheating economy had not emerged, such as rising inflation and capacity constraints.

At the same time, government's finances were in better shape, a relative calm reigned on the labour front and large capital projects were under way — indicating that positive real growth could still be achieved in 1989.

R/S
R3.0
R3.1
R3.2
R3.3
R3.4
R3.5
F
TH
on
soc
dir
up
cor
the
cor
ing
ma
and
Lo
rat
GN
dis
ind
des
dis
had
sec
say
fro
the
fac
pal
cy
by
wo
the
am

Govt urged to make red-tape bonfire

Scrap the rules which shackle trade — Assocom

By Michael Chester

The Association of Chambers of Commerce and Industry has urged the Government to hold a "red-tape bonfire" as a top priority in setting new economic goals.

A special issue of the *Assocom Review* business newsletter, released today, argues that economic progress in South Africa has been "shackled and discouraged by a lattice-work of laws and regulations administered by a burgeoning bureaucracy with all its tangle of red tape".

"The first essential to achieving future growth is to dismantle many of these restrictive laws and hold a red tape bonfire."

Pleading for more freedom for informal sector operations, the review says researchers estimate that while 12,4 million black South Africans should be economically active, in fact only about 6,9 million of them have steady jobs.

The current workless total of 5,5 million threatens to increase considerably unless the economy expanded at an unprecedented rate, says the Review.

"Now, on the threshold of the 21st century, we must return to our economic roots — to the cottages and houses of black South Africans, to spark vitality into the economy and to relieve the misery and want," says the review.

Assocom recalls that Dr Jan Lombard, deputy governor of the SA Reserve Bank, has said that if 4 million people each earned as little as R5 000 a year, the total purchasing power of consumers will leap by R20 billion a year — equal to 25 percent of the national wage bill last year.

Assocom sets out an "Agenda for Action" to restore peaceful co-existence and prosperity inside South Africa by the year 2 000.

Among the items needing urgent action are:

- Deregulation: Further progress must be made in cutting through the tangle of red tape which not only impedes the operation of formal markets but which deters the development of the informal sector.
- Group Areas: A flexible approach to this key issue is essential and the changes which have taken place in living patterns should be recognised.
- Schools: South Africa no longer has the fat to waste its resources. Fill empty classrooms with people who are hungry for education.
- Removals: People want stability and security of tenure so that they can live in peace and earn a living.
- State of Emergency: This should be ended as soon as circumstances permit, restoring normality to our society.
- Politics: Negotiate with the real political leaders of all groups and make a success of the national council.

FRIENDS, NOT ENEMIES

●Foreign relations: Avoid provoking the world. We need friends not enemies, good neighbours not antagonists, trade missions not armed incursions, diplomacy not confrontation.

●Inflation: Action, not talk, is necessary to curb inflation. Steps which should not be taken: price and wage freezes; Steps which should be taken: cut government expenditure; hunt out and bust cartels where these are against the public interest."

●Urbanisation: The drift to towns and cities is an historic process that cannot be halted. It can, however, be retarded by making the rural areas more habitable — with homes, not hovels.

"These targets are neither impossible or impractical," says the Review. "They can be realised if there is the political will and the economic thrust to reach the goals set for our society by the year 2 000."

49

Current account ⁽⁴⁹⁾ deficit could total R1-bn in first half

ster 14/7/88

By Sven Lünsche

The steady decline in South Africa's gold and foreign exchange reserves indicates a current account deficit of R500 million in the second quarter this year.

But an improvement is expected in the second half as most of the country's debt commitments for the year have now been met.

Provisional calculations by Trust Bank economists indicate that the net capital outflow in June would appear to have been around R400 million indicating a current account deficit of about R200 million.

In its latest *Currency Report* the bank writes that for the quarter as a whole its provisional calculations indicate a current account deficit of some R500 million, and a net capital outflow of the same order.

The balance of payments deficit before valuation adjustments for the second quarter — and indeed for the first half of the year, as the first quarter saw the account virtually balanced — would therefore appear to be in the region of about R1 billion.

The bank's chief economist,

Ulrich Joubert, expects a slight improvement both in the trade figures and on the current account on first half levels, as most of the country's debt repayments this year were met in the first six months.

"Also, we could see a slight reduction in imports, following on the government's economic restraint package in May, while exports are expected to maintain their current levels.

"The gold price is, of course, the big variable, but it has been doing very well against most currencies, except the US dollar," Mr Joubert says.

Forex pressures

The pressures on the gold and forex reserves were highlighted last week when the Reserve Bank acquired the necessary foreign exchange to meet large-scale debt repayments with a substantial interest bill, by executing an unusually large gold swap, which caused its gold reserves to fall by almost R1 billion.

The reserves subsequently declined to R5,65 billion at the end of June from R6,19 billion at

end-May resulting from large-scale debt repayments together with substantial interest payments.

Additional currency was, however, acquired via the utilisation of short-term foreign credit facilities, contributing to a rise of some R450 million in foreign exchange holdings for the month.

The bank writes that the weak balance of payments situation was largely responsible for the steady depreciation of the rand in recent months. The currency dropped a further 2c yesterday, closing at R2,3960.

The report says the increase in the Producer Price Index (PPI) inflation rate to 13,3 percent in May suggests that the rand's depreciation has "begun to exert an upward effect on price levels.

"Import prices showed a particularly high monthly increase of 1,9 percent — lifting the year-on-year rate for import price inflation to 10 percent from 8,2 percent in April.

"In coming months the latter rate, and the PPI rate as a whole, will move towards 14,5 percent," the bank estimates.

Reuter-
n Glob
ed an
world
regula
mers,
in bod
most
suppl
ee Or
DON
See
this
exp
with
cal
serv
SHI
ST
st
bt
III
er
to
ar
ah
un
e
n
H
li
p
f
t

SA growth is threatening unemployment

Sitting on an economic time bomb

By Michael Chester
 449
 Star 14/7/87

Studies by the Econometric think-tank into longer term economic trends are ringing alarm bells over disclosures that the rate of new fixed investment in business expansions and modernisation programmes has now been on a downward spiral for almost a decade — with still no sign of a significant reversal.

"It means that South Africa, at a time when new business ventures are crucial to create millions of new jobs to defuse an unemployment time bomb, is running into industrial obsolescence, with even fewer jobs in the pipeline," warns Dr Azar Jammone, director of the research unit.

"The chain reactions of a chronic decline in new fixed investment in industry and commerce can be temporarily camouflaged, but the longer-term implications are alarming," he said.

"Concern over disinvestment pressures from overseas has captured all the attention lately. Yet it is the tardiness of our own domestic investment spending that also needs examination — tantamount to home-grown disinvestment.

"Scenarios for the future envisage an economy threatened with stagnation as cobwebs start to spread over antiquated industrial buildings and machinery, with less and less chance of producing all the goods and services needed on the home market — let alone think of competing in overseas export markets.

"On current investment performance, South Africa will stand little chance of coping with threats of an economic siege from sanctions and political isolation — nor with finding the extra jobs that must be planned to hold the lid on unemployment problems and cope with 4.5 million more school-leavers streaming into the labour pool in the next decade or so.

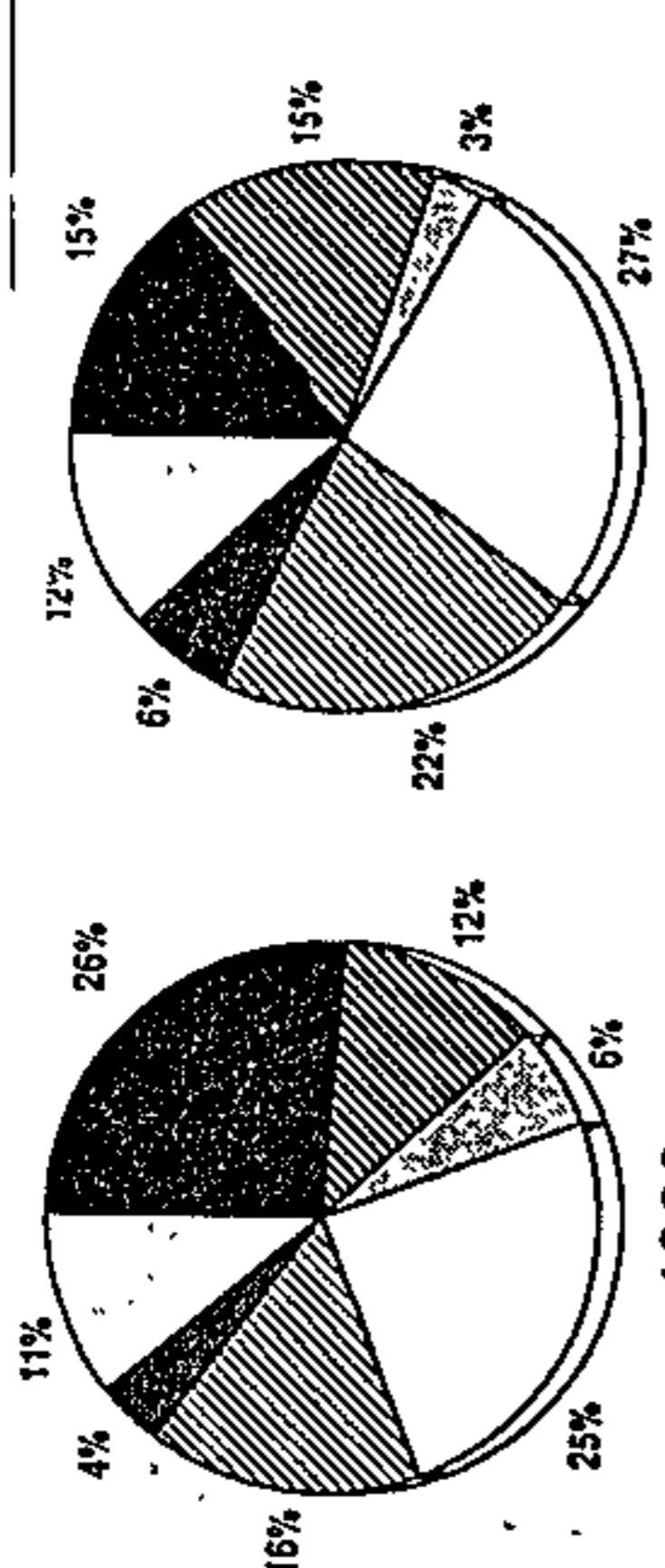
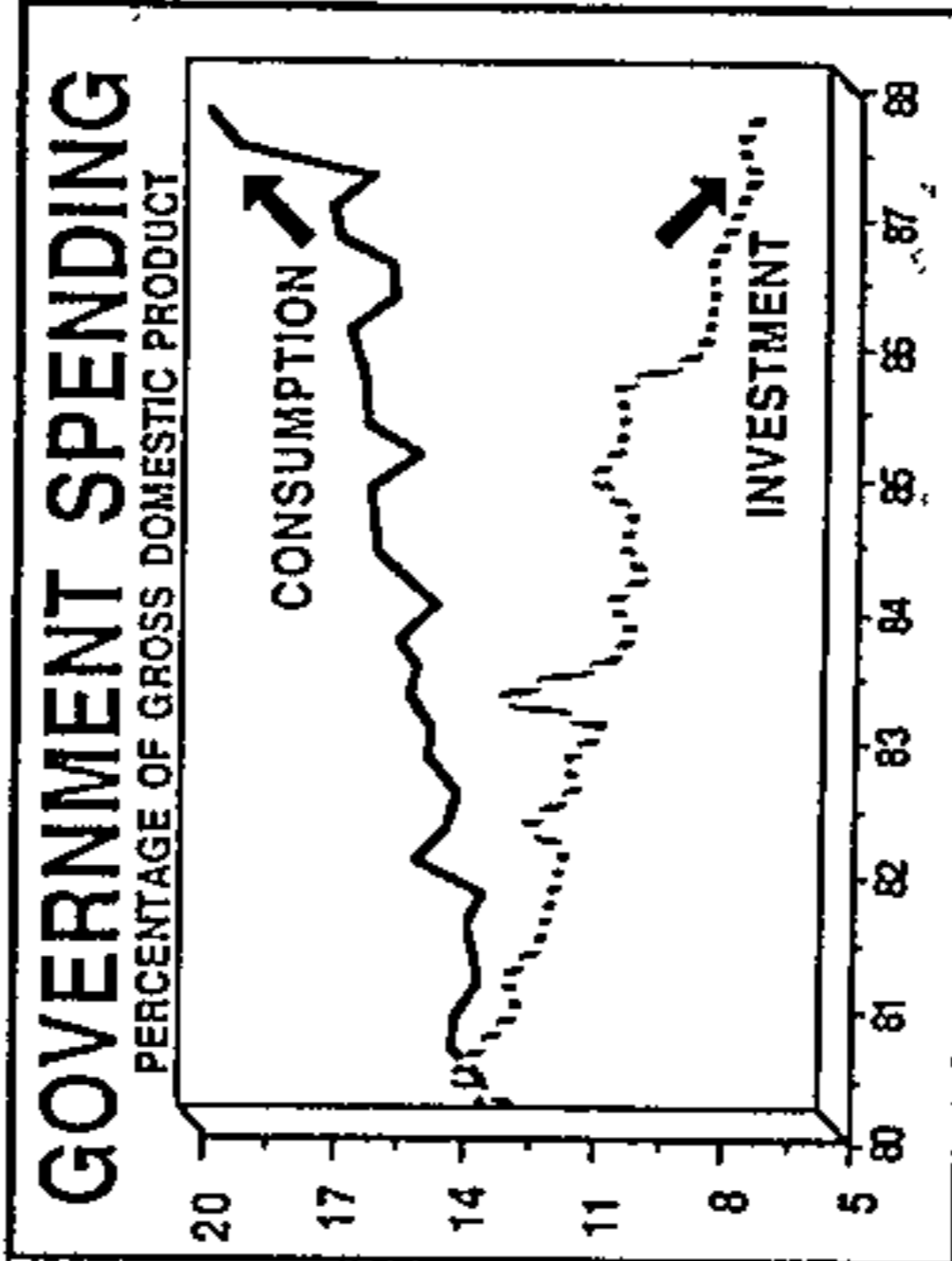
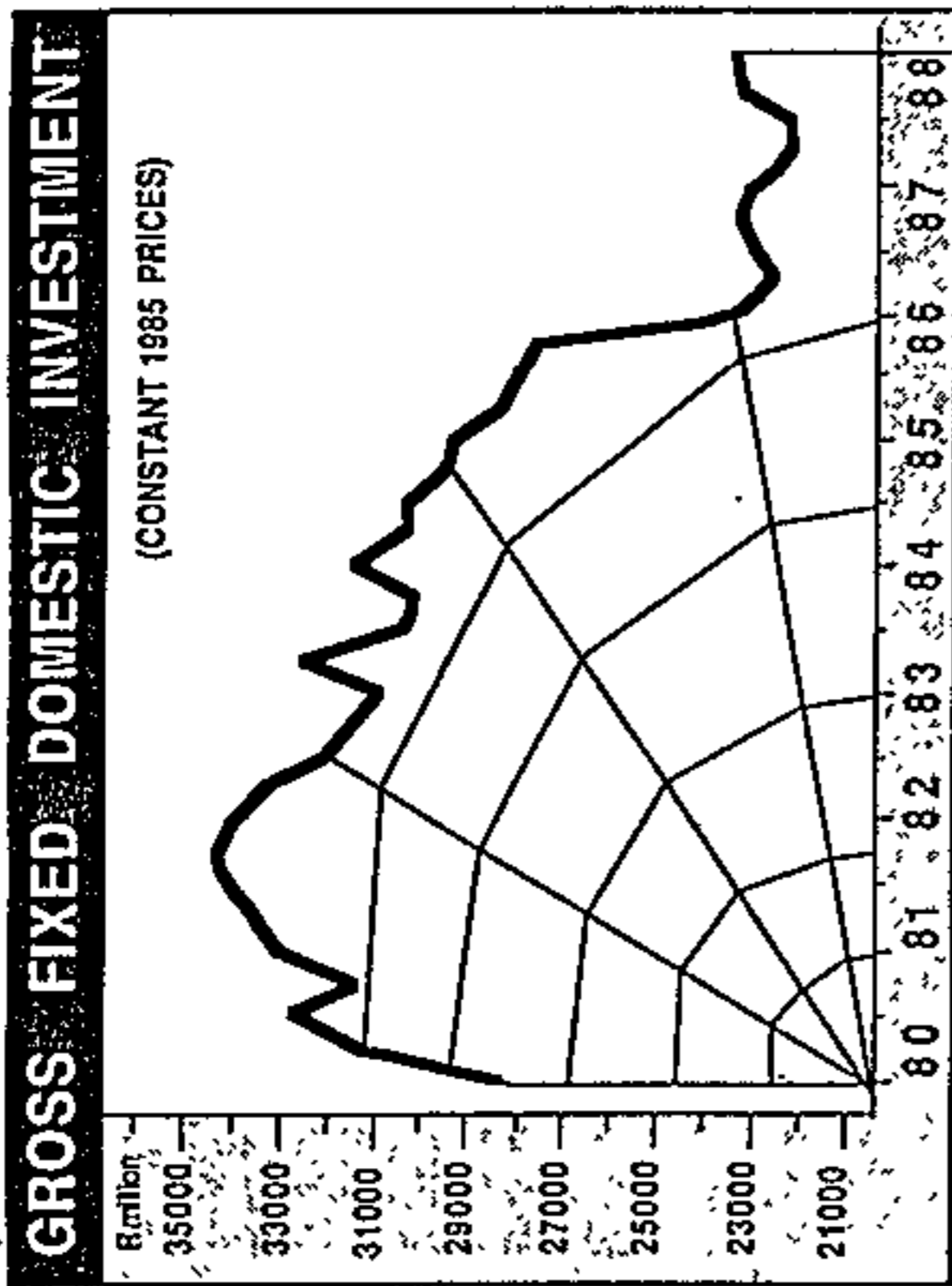
The fretfulness of economists has been compounded by studies carried out by the Self-Employment Institute, which is plugging the potential role of the informal sector.

These show that while South Africa needed to create as many as two million new jobs between 1975 and 1986 to keep pace with the population explosion, the number of jobs inside the formal private sector actually shrank by 150 000.

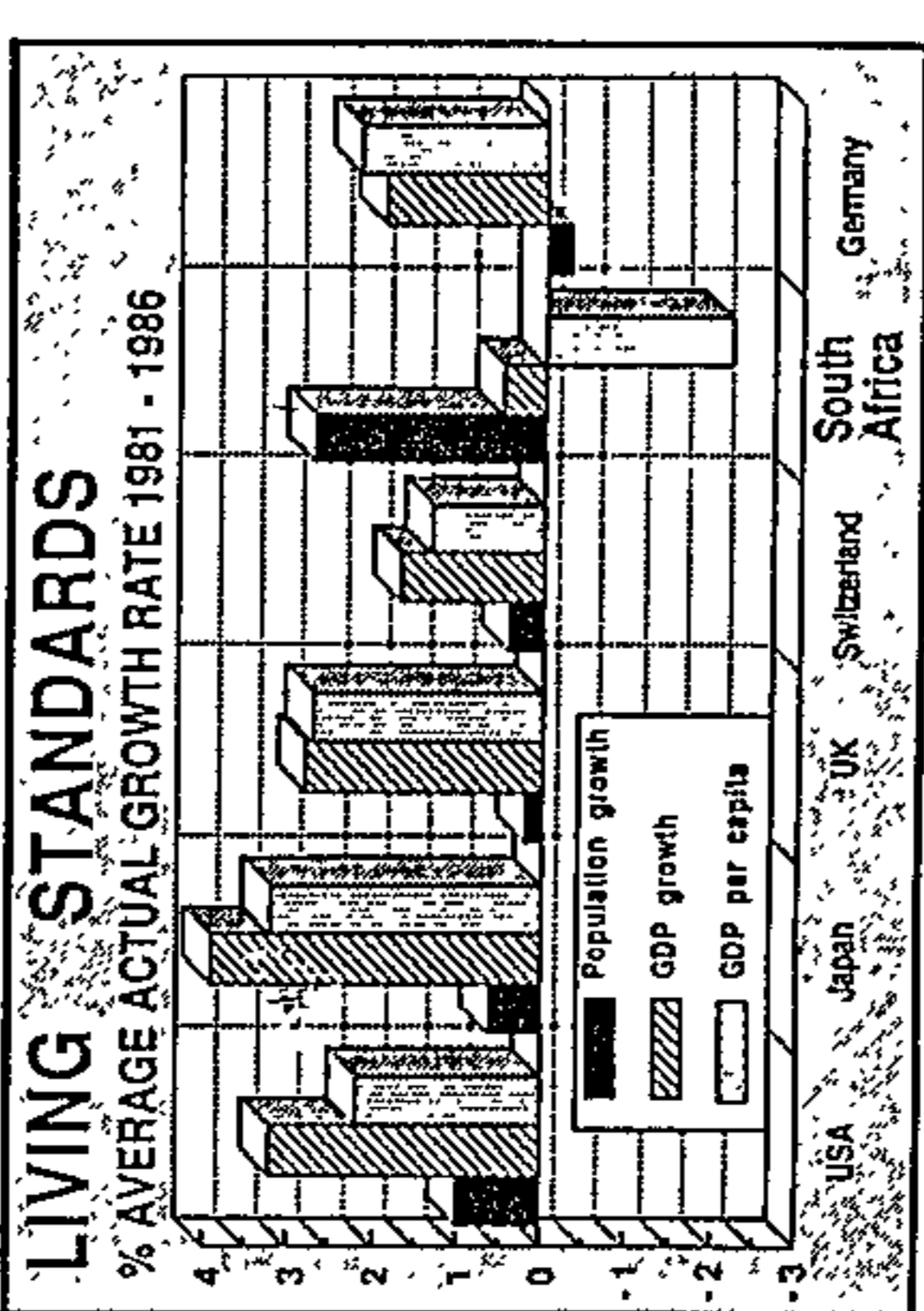
What troubles the Econometric researchers is evidence showing that overall new fixed investment made no more than only a feeble response to the recent economic upswing that normally should have inspired expenditure on projects to allow for future growth.

The longer-term downward drift in investment is confirmed by statistics compiled by the South African Reserve Bank.

These show total fixed investment — measured in constant 1985 monetary terms and thus eliminating distortions caused by inflation — plummeted from R33.8 billion in 1981 to R23.3 billion last year



FIXED INVESTMENT BY ECONOMIC ACTIVITY



ISOLATIONIST economic policies would seriously impair South Africa's long-term economic development, Dr Simon Brand, chairman and chief executive of the Development Bank, said this week.

In a critique of siege economy strategies, delivered at a meeting of the South African Institute for International Affairs, Brand reiterated the principles of an influential approach to economic policy which has come to be known as "inward industrialisation".

The core of this policy is that South Africa's economic development must be based primarily on the expansion of its domestic market for consumer goods.

South Africa would not follow an optimum path of development if it reacted to sanctions and disinvestment in the way it sometimes had in the past, directing large resources to highly capital-intensive, high technology strategic investments as it had in the 1970s, Brand said.

"Though in the short term investment in strategic industries would boost the economy, it would be limited economic growth which would not be based on an expansion of the domestic market," Brand said. "It would impair long-term growth, it would create less opportunity for lower skilled people, and it would be contrary to the requirements of facing our domestic development issues."

The topic of his talk to SAIIA was relations between South and Southern Africa. He expanded on the economic arguments he has put forward in the past to argue "inward industrialisation" would be an optimum strategy in terms of South Africa's relations with its neighbours too.

South Africa could play a very constructive role in the development of the sub-continent or it could play a disruptive one, he said. Which one was possible would depend on political and economic choices inside South Africa.

What Brand was proposing as a more constructive relationship between South Africa and its neighbours was much greater interdependence and sharing of resources: the development strategy he favours for South Africa would be supportive of this.

The pattern of manufacturing which would result, aimed at middle to lower income consumer markets, would be a suitable base on which South Africa could expand exports to Southern Africa. South Africa would be more inclined to import raw mate-

Says the expert Pretoria heeds: siege economy will damage SA

W/News
A
15-2/17/88
49

Plenty of economists have cautioned that a 'siege economy' will cause SA long-term damage. What makes Dr Simon Brand different is that when he speaks, Pretoria pays attention. HILARY JOFFE reports

rials and services from its neighbours.

Infrastructure could be shared and South Africa would put the skills of private and public sector institutions at the disposal of neighbouring countries on a more open and co-operative basis.

This made most sense from South Africa and the other countries' point of view, Brand said. If South Africa went the isolationist route, it would have less capacity to play a constructive role in the sub-continent. It would, for example, be inclined to reduce dependence on imports from its neighbours or on shared infrastructure.

Brand is very influential in government economic policy making. He was on what was then the prime minister's economic advisory council in the early 1980s and is now involved in a variety of tasks for the government, including investigations into decentralisation policy and "homeland" finances. He is also on the National Manpower Commission.

Other influential figures who advocate "inward industrialisation", although with different emphases, include deputy Reserve Bank governor Jan Lombard and the Central Economic Advisory Services' Jan Dreyer.

This outlook on economic policy is clearly only one of a variety of different strategies competing for government support. Brand believes though that there has been a significant move by the government in the direction of the kind of economic strategy he is advocating. He cites changes in government policy on black urbanisation, the move away from influx control, and greater job mobility for blacks as evidence.

The expansion of a domestic consumer market, as he envisages it, requires an improvement in the living standards of the lowest income groups, primarily through greater economic opportunities, but also through the government allocating resources to housing, education and health for these groups.

In this approach "the consumption pattern is directed to a large extent to



Dr Simon Brand

consumer goods already produced in South Africa — and this can be expanded without innovation," Brand says.

He is opposed to the view that South Africa's economic priority is to expand its exports: Brand commented that even excluding sanctions, developments in world markets meant export-based growth was "not the main area on which we should place our faith."

It is also in contrast to those who would see greater import substitution as a priority. Brand said this week: "I am not proposing an inward looking policy or intensive import protections. This would be against the drift of what I am saying because it would direct resources to replacing with domestically produced goods what can be imported (more advantageously) from abroad."

Brand this week pointed out statistics of disparities and "development issues" shaping economic choices in South Africa as he saw them.

Three-fifths of total gross domestic product in South Africa is produced in the main metropolitan areas and less than five percent of it in the "peripheral areas", that is, the homelands — independent or self governing". But over 40 percent of South Africans still live in those "peripheral areas".

Per capita gross domestic product is about 17 times higher than in the peripheral areas. And within metropolitan areas, household income in white areas is five times that in black areas, Brand said.

There are other aspects of this approach to economic policy, which Brand did not touch on this week. A central one is that the economy must move towards much more labour intensive production. This is a theme Lombard has stressed recently, sug-

gesting that the structure of interest rates and of taxation in South Africa favours capital at the expense of labour.

The strategy is also crucially tied in with urbanisation policy. A 1985 article written by Lombard and others actually called this form of "inward industrialisation" the "orderly urbanisation" approach. The assumption is that it would stimulate "consumer goods industries resulting from the rapid rise in expenditure by urbanised low income groups, mainly blacks."

And low cost housing has become a key theme in the argument. It's argued the mass provision of low cost housing, on the basis of labour intensive production and lower standards than those presently set, could stimulate growth and employment without exacerbating South Africa's balance of payments crisis by increasing imports.

The political implications of the "inward industrialisation" approach are, in theory, far-reaching. Redistribution of income is central and Brand has argued in the past that this would not be as disruptive to economic growth as many people believe.

De-racialising the economy is certainly a pre-condition for it.

But when the arguments for the strategy are presented, they are seldom presented in political terms, leaving a strange gap. More open relations between South Africa and its neighbours, a climate with more emphasis on redistribution of income ... all these would, one assumes, depend in large part on rather different government policies.

There is an apparent gap: a strategy which seems to be so tied in for its success to political factors is seldom presented alongside an analysis of what political changes would be necessary.

But in fact Brand tends to base his outline of this economic strategy on the assumption that significant political reform is happening within the present system.

In a paper published in 1986 Brand wrote: "A process of political transition is underway that will extend effective political participation to all the people of South Africa and ... further political transition has been and will continue to be accompanied by a thoroughgoing relaxation of the statutory and social arrangements that in the past restricted the freedom of economic choice and, in particular, the mobility of manpower."

His subject in the paper was therefore, as he put it, "the nature of the economic order which will pertain in post-apartheid South Africa."

The removal of many key aspects of apartheid is crucial to the Brand strategy, since the redistribution of income he envisages takes place primarily through greater access of blacks to skilled positions and to the economy in general. It also depends on the allocation of government resources to redressing some of the inequalities in the provision of housing, education and services.

The flaw in the strategy may be precisely that this government — even in Brand's reformed version of its policies — cannot go that far.

What next?

Though the three-year term of the Economic Advisory Council (EAC) expired on June 30, there has been no statement from government, either appointing a new council or making new arrangements to fulfil its functions of acting as a forum for analysing and proposing economic policy.

An announcement is, however, expected from the office of the State President, around the end of the month.

It may be argued that — if government had been content with the effectiveness of the EAC — an announcement would have come sooner. On the other hand, delay may be due to the coincidental adjournment of parliament and the priority accorded sensitive foreign policy issues.

In any event, the EAC meets several times a year, so there is no urgency.

There is a view in the private sector that the latest EAC was no more than moderately effective. For a start, the exclusion of employer bodies and trade union representatives meant that it was in practice no more than a "business advisory council."

However, the reconstituted EAC did have two useful achievements — it finalised the document setting out the anti-inflation strategy, originated by the previous EAC, and wrote the strategy document *Forward With Confidence*.

For the medium to long term, government is believed to be considering the possibility of linking a restructuring of the economic advisory function to a reconstruction of the President's Council.

Government may be entertaining the idea of a smaller President's Council which would both incorporate the functions of the EAC and allow for input from manufacturing industry.

This would be open to the objection that it fails to keep the expert advisory function separate from an active political function. After all, the President's Council was designed to fulfil the constitutional role of resolving conflicts between chambers of the tricameral parliament, not to provide technical advice on economic policy.

However the function of the EAC may be fulfilled, it should continue to fit into the slot of expert counsel from a body outside the actual structure of government. ■

Domestic growth 'must be curbed'

By Sven Lünsche ⁴⁹

Domestic growth needs to be slowed further in the short-term, but more importantly, longer term shifts have to be initiated, urges Standard Bank in its latest *Economic Review*.

"There are no soft options for dealing with this problem which has arisen because, in relation to external circumstances, domestic growth has been too fast," says Standard.

Understandably there was a reluctance to curb growth too harshly and this had given rise to proposals to exercise soft options, which include a declining rand, import controls and rationing foreign exchange.

"Exercising these options is not likely to succeed because they address symptoms rather than causes."

According to Standard the fundamental problems arise mainly from a too-high rate of growth of government expenditure and a too-large budget deficit, despite the recent fiscal austerity measures.

An unrealistic interest rate policy, which attempts to hold down inter-

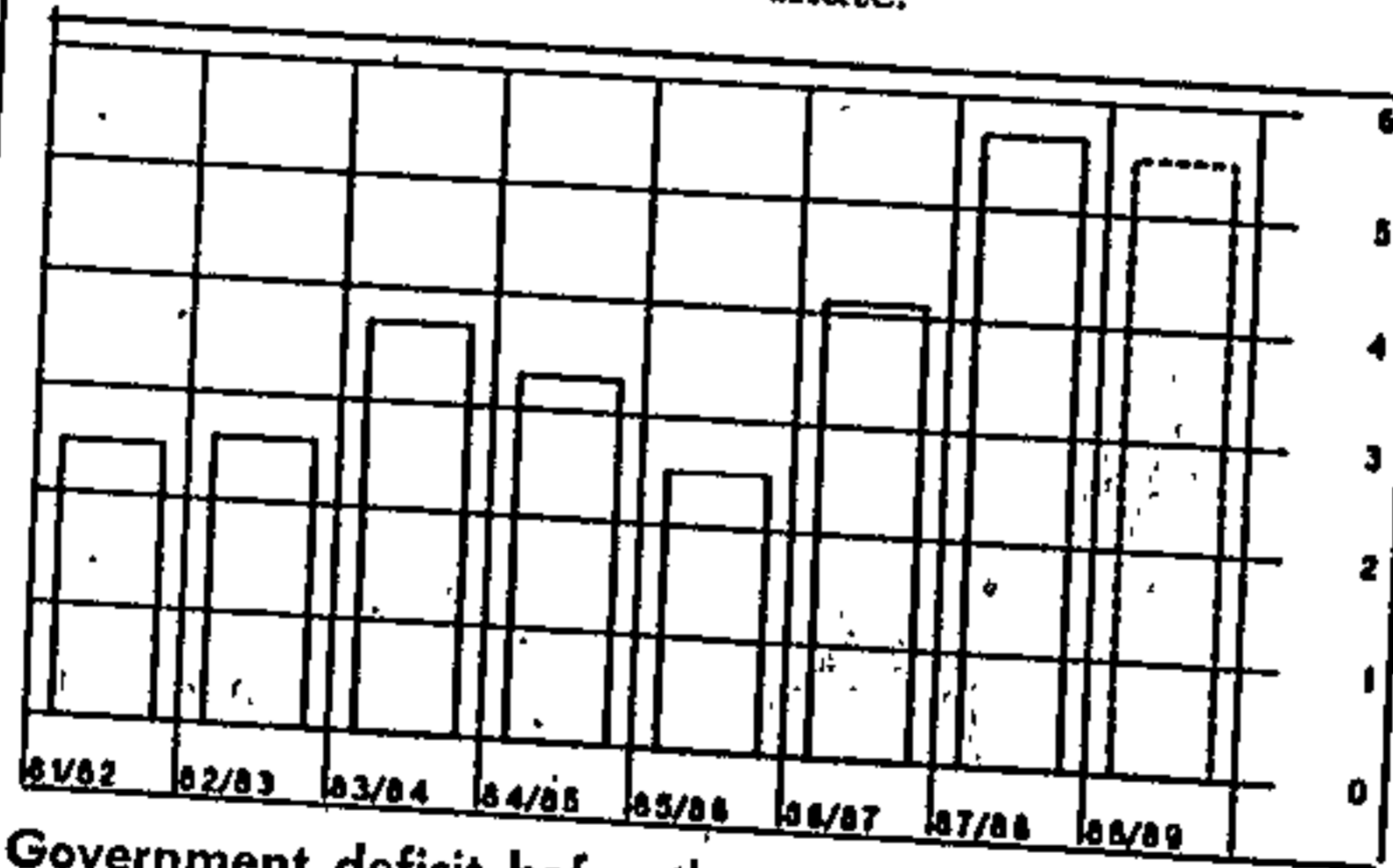
est rates, has led to a very rapid rate of growth of the money supply and a declining personal savings rate, without affecting domestic spending.

"Fiscal policy, too, is playing a role in this pattern. General government consumption expenditure rose at seasonally adjusted annual rate of 8,7 percent in the first quarter," Standard says.

"It is clear that the growth momentum is not likely to slow painlessly and quickly enough with the present policy mix and this suggest that a further tightening of monetary policy is inevitable.

"In the longer term, however, it is obvious that a major shift in emphasis towards an export orientated culture can contribute towards this objective, as rising export earnings are needed to generate the revenue to fund debt repayments and to pay for capital goods imports," says Standard.

"Helpful in this direction would be an increase in efficiency that would flow from deregulation, better education and a more stable labour relations climate."



Government deficit before borrowing as a percentage of GDP. 1988-89 estimate.

SA growth among worst — World Bank

Stav 19/7/88

49

By Derek Tommey
South Africa's economic performance in recent years has been among the worst in the world, a World Bank publication says.

Figures in the bank's *World Development Report 1988* show that in the six years ended 1986, gross domestic product (GNP) grew on average by only 0,8 percent a year — less than a third of the 2,5 percent achieved by other "upper-middle-income" countries, the category in which the bank groups South Africa.

Other countries in this category achieved much more creditable growth rates.

Brazil grew by 2,7 percent, Malaysia by 4,8 percent, Hungary, Poland, Portugal and Yugoslavia by 1,5 percent and Singapore, Hong Kong and South Korea by 5,3 percent, 6,0 percent and 8,2 percent respectively.

Excluding oil producers, the only upper-middle-income coun-

try to have a worse growth rate than South Africa was Argentina.

Its serious financial and political difficulties led to its economy contracting by 0,8 percent.

South Africans have paid heavily for their low growth rate. The World Bank estimates that the growth in income a head in dollar terms in the past 20 years has been just 0,4 percent.

On this basis, South Africans can expect to double their real incomes every 175 years.

Doubling incomes

Even the "poor-performing" Communist countries — Hungary and Yugoslavia — have done better. They are doubling their incomes every 20 years.

Brazil and Malaysia are doing it every 16 years, Hong Kong every 11 years and Korea and Singapore every 10 years.

This failure of incomes to rise

has meant that GNP in South Africa has hovered just above \$1 800 a head for many years.

Earnings a head in more prosperous countries, according to the report, are: Spain \$4 860, Italy \$8 550, Britain, \$8 870, Australia \$11 920, Japan \$12 840, the US \$17 480 and, in the wealthiest country of all, Switzerland, \$17 680.

But if this makes depressing reading, the World Bank held out hope of opportunities for large-scale growth in the sub-continent, once its political problems have been solved.

The bank estimates that South Africa's population will rise from 32,5 million to around 45 million within the next 12 years. In the same period, the population of Mozambique, Zambia, Zaire, Zimbabwe, Lesotho and Botswana will reach about 130 million.

On these figures, it seems that South African industry could be

called on to supply a market of almost 180 million people within a short time.

The bank estimates there will be another 400 million people living in Africa south of the Sahara by the year 2000 — and many of these are already a market for South African products.

By 2020, the World Bank believes South Africa will have a population of 90 million.

Larger population

At that time there will be many countries with a larger income a head or a larger population than South Africa.

But on both income and population, South Africa will then rank fourth in the Western world after the US (279 million people), Mexico (187 million) and Japan (119 million), which suggests South Africa has an intriguing future ahead of it.

Safto ^{cont.}
boss: ^{Tunis} 20/7/83
SA 'on
wrong' track

Own Correspondent
JOHANNESBURG. —
South Africa has been
on the wrong economic
track for years and
needed an integrated
economic policy based
on earning than what
was being spent.

This was said by Safto
(the South African
Foreign Trade Organi-
zation) chief executive
Mr Wim Holtes in Pre-
toria yesterday at a SA
Institute of Interna-
tional Affairs function.

He said the country's im-
port leverage should
be used to boost ex-
port but this message
was not getting
through. To get the po-
litical machinery be-
hind such a policy was
another story.

Mr Holtes said SA had
been on the wrong
track for many years.
"We have concentrated
on the production of
raw materials. But raw
materials are dis-
appearing as a factor
in world markets."

He stressed that to ab-
sorb and overcome
economic shocks SA
needed more than
good intentions. "We
must have something
on paper spelling out
an integrated econ-
omic strategy."

However, he said a ma-
jor change was taking
place and moving the
country towards far
more independent co-
ordination of interna-
tional trade relations.
Between R12 and R14
billion had been spent
on export promotion
over the years and a
considerable amount
had been misspent
and wasted.

"There had been too
great a dependence on
gold, and the incen-
tives failed to achieve
their aim."
SA had been too
negative thinking for
too long. An economic
prospective was
needed where the pri-
ority was "earning".
Stressing the potential-
ity was "earning".
Mr Holtes said currently
rich African trade, Mr
Holtes said currently
reciprocal trade with
the rest of the conti-
nent was close to R3
billion.

There was a "tremen-
dous" desire in Africa
to do business "with
South Africa. This was
marked throughout
the continent.

Business Report



Heather Thistleton, formerly in reservations at British Airways, has been appointed sales executive at BA's Cape Town office.

Assocom calls for agenda of tasks to . . .

Restore peace and prosperity

Cape Times 20/7/88 (49)

By AUDREY D'ANGELO
Financial Editor

AN agenda of tasks for both the private and public sectors is needed "to restore peaceful coexistence and prosperity to SA by the year 2000", says the Associated Chambers of Commerce of SA (Assocom) in its quarterly review.

It lists 10 items which should be among those on the agenda, ranging from the ending of the State of Emergency "as soon as circumstances permit", to dealing with urbanization.

Discussing urbanization it says: "The drift to towns and cities is an historic process that cannot be halted.

"It can, however, be retarded by making the rural areas more habitable and pleasing with homes not hovels. And the housing projects in urban areas must be speeded up to avoid the Crossroads tragedy being repeated again and again."

Other items on the agenda, and Assocom's comments, are:

● Negotiate with the real political leaders of all groups and make a success of the national council.

● Foreign relations. Avoid provoking the world. We need friends not enemies, good relations not antagonists, trade missions not armed incursions, diplomacy not confrontation.

● Inflation. Action, not talk is necessary to curb inflation. Steps which should not be taken are price and wage freezes which world-wide experience has proved never works, con-

trolled floor prices for agricultural products, other controls.

Steps which should be taken are to cut government expenditure to a reasonable percentage of gross domestic product, have a flexible bank rate and flexible and positive interest rates to restore value to the currency and to encourage saving and investment.

Hunt and bust cartels where these are against the public interest.

● Markets. Make constructive use of the marketplace and of market-related policies. Encourage administrators to believe that, far from being a dirty word, profit is the most cost-efficient generator of economic growth invented by man.

● Deregulation. Further progress must be made in cutting through the tangle of red tape which not only impedes the operation of formal markets but deters the development of the informal market.

● Group Areas. A flexible approach to this key issue is essential and the changes which have taken place in living patterns should be recognized.

● Schools. SA no longer has the fat to waste its resources. Fill empty classrooms with people who are hungry for education.

● Removals. People want stability and security of tenure so that they can live in peace and earn a living."

Summing up, Assocom says: "These targets are neither impossible nor impractical. They can all be realized if there is the political will and economic thrust to reach the goals set for our society by the year 2000."

Jolt for business chiefs

BUSINESSMEN are being challenged to press actively for political change or see the economy dwindle to depths similar to those of Peru.

Standard Bank Investment Corporation chairman Henri de Villiers told the Executive Association of SA yesterday that he was "concerned at the growing view that sanctions were "somehow good for us".

"Those countries that turn away from the world have remained economic backwaters. SA needs the world. It needs markets, it needs skills, it needs technology and above all it needs capital."

(19) HELENA PATTER (du)

He said that without foreign capital annual increases of about 2% in GDP were as much as could be attained without demand running away unacceptably.

"If we do no better than that, we shall get roughly 1% poorer every two years, with all the political and social consequences that such an increase in poverty implies."

To achieve sustained growth rates of 6% or 7% would mean a "return to

21/7/88 • To Page 2 →

Bank chief's jolt for business leaders

international respectability". This would be possible if there were a crucial shift in attitudes and policies.

"We need to move more quickly to freedom of association, freer markets and an extended spectrum of stake-holders in SA's economic prosperity.

"It is imperative that we do not adopt poses of defiance and bluster."

De Villiers said the real challenge was political and businessmen, as the most internationalist in opinion in SA, had a

← • From Page 1

special responsibility to press continually for accelerated political change.

"A degree of democratisation of SA need not be far away. Unless we seek it, we put in jeopardy those tenuous international ties left to us. At this time, above all, we as businessmen cannot allow ourselves to lapse into the extremes of introspection, despair or defiance. Nor should we remain silent."

49 B/day
22/7/88

OVERALL findings of the survey are that, during June, business was "ticking over" for those concerns serving the new, growing, middle-class market segment. But for those involved in consumer goods and services there were two complaints:

- There were too many stayaways and strikes; and
 - Competition is growing.
- But June was an encouraging month, in that 73% of business people in the real economy say it was better, or at least the same as, the previous three months.

THE NEXT THREE MONTHS: business is looking up, according to 63% of the sample, who expect an improvement over the next three months.

But 27% believe things will get worse or much worse, and 9% believe the next three months will be the same as June. This is what they say:

PEGGY "Bo'Air" SENNE, a top Soweto shebeen and one of the first to be licensed in Soweto, says last month's political stayaways hit his turnover.

"I must have lost about R5 000 turnover on June 16 alone, and between R12 000 and R15 000 during the three-day stayaway. You know I respect such days and do not sell any beer or liquor," he says.

Also, he attributed bad business over the last three months to winter, as customers drank less beer, his top line. But he expects business to pick up over the next few months as the weather improves.

As for the future, Bo'Air says some shebeens would suffer because of competition. "There is a price war in Soweto. Some shebeens have dropped their prices so much that others are bound to suffer, and this trend is likely to continue," he says.

STAN THOMSON, manager of the Blackheath Rebel Bottle Store, says business was quiet last month, at the same level as the previous three months. "People are generally buying less."

He expects forthcoming liquor price increases to slow business even further. However, people were quietly confident about the future, although businessmen were set to take a bit of strain.

COLIN BUTHELEZI, who runs a small fleet of taxis, is despondent. "If I was as young as you are I would be giving up this taxi business, sell my minibuses and go straight to town to seek employment."

"There is too much competition out there. Too much. There are hundreds of taxis on the same routes. Have you ever seen a stream of water? There are streams of taxis there and no money."

"I have been in this business for more than 20 years, but what I see and experience today is totally discouraging. It is a free-for-all situation. Unlike before, anyone can have a taxi permit these days."

"Government should not allow every Jack and Jill to have taxi certificates. Everything looks bad — the present, the future," he says.

MIKE SEGAL, owner of Bauer's Men's Shop, says his business in central Johannesburg was "very good" last month because of the cold weather. "People did not stop buying warm clothes."

His customers were buying more and paying more. But he expects business to slacken slightly over the next few months. "People are not

BUSINESS DAY REAL ECONOMY INDEX

DESPITE the gloomy predictions of the economists, the real economy continues to function. Out there on the streets people are making a living — often hand-to-mouth, but a living, none the less.

In a bid to measure this real, often informal, economic activity, Business Day, in association with business consultants Perry and Associates, today launches the **BUSINESS DAY REAL ECONOMY INDEX**.

This is an informal monthly survey of business conditions seen through the eyes of a panel of black and white small business people, drawn from the real

economy, where the man-in-the-street buys his goods. The aim is to let mainstream business know how the growing mass market is developing and reacting to changing business circumstances.

Panelists complete an identical questionnaire in the same week of each month. Business Day will publish the results of the survey, with an expert analysis by Perry and Associates.

This first survey — conducted last week — covers business conditions over the last three months and looks forward.

The real economy in perspective

SIPHO NGCOBO

| THE PANEL | | |
|--------------------------|-------------------------------------|-------------------------------------|
| 1 — COLIN BUTHELEZI | taxi-owner | 9 — IRIS MDLETSHÉ |
| 2 — PEGGY "Bo'Air" SENNE | shebeen | 10 — ISIAH HLATSHWAYO |
| 3 — PEACE CINDI | hairdresser | 11 — JAMES STRACHAN |
| 4 — CONSTANCE NKOSI | SA Perm building society manageress | 12 — STAN THOMSON |
| 5 — JOYCE MOYO | shebeen | 13 — MIKE SEGAL |
| | | owner, Bauer's Men's Shop |
| | | 6 — GLEN CAMPHER |
| | | Jazz Supermarket manager |
| | | 7 — MARY-JANE STUNKIE |
| | | sells clothing from home |
| | | 8 — THEO HARDIMAN |
| | | manager, building construction firm |

really sure about future trends." **PEACE CINDI**, owner of Hair It is, probably the most popular black hairdresser in Johannesburg, says business "was not good" last month because of the weather.

"People do not concern themselves much about hair care in winter, as they often wear hats."

The many public holidays over the last three months had further hurt business. "People tend to spend more on consumer goods, entertainment and travelling than hair care during holidays."

He notes customers have switched to smaller sizes of hair care products, but predicts business will pick up in August through summer.

"But the black hair-dressing industry is growing very fast and it is going to be tough for smaller salons,"

he adds **CONSTANCE NKOSI**, Soweto Perm Building Society area manageress, says business at the nine branches she manages has been "stable" with regard to investment, while demand for credit has been "high".

"The increase in credit demand is largely due to home ownership becoming of importance to blacks, coupled with the massive housing backlog. Many people apply for loans to be able to buy houses. It is a sudden awareness."

"With regard to investments, blacks are starting to take off due to, among other factors, the narrowing of salary gaps between races."

"Black propensity to save has increased. But Soweto traders are having it tough. They depend much on overdrafts, due to the fact that most township people still prefer to buy in

the city," she says. **JOYCE MOYO** runs a "mild," slow-moving shebeen selling beer and spirits. Her business is slow because that is the "speed" she prefers, and she hand-picks her patrons.

"Strangers can be troublesome, especially youngsters, who can flash knives and stab each other at any time once they are under the influence," she says.

She is aware that bigger shebeens with music and lower prices are a threat to her business, but she is not worried because of her personal relations with her customers.

She says her business was average in the last month and has been the same over the past three months, with customers buying and paying the same. She sees it staying that way in the months ahead.

GLEN CAMPHER, manager of a Jazz

Supermarket store in downtown Johannesburg, says business was good last month as anticipated and was the same over the past three months, due to what he termed "stability" in the economy.

"People keep buying," he says. Customers maintained the same purchasing power but spent more "due to inflation".

He feels business will be much better over the next few months because of fewer holidays, which would result in longer trading hours. "We are also building towards December, when business normally picks up because of pay rises."

He described his customers as being more confident.

MARY-JANE STUNKIE, who sells clothing on instalment terms to the public, says her business has deteriorated so badly she has lost all hope of it ever recovering. When she does collections every month-end, her customers, instead of paying, "give many sorts of excuses."

"They complain about how hard-pressed they are by their housing payments. The other usual complaint is that the multi-racial schools they send their children to leave them financially crippled," says Stunkie.

THEO HARDIMAN, manager of Quantum Construction, says "good" is the word to describe his business last month, and that it was even better in relation to the past three months as extra salesmen had been hired.

He expects business to remain the same over the next few months "as there is always slight fluctuation but, in general, the market stays the same". He also noted that "there used to be a tremendous amount of fly-by-night merchants, but now there are more solid people in the housing business".

IRIS MDLETSHÉ works from her Hillbrow flat, selling exclusive clothing to the public on behalf of six agencies. Her customers are stylish and fashionable people who call the garment they want by brand name.

She describes business last month as "very good," with the minimum paid on a dress R250.

"Demand was so high that I exceeded my monthly limit. My customers were paying cash. People are buying for summer, and I am hoping to double my sales as we progress into the summer season, when there will be many weddings in the townships, especially during the Christmas period," she says.

ISIAH HLATSHWAYO, alias "Mr Nugget," runs the shoe-shining and shoe-repairing business outside the Johannesburg Stock Exchange.

"I am doing very well and business has become much better and I am much more confident about the future. If things go as they presently do for me, I will never tumble," he says. He has invested in a specially-designed armchair for customers, and says: "I am on my own now and I will continue to be. I am destined for the stars."

JAMES ROBERT STRACHAN, manager of Hyper-Car, part of Lindsay Saker Motors, says business was "very good" during the last month and over the past three months. People are rushing to buy now before prices go up, he says.

However, he expects business to fare even better over the next few months. He predicts customers will purchase and spend more, especially towards year-end. As for people he does business with, they were more confident.

PERRY AND ASSOCIATES' COMMENT

THERE WERE two definite trends which give plenty of hope for business for the future:

- Spending power of the new middle/lower income group is supporting a growing number of businesses; and
- Deregulation, political shocks and economic necessity mean that many have entered businesses on their own account. This has created new distribution channels for goods and services.

Interesting trends were that:

- The success of taxi drivers, hawkers and home businesses will encourage more would-be entrepreneurs to try their hand at the free enterprise system.
- People in the real economy have good expectations of

steady income. Competition, however, is making some lines of business (such as taxis and hairdressing salons) a little less attractive.

We can expect further diversification of the real economy such as the expansion of hawking into the sale of new men's suits and other clothing. This creates many more distribution channels which business in the formal sector must help to develop for their own good.

In conclusion, it is refreshing to hear panelists defining their problems in terms formal business can understand. This shows people in the real economy are concerning themselves with practicalities of business rather than cries for government assistance.

M3 growth well up from April figure

CAOP Times 23/7/88 (49)

Economy booms as money supply rises

By AUDREY D'ANGELO
Financial Editor

THE economy is booming ahead with no sign of slowing down. This is shown clearly by the latest money supply figures, released yesterday by the Reserve Bank, which disclose a continuing substantial rise.

The year-on-year broadly defined M3 money supply growth was revised only slightly upward to 22,78% for May from a preliminary 22,70%, but was well up from April's revised 20,70%.

Preliminary M3 data for June show a further quickening in growth at 24,92% — well above the 1988 target range of between 12% and 16%.

May M3 was revised to R101,45 billion from a preliminary R101,38 billion, compared with a revised R99,43 billion in April.

Preliminary figures for June M3 total R104,51 billion.

Since the authorities intend to cool the economy down in order to

avoid a balance of payments deficit, which would make the repayment of SA's overseas debt difficult, the clear implications are that another rise in interest rates can be expected soon.

Southern Life economist Mike Daly said yesterday that, in view of the fact that the inflation rate was falling — the year-on-year consumer price index for June was down to 12,4% — this rate of growth in the money supply meant even higher growth in real terms.

Surprise growth

"We have not seen a money supply figure that big since 1982."

He said the rate of growth "will take most people by surprise. Most people thought the figure would be down. I thought it would be 20%".

Daly said that in view of this rate of growth, it was clearly "premature to think that the economy is cooling down".

Such a rise would obviously "bring forward a hike in bank rate

and a hike in prime rate of at least half a percentage point".

Standard Bank economist Nico Czypionka said he was not surprised by the continuing growth in the money supply because measures to tighten it up had "not been enough to suit the circumstances".

Now there would have to be further tightening. "You cannot have a meaningful reaction without pain."

But he was certain that even under the present circumstances, action taken would not be as drastic as that in 1984, which sent interest rates soaring and depressed the economy too much.

Czypionka said that if the economy had slowed down at all this year "it has probably re-accelerated. We have no restrictive policy at all".

But even if the tightening had been more severe, it could not have cooled the economy down overnight. Time would be needed for it to take effect.

W/E AUGUS 23/7/88

49

BUSINESS

Bridging the gap between workers and management

WHEN South African labour and management sit down at the negotiating table there's a space between them bigger than just the traditional space between these two parties.

Apart from the distortions which our socio-political circumstances impose, there is also an ideological gap across which a management, believing it is pro-capitalist and pro-free market, stares at a labour movement which is generally socialist oriented.

Crossing this gap is all the more difficult because most white South Africans have about zero conception of the economic, ethical and political underpinnings of socialism, thanks to the limbo of ignorance created by censorship of material, Government misinformation which generally equates socialism with "communist imperialism" and their own misconceptions about just how free is the free market system they so avidly espouse.

The whole area is raddled with misconceptions and misunderstandings on both sides.

With all this in mind, a one-day workshop next month on capitalism and socialism, organised by Contact Group, should be of interest to local businessmen.

It will be led by Professor James Moulder, head of the philosophy department at the University of Natal, who has presented similar courses at the UCT Business School and other universities.

Moulder said this week that both concepts were emotionally loaded, which blocked rational thinking, and to get over this bridge the workshop aimed to show that people could talk about the issues that mattered without mentioning "isms".

The two real questions facing South Africa were how to expand the creation of wealth and how to distribute it fairly.

"Both questions involve all humans, but the debate round these two questions has become rhetorical rather than pragmatic," he said.

"There is a sense in which government and management on one side and opposition forces such as the ANC and trade unions both mis-describe South Africa as a capitalist system.

LABOUR
AFFAIRS
DICK
USHER



"But if you look at the total situation in its historical context it would be more properly described as ethno-socialist. What is called free enterprise is actually an economy heavily regulated by government. The question is whether to have democratically based regulation or unilateral regulation.

"At present we have unilateral regulation and, through this we are in a way compelling blacks to be socialists because they know nothing about a system in which they haven't been given a chance to participate.

"We have to keep the bakery going and find ways of baking a bigger pie out of which everyone will get a fairer share. Which means eliminating the rhetoric and dealing with the real questions in a pragmatic way."

For workshop bookings ☎461-8507.

19/88

M-3 growth rate is now 'disturbing'

GROWTH in the money supply is running away at a rate which makes the Reserve Bank's target range of 12% to 16% growth for the year virtually impossible to attain.

Preliminary Reserve Bank figures released on Friday show M-3 stood at a seasonally adjusted R104,3bn in June — 24,92% higher than the same month in 1987.

Credit demand is cited as the reason

GRETA STEYN

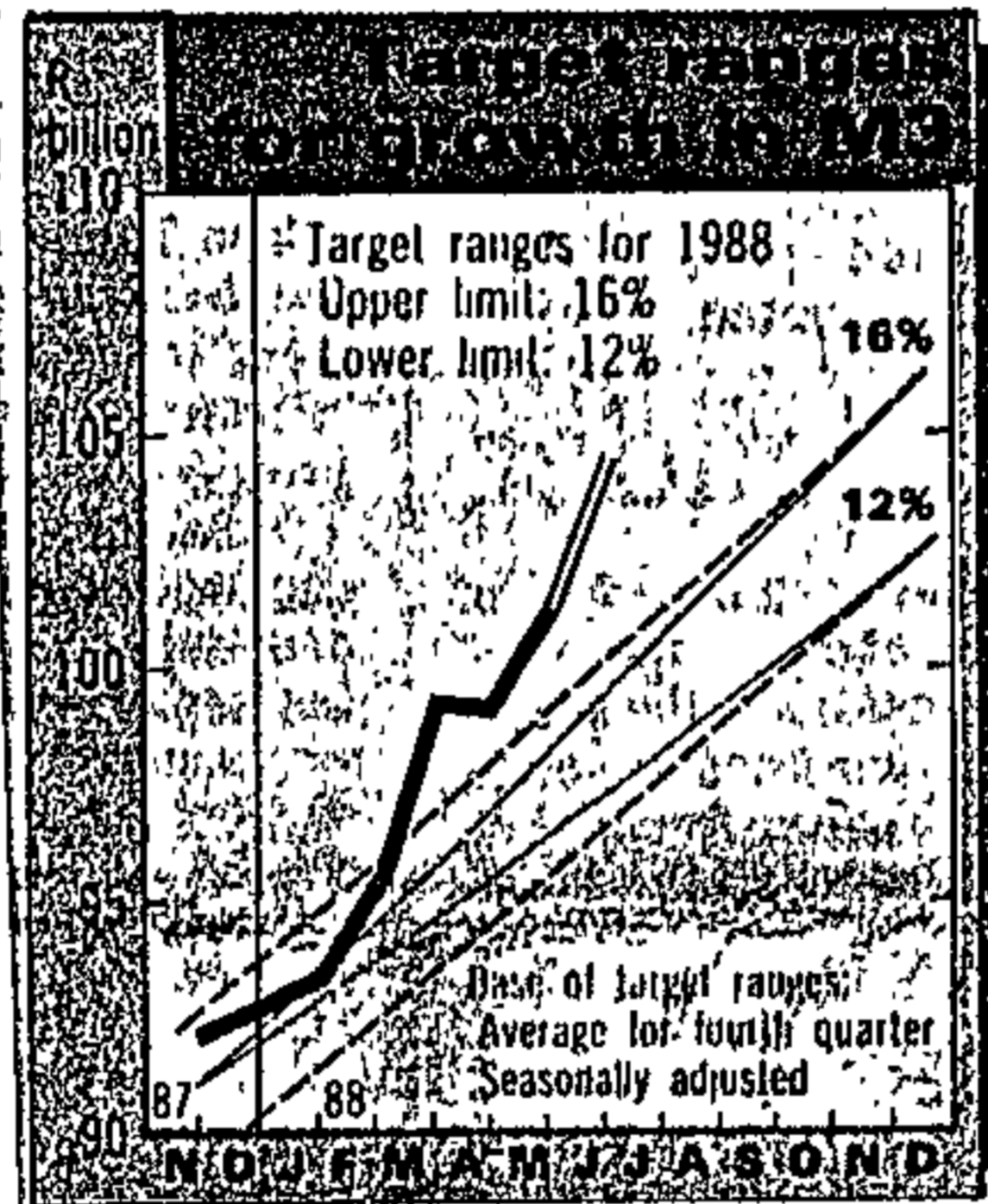
for the strong growth in money supply, and economists say another rise in interest rates will stem the runaway growth.

Reserve Bank governor Gerhard de Kock said yesterday the rapid growth in money supply was viewed in a serious light. He said: "It shows the demand for credit has been stronger than was generally expected and that the domestic economy is growing at a faster pace than anticipated six to nine months ago."

"But domestic spending is undoubtedly not as strong as the latest M-3 figures suggest because the velocity of money circulation declined. Lending came back onto banks' balance sheets which had previously taken place without the banking sector — which does not represent new activity."

De Kock said re-intermediation meant total spending in the economy had not risen as rapidly as money supply, but the latest money supply statistics were nonetheless viewed in a serious light and were receiving the full attention of the monetary authorities.

Nedbank economist Edward Osborn described the statistics as "disturbing". He said: "June's figure is already as



● To Page 2

M-3 growth rate is 'disturbing'

high as October's upper end of the target range. We are well beyond reaching the target for the year, unless the economy goes into a complete reverse."

May's figure for M-3 was revised up to R101,45bn from a preliminary R101,38bn, representing year-on-year growth of 22,78%.

M-3 is the broad definition of money and comprises all deposits of the private sector with banks, building societies and the post office.

Standard Bank economist Nico Czipionka said: "The figures did not surprise us as we had seen the strengthening in credit demand. The Reserve Bank will now have to seriously consider raising Bank rate."

He noted that credit demand and money supply figures were traditionally slow to respond to higher interest rates,

● From Page 1

and that the hike of only 1% in May could not have been expected to have much effect.

Bankers believe another rise in prime is warranted as their margins are squeezed.

The higher-than-expected preliminary figure for June was seen as bearish by the money and capital markets.

Capital market rates rose slightly as Thursday's good news on inflation dimmed into insignificance and attention turned to the money supply figures.

The long-dated Eskom edged up to around 16,20% after falling to 16,13% on Thursday and the RSA 13% 2005 went up to about 16,24% after softening to 16,16%.

● Comment — Page 6

19/88

Relly calls for political reform to boost growth

49

26/1/88

By Ann Crotty

If the attainment of a five percent growth rate is regarded as fundamental to South Africa's future as a peaceful, prosperous state then the constraints and distortions resulting from its political policies must be removed or significantly modified according to Anglo-American chairman Mr Gavin Relly in his latest annual statement.

As perhaps the major representative of the capitalist system in South Africa Mr Relly's statement is, to a large extent, an attempt to present the acceptable face of South African capitalism.

To this end he notes that "Justice and equity do not flourish in conditions of poverty, whatever the politics of the party in power. South Africa will never be able to muster the resources needed to provide decent living standards and opportunities for its growing population unless it can attract foreign investment, as distinct from institutional aid."

Foreign capital will still not flow here, even after apartheid has been abolished, if that otherwise desirable state of affairs should be brought about by means so violent as to leave behind an economic wasteland ruled — as history shows it would be — by extremists opposed to private capital and property.

Mr Relly is critical of the misuse of resources that has resulted from excessive government expenditure: "There is solid evidence around the world — most cogently illustrated in the lessons of Britain's economic recovery — that when government expenditure is excessive, the effect of withdrawing from the private sector the resources required to finance such expenditure is to inhibit the creation of new wealth and thus diminish the capacity of the economy to generate new jobs and higher living standards."

He is emphatic that a reduction in government expenditure, which would allow a reduction in taxation and therefore a boost to the level of resources held by private



Gavin Relly — Critical of the misuse of resources.

enterprise, would lead to much more productive employment of resources "causing the entire cake to expand at a faster rate, thereby generating more revenue for education and other socially desirable purposes".

Despite Mr Relly's emphasis on the merits of the British example, the potential benefits of additional local resources being directed towards private enterprise would look considerably more attractive if these resources were used to boost employment and not just profits.

As Mr Relly points out, a bias towards the use of labour rather than capital is more appropriate for a developing country but, as perusal of annual reports released during the past 12 months highlights, private enterprise in South Africa is directing an increasing proportion of its resources, per rand of profit created, towards capital at the cost of labour.

Relly warns on SA's shrinking means

JOHANNESBURG. — The means available to expand the SA economy are shrinking as well as being misused, said Gavin Relly, chairman of Anglo American Corporation, in his annual statement issued yesterday.

"Shrinkage is exemplified in the transformation of the Republic from being an importer of capital — which all developing countries by definition ought to be — to a capital ex-

porter. *CWE 7/7/85 26/7/88 (49)*
Our heavy commitments for repayment of external debt, inability to raise long-term loans and limited access to overseas trade credits oblige us to forgo or divert very substantial resources that were formerly available for productive investment," said Relly.

The constricting effect of this on current growth was driven home in May, when the brakes had to be applied disappoint-

ingly early in the recovery cycle, lest the upswing in imports jeopardized SA's ability to repay foreign debt.

"That State expenditure in SA has for many years been excessive is accepted by government itself, and there can be no doubt it has put a brake on growing our resources.

"Thus the argument for reducing expenditure and tax-

ation, far from being detrimental to social ends, is in fact favourable to them, because the resources so returned to private hands can be more productively employed ...

"We have no option but to remove or significantly modify the constraints and distortions resulting from our political policies. They too should have to pass the test of affordability," said Mr Relly. — Sapa



Gavin Relly

CAP 7/26/88
59

Means to expand economy 'shrink'

JOHANNESBURG. — The means available to expand the South African economy are shrinking as well as being misused, said Mr Gavin Relly, chairman of Anglo American Corporation, in his annual statement, issued yesterday.

"Shrinkage is exemplified in the transformation of the Republic from being an importer of capital — which all developing countries by definition ought to be — to a capital exporter," said Mr Relly.

"Our heavy commitments for repayment of external debt, inability to raise long-term loans and limited access to overseas trade credits oblige us to forego or divert very substantial resources that were formerly available for productive investment."

He said that given the external financial restraints, the most South Africa could probably hope to achieve on conventional analysis was a real growth rate of about 2,5% a year.

"To absorb new job-seekers, let alone reduce the number of unemployed, we have to attain a growth rate of 5%."

● Full report — Page 10

Expanding economy key to reform

Resources misused, says Relly

49
B/doy
26/7/88

REFORM was a costly business that would not be successful unless it was supported by an expanding economy, Anglo American chairman Gavin Relly said yesterday.

But, he said in his chairman's statement, the means available to expand the economy were not only shrinking but were also being misused.

That was illustrated by SA going from being an importer of capital to an exporter of capital. SA's heavy commitments for external debt repayment, inability to raise long-term loans and limited access to overseas trade credits obliged it to forgo or divert substantial resources formerly available for productive investment.



● RELLY

The constrictive effect of this on growth was driven home in May when the brakes had to be applied "disappointingly early in the recovery cycle" lest the import-swing jet reduced the ability to repay foreign debt.

Relly said many politicians overseas tried to force the pace of change through

DIANNA GAMES

sanctions and disinvestment, choosing to ignore the reality that the result of their activities to date had been rather to set back reform and impoverish those they intended to help.

He said: "The credibility of their judgment thus becomes questionable and the morality of their motives dubious."

Relly advocated significant cuts in state expenditure, saying excessive expenditure had contributed to the brake on expanding resources.

"The challenge is one of the most severe government has yet faced because it requires if not the abandonment then certainly the significant modification of long-established policies and habits".

Taking into account SA's external debt commitments and the possibility sanctions would be intensified, it was evident the country was no longer able to supplement its resources from outside and had to use them more effectively.

With SA's external financial restraints, the most it could hope to achieve was a real growth rate of about 2.5% a year when it needed a 5% growth rate. Relly said to attain that SA had to

● To Page 2 →

49 B/doy 26/7/88

Expanding economy is key to reform

remove or greatly modify the constraints and distortions resulting from its political policies.

The pace at which one could expect growth was partly dependent on economic conditions in the Western world.

Though much remained to be done, SA was moving with increasing speed towards normalising its society and the "empowerment" of blacks.

Relly pointed out areas where, as a result of deregulation, the indirect poli-

← ● From Page 1

tical leverage of blacks was growing in proportion to their increasing economic clout.

The black taxi industry had grown spectacularly, making a remarkable contribution to the economy with a capital investment of some R3bn and an annual turnover of more than that.

● See Page 7

T
art
ent
er,
nd
No
aid
MD

SA's trade surplus drops by over 50%

Copy Times
27/7/88

Own Correspondent

S
nk
as
of
he
y is
oss
for
w's
me
ow
the
en-
phn
ura

d
10
5

JOHANNESBURG. — SA's trade surplus plunged by more than 50% in the first half of this year from the same period a year ago, to stand at R3,43 billion compared with R7 billion in June 1987.

Imports surged, while exports rose moderately in June this year, bringing the surplus for the month to R463,8m — the second-lowest monthly surplus in 1988. In May, the surplus was R670m.

The trade figures spell trouble for the current account of the balance of payments (BoP), which is estimated to be in deficit for the second quarter of this year, before adjustments by the Reserve Bank.

However, after adjustments by the Bank, the picture could change from a deficit to a small surplus — as occurred in the first quarter.

SA needs a current-account surplus of about R2 billion for the year to meet its foreign debt commitments without running down reserves. Based on customs and excise figures, the current-account surplus for the first half of the year was about R400m.

The current-account surplus dwindled as imports surged. Imports jumped by almost R400m in June from May, to R3,552 billion, and was 57% higher than June 1987. Exports rose by only R192m between May and June this year to R4,016bn.

Nedbank economist Dennis Dykes said the soaring imports painted a grim picture for the current account.

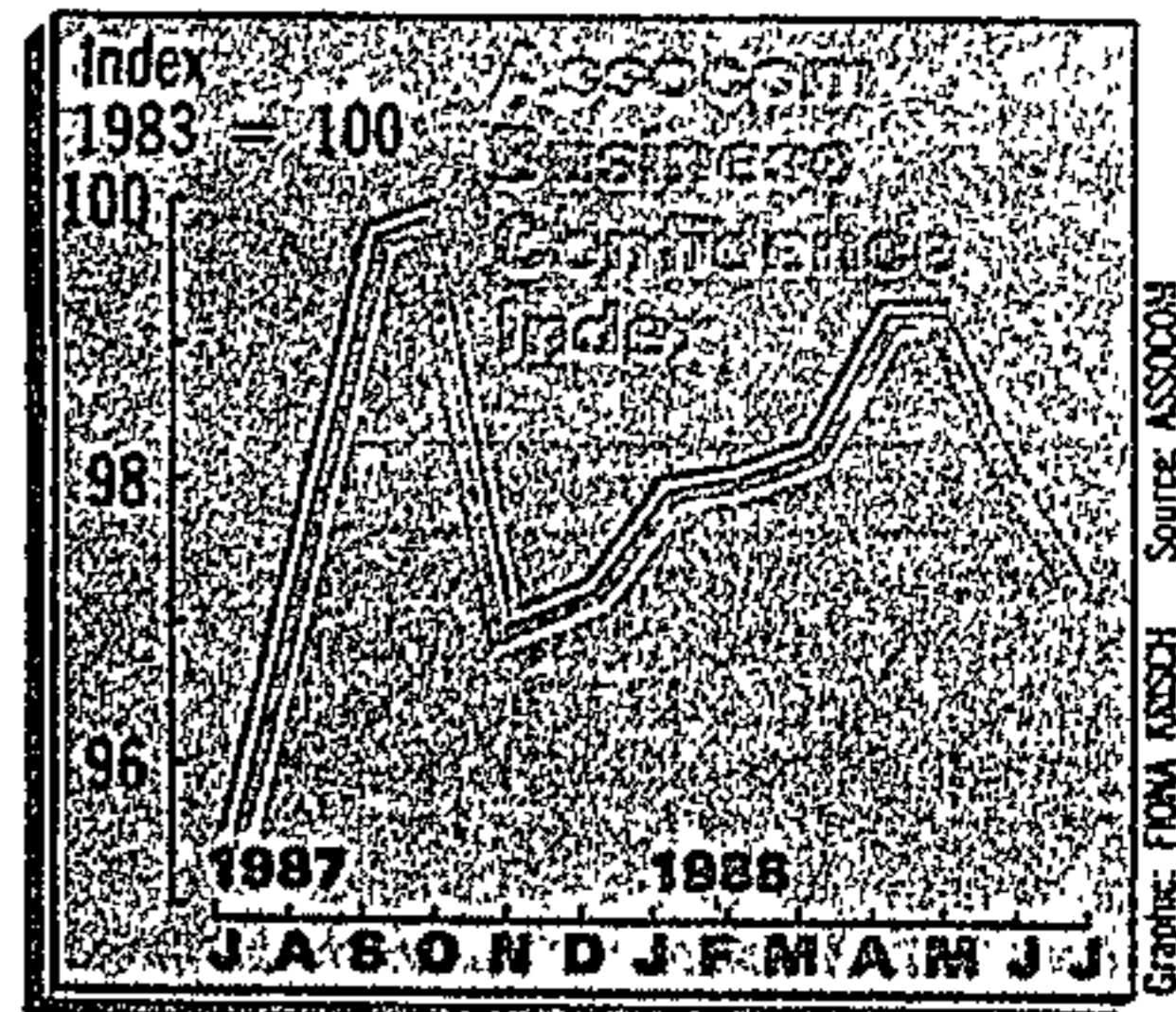
"Import volumes have picked up sharply because of strong domestic demand."

105 Brief

Pressure mounts for rates hike

Crucial talks on monetary policy today

49
28/7/88



'Interest rate rise is needed'

HELOISE HENNING

ASSOCOM yesterday joined the call for a "timeous" rise in interest rates as the Business Confidence Index (BCI) for July fell to 97,3 from 98,1 in June.

This is the lowest level the BCI has reached since December last year and is below the 98,5 average of the six months to June.

Economic indicators over the medium term had changed from green to amber, Assocom said.

A rise in interest rates was inevitable, but not an easy decision to make at this stage.

Yet Assocom said if monetary policy remained flexible the rise in rates could be adjusted speedily as circumstances changed.

Vulnerable

The decision on whether to raise the rates depended on how policy makers interpreted the latest trade figures, the money supply trends, development in the money markets, the gold price and interest rates overseas.

"It may not be possible to wait until all the evidence is available, as the margin for error is small. SA is vulnerable in external terms and needs to husband its foreign exchange resources. This may mean, among other things, that a further rise in interest rates may now be unavoidable," it said.

These issues, accompanied by the decline in the rand/dollar exchange rate, the dollar price of gold and drop in new car sales for the previous month, contributed to the uncertain mood prevailing in business over the medium term.

GRETA STEYN

SENIOR bankers and the Reserve Bank will hold critical talks today on monetary policy at a time when disturbing economic trends signal the need for an upward movement in interest rates.

Economic fundamentals such as runaway growth in money supply and the balance of payments problem dictated the need for higher rates, economists said yesterday.

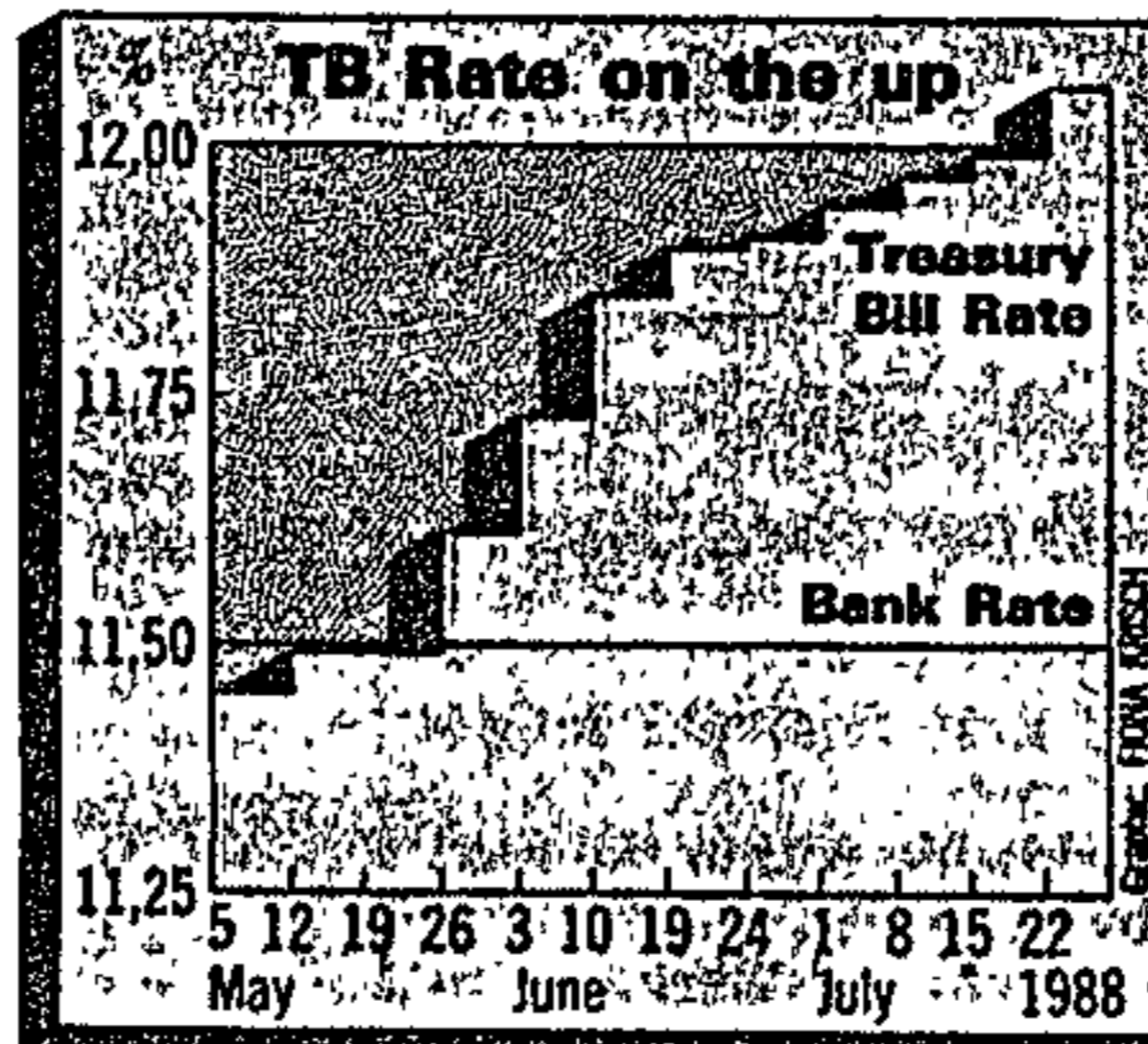
There was talk among bankers of another package, similar to that of May, to protect the balance of payments. It would include a higher Bank rate, which would have a ratchet effect, sending rates up across the board.

However, it is not conclusive that rates will rise as the farmers' lobby has raised fears of politicians interfering with monetary policy. The SA Agricultural Union yesterday issued a statement saying higher rates would harm farmers.

Senior money market dealers at the major banks said market forces were indicating that a rise in banks' prime overdraft rates was long overdue.

They note the Treasury Bill (TB) rate is already 56 points above Bank rate, which means TBs rediscounted at the Reserve Bank's discount window no longer have a punitive effect.

The United Bank's claims that higher rates were not "in the public interest" set the cat among the pigeons yesterday.



Some bankers came out with official statements that they, too, did not want to see a rise in prime. Others were furious, saying the small bank's stance was a marketing ploy.

However, Standard Bank and Trust Bank are in favour of a rise in prime.

Standard Bank economist Nico Czipionka said that, from a purely economic point of view, a rise in rates was justified.

He said: "Money supply cannot be allowed to continue growing at the current pace. Growth for the year is set to be twice as high as the target. While we accept that the targets are a guideline and that no strict 'money rule' applies, money supply growth is extraordinarily high and a signal that rates should rise."

Czipionka said the money supply

● To Page 2 →

Crucial talks on monetary policy today

growth reflected strong demand for credit. A rise in rates would curb credit demand and protect the balance of payments, he said.

Stellenbosch's Bureau for Economic Research and Assocom also favour higher rates.

Trust Bank's Kobus Roetz said if supply and demand factors were left to determine the price of money — interest

← ● From Page 1

rates — the prime overdraft rate would already have been raised.

First National said in its latest Business Brief: "A political decision appears to have overruled the further use of interest rates to subdue the domestic economy."

28/7/88
49
28/7/88

HOUSING SUPPLEMENT

The commercial banks want to make overdrafts and home loans more expensive by the end of this week.

Senior bank officials have made it clear the commercial banks would approach the Reserve Bank by Thursday to ask for another increase in prime lending rates.

If a 1 percent increase is granted, it would be the third rise in rates this year and push the prime rate to 16 percent. It could also lead to a further rise in mortgage bond rates to similar levels.

Commercial banks seeking rise in prime lending rate

Sowetan 28/7/88

The banks are claiming that their profit margins are under pressure from rising short-term money market rates.

Economists maintain that an increase in interest rates is necessary to control the surge in domestic expenditure, which is putting pressure on the country's ability to meet its foreign debt

commitments.

But the banks' request is likely to be met with some scepticism from the Reserve Bank. More than one senior banker says the banks have only themselves to blame.

SABC-TV quoted one Reserve Bank official yesterday as saying that keen competition between the banks had resulted in more than R5

billion being lent to large companies at no profit.

"The banks are now trying to regain profits by charging smaller borrowers more," he says.

The Reserve Bank is also under political pressure to keep interest rates low ahead of the municipal elections in October.

Says a senior econom-

ist at a Johannesburg stockbroking firm: "Tinkering with interest rates in this manner will eventually lead to a hike in rates which will be sharper and more damaging for the economy than the rise which would have occurred in the absence of deliberate Reserve Bank action to keep rates down."

49

THE broad measure of money supply, (M3), has been exceeding the upper limit of the Reserve Bank's target since February 1988.

Indeed, the gap between the target and the actual growth in M3 has widened considerably in the four months since March.

It now seems highly unlikely that the 12%-16% target range set for the last quarter of this year will be achieved.

Preliminary Reserve Bank figures for June released last week Friday show M3 24,92% higher than the same month last year.

The reason for the strong growth in money supply is attributed to the significant increases in credit demand.

Credit demand as measured by leasing, hire purchase and bank advances has grown vigorously since November 1987.

For May, leasing, hire purchase and commercial bank advances have increased 33,1%, 22,5% and 27,3% respectively compared to the same period last year.

Acceleration in the rate of growth in M3 is a clear reflection of the rise in demand for money and credit which has stemmed from strong domestic demand.

The package of financial measures intro-

A case of too little, too late yet again

Soultan

28/7/88

(49)

THE MONEY SUPPLY CONTINUES TO GROW

By an
Economist

duced in May, in an attempt to curb credit demand and in this way cool down the economy appears to have had a negligible effect on economic activity.

Early indications are that credit demand continues to grow at a high rate thus exerting further upward pressure on money supply.

Economic policy requirements would point towards a rise in interest rates, however,

the authorities appear to have gone the currency depreciation route in an attempt to inhibit imports and bolster exports.

Although the authorities are concerned about the continuance of strong credit demand, they maintain that another reason why M3 is so high is the fact that re-intermediation is taking place.

By this is meant that lending which was previously off bank's balance sheets, and therefore not captured in

the money supply figures, is coming back onto balance sheet and in this way increasing money supply figures.

Despite this, money supply growth is cause for concern. It points to a buoyant economy with consumer demand still running high.

With a political agenda which appears unwilling to seriously inhibit economic activity, at least until the October municipal elections, it may once again be a case of too little too late.

Apartheid must go for SA to grow — De Beer

GTC Tails 28/7/88
49

JOHANNESBURG. — Dr Zach de Beer, executive director of Anglo American and heir apparent to the leadership of the Progressive Federal Party, said yesterday there was no reason why South Africa could not attract investment and grow.

Speaking at the SA Megatrends conference here, he said growth was possible if the country got rid of apartheid.

"The choice is clear and, to us business people, simple. Now get out on to the highways and byways and explain it to those who are responsible for maintaining apartheid, denying South Africa the capital she needs and preventing growth."

He said the ultimate aim should be to run a surplus on South Africa's current account and that meant building a huge export industry, or industries, during the next decade.

For such industries to be competitive, attention would have to be given to productivity, education and training, industrial relations and the reversal of the alienation of the workforce.

There was general consensus among experts that productivity was very low in South Africa, and was probably getting worse.

Business in the '90s would have to identify the major factors which depressed productivity and deal with them effectively. Otherwise the cost structure would rise further, and this, if combined with a continued non-availability of international capital would result in "accelerated impoverishment," he warned.

He said the economy was sound and strong enough to afford a good and rising standard of living for all.

However, this assumed "sensible management" of the economy by the authorities.

Commenting on a possible future trend, Dr De Beer said figures showing the rate of fixed investment in the country were relevant.

From a peak in 1981, annual investment had fallen by no less than 31%.

"This, I am afraid, simply reflects the waning confidence of investors both inside and outside South Africa."

Double-digit inflation was one of the reasons why South Africans were not saving and why other people were nervous about investing in the country.

A government brought inflation under control by adjusting the policies of the central bank so as to reduce the amount of money in circulation.

But if the money supply was to be held down without "throttling" the productive private sector, then the public sector's expenditure had to be reduced.

"We must all get this message — heavy government expenditure makes it difficult or impossible to control money supply and inflation."

Dr De Beer described the South African economy as "basically strong" but real growth had almost ceased, investment had dwindled, inflation had become endemic, people were getting poorer and capital could not be obtained from abroad. — Sapa

*

ANC, UDF 'cynical' about growth leading to power

CAPE TIMES
28/7/81
KQ

Own Correspondent

JOHANNESBURG. — Leaders of organizations such as the ANC and UDF were cynical of the prevailing view that a sustained period of economic growth was a necessary precondition for whites agreeing to concede political power, Wits University political scientist Dr Tom Lodge said at the SA Megatrends conference yesterday.

He said South Africa's last period of rapid economic growth in the 60s had been accompanied by a huge build-up in the state's coercive resources, and had arguably left white supremacy stronger than ever before.

He said conservative liberals argued that advance of industry would strengthen union bargaining power, but in industrial conflict in modern industrial states, the unions had come out the losers.

"The argument would be stronger if South African businessmen were in the vanguard of those working for democracy."

"But, with a few honourable exceptions, they are not," Dr Lodge said.

● Mr Zach de Beer, executive director of Anglo American, said there was no reason why South Africa could not attract investment and grow.

● Apartheid must go for SA to grow — Page 3

Money ⁽⁴⁹⁾ shortage ⁽⁴⁹⁾ a 3-prong ^{Sept 28/78} problem

By Derek Tommey

Commercial banks have given the Reserve Bank problems with calls for an increase to 16 percent in the rate of interest they can charge borrowers.

Their request stems from the shortage of money in the banking system caused, to a great extent, by increased payments overseas to meet import bills.

The money shortage means that some banks are having to buy money at high prices to meet their commitments, and at the moment they are not able to recover these extra costs from their clients.

The Reserve Bank has three unhappy choices.

It can allow the prime rate to rise to the requested 16 percent but this means the cost of borrowing money from banks will have risen by 28 percent since January and will depress business.

It can reduce the pressure for higher interest rates by adding money to the system. However, this could fuel inflation and also further depress the ailing rand.

Or it can call on the Government to control imports to limit the outflow of foreign currency, as Dr Chris van Wyk, MD of Trust Bank has suggested.

Govt spending under fire

Finance Staff

(49) ~~2817788~~
The economy is inherently sound and strong enough to afford a good and rising standard of living for all its people. This implies that there should always be opportunities for entrepreneurs, says Dr Zach de Beer, executive director of Anglo American.

He told the SA Megatrends Conference in Johannesburg yesterday both declarations of faith assumed sensible management of the economy.

Reviewing gross domestic product (GDP) in the years from 1960 to 1987, Dr de Beer said that really healthy growth, ce and prosperity were sustained until 1974.

"Since then, apart from one or

two 'purple patches', the performance has been miserable," he said.

Since 1980, real living standards had actually been falling and gross national product (GNP) per capita had decreased by more than 11 percent.

Looking to the future, Dr de Beer said figures showing the rate of fixed investment were relevant.

From a peak in 1981, annual investment had fallen by no less than 31 percent.

"This, I am afraid, simply reflects the waning confidence of investors both inside and outside South Africa," he said.

Double-digit inflation was one of the reasons why South Africans were not saving and why

Star 2817788
others were nervous about investing in SA.

Governments brought inflation under control by adjusting the policies of the central bank so as to reduce the amount of money in circulation.

But if the money supply was to be held down without "throttling" the productive private sector, then the public sector's expenditure had to be reduced.

"We must all get this message — heavy government expenditure makes it difficult or impossible to control money supply and inflation."

Unless there was sharply improved financial discipline in the public sector, business in the Nineties might continue to be quite difficult, he warned.

Interest-rate decision faces Reserve Bank

Star 28/7/88

49

By Sven Liinsche

The Reserve Bank faces a serious dilemma this afternoon when it responds to a request by commercial banks for a one percent rise in bank rate.

The economy has been running at full steam over the last few months and economists maintain that interest rates have to move up in order to curb domestic spending and protect the balance of payments.

But, on the other hand, there are already indications that economic growth will level off towards the end of the year and further restraints could inflict more damage than necessary.

Economic reports

Two major economic reports released yesterday highlight this dilemma.

In its latest *Economic Prospects*, the Bureau of Economic Research at Stellenbosch University (BER) says the economy lost none of its momentum in the second quarter.

It says more than 80 percent of businessmen surveyed consider conditions to be favourable, compared with 47 percent at the same time last year, which had led to a

8,6 percent rise in private fixed investment in the first quarter of this year.

Enter Assocom with the July Business Confidence Index (BCI), a good measure on how businessmen view conditions. In July, the index dropped by a further eight percentage points to 97,3, which, according to Assocom, reflects "a note of uncertainty that has emerged about the medium-term outlook".

This correlates with evaluations by the BER, which show that growth could be jolted by political pressures, a lower gold price and, most importantly, higher interest rates.

The BER gives five major reasons for its pessimistic forecast:

- Consumer demand is expected to decline over the next few months, with fixed investment following suit.

- Constraints on the balance of payments make growth of more than 2,5 percent impossible.

- Export volumes are expected to decline as growth in the country's major trading partners slows down.

- A fall in the rand to R2,50 by

the end of the year.

- A rise in the wage bill by 16,8 percent this year.

As a result of these constraints, the BER forecasts a lowish average GDP growth of 2,2 percent this year and only 1,5 percent in 1989, with higher unemployment representing only the first setback to longer-term growth.

Assocom says it has received conflicting evidence from the business sector and that some areas of business note that sales are still rising, while others report a fall-off in business.

This uncertainty is reflected in the organisation's comment on a possible further rise in interest rates.

Trade figures

"Whether interest rates need to rise further depends upon how policymakers interpret the latest trade figures, money supply trends, developments on the money markets, the gold price and interest rates overseas.

"These must be the decisive factors in any decision about interest rates. It may not be possible to wait until all the evidence is available as the margin for error is small," Assocom says.

Money ⁽⁴⁹⁾ shortage a 3-prong ^{step 2 8/7/88} problem

By Derek Tommey

Commercial banks have given the Reserve Bank problems with calls for an increase to 16 percent in the rate of interest they can charge borrowers.

Their request stems from the shortage of money in the banking system caused, to a great extent, by increased payments overseas to meet import bills.

The money shortage means that some banks are having to buy money at high prices to meet their commitments, and at the moment they are not able to recover these extra costs from their clients.

The Reserve Bank has three unhappy choices.

It can allow the prime rate to rise to the requested 16 percent but this means the cost of borrowing money from banks will have risen by 28 percent since January and will depress business.

It can reduce the pressure for higher interest rates by adding money to the system. However, this could fuel inflation and also further depress the ailing rand.

Or it can call on the Government to control imports to limit the outflow of foreign currency, as Dr Chris van Wyk, MD of Trust Bank has suggested.

Putting SA on the high road

An edited extract of an address by Dr ZACH DE BEER, executive director of Anglo American Corporation, to the SA Megatrends conference in Johannesburg yesterday

SOUTH AFRICA's situation is that we have a basically strong economy in which real growth has almost ceased, investment has dwindled, inflation has become endemic, people are getting poorer and capital cannot be obtained from abroad.

My approach to business in the 1990s is not to put on sackcloth and ashes and await the onward march of poverty and consequent social conflict. On the contrary, I have stressed repeatedly that I believe in SA's potential, and that we can realise that potential provided that we manage our society properly.

This is where I find common ground with my friend Clem Sunter. There can be a high road for SA. There can also be a low road.

Known truths

If we want to get on the high road, we must have a free and open economy — and as long as we focus our minds on group rights and group privileges we will not have that. Further, we can only travel the high road if we can remedy our isolation in the world.

We business people know these truths — we almost take them for granted. We need to remind ourselves that they are far from obvious to the average government back bencher, or the average public servant — not because these are bad people, but because their experience of life differs from ours.

By and large the fate of individual businesses in the 1990s is going to depend on whether the economy can return to growth at 5% or 6%. This is possible. There is no reason why SA cannot once more attract investment and grow — if she gets

rid of apartheid and race discrimination. But, as we have seen, when the economy begins to grow as it did in 1987, we immediately run into Balance of Payments problems and have to cut off our own growth.

Any attempt to propose the right strategies must take balance of payments difficulties into account. If we are to grow, we shall have to be able to import without the constraints we suffer from now. If by changing our policies we can attract foreign capital, that will certainly help; but the ultimate aim should be to run a surplus on our current account. This means we need to build a huge export industry during the next decade or so. We should consider what the requirements would be for this.

Very low

Obviously, such industries have to be competitive, so the first consideration is productivity. What sort of production can be achieved in relation to capital invested, or to labour costs or both? Productivity is an inordinately and notoriously difficult quantum to measure, but there is general consensus among the experts that it is very low in SA today, and probably getting worse.

Business in the 1990s will have to identify the major factors which depress productivity, and deal with them effectively; otherwise our cost structure will rise further, and this if combined with a continued non-availability of interna-



□ DE BEER ... open economy

tional capital will surely result in accelerated impoverishment. What are the factors restraining productivity, or to say it better what can be done to promote it? First, there is the application in our industries of modern technology. In the past, we have been quite well able to keep in touch with such developments, through academic contacts and through the many multi-national companies operating here. Happily, neither of these channels for technology transfer is

entirely closed; but in view of our pariah status special attention will have to be given to this issue.

Next there is the whole matter of education and training. By now it is generally recognised that two decades of Bantu Education up to 1976 produced a whole generation of people who were almost impossible to train for modern industry. Unquestionably the government responded constructively to the shock of 1976, and tried through increased expenditure, by allowing free choice of medium and in other ways to improve the quality of education for blacks. The number of black children matriculating has increased spectacularly, but a question-mark still hangs over the quality of the education, and its suitability to a modern industrial state.

Challenge

In our major urban townships, though apparently not elsewhere, many schools remain political battlegrounds, where little teaching is done. This poses another problem for business in the 1990s. A third major challenge is industrial relations. Our labour laws, unlike modern and enlightened, and in a different context would be thoroughly workable. The difficulty is that if you give people trade union rights while withholding political ones you simply ensure they will use their unions for political purposes. That has been happening intermittently for the past couple of years.

Industrial relations will be even more salient in the 1990s. Productivity, export capacity and the balance of payments will all be profoundly affected by the quality of our industrial relations. Finally we have to consider the effect on industry of general alienation of the work force. There is copious research to show that many black South Africans perceive themselves as deprived and discriminated against, and that this affects morale. Whatever can be achieved to alleviate these grievances will certainly help to create a productive, industrial economy.

Too rapid

Now to macro-economic management. It seems clear that in recent years inflation has been too rapid, interest rates have generally been too low, discouraging saving, and until recently our currency exchange rate has been too high, encouraging imports and making export difficult.

In any country where the politicians like to reward their voting supporters with easy money, and where they tend to regard the exchange value of the currency as though it were the scoreboard at Ellis Park, it is all too easy to fall into lax management. We shall not get on to the high road unless we go the conservative way of sound money, positive real interest rates and an exchange rate which encourages exports rather than imports and international travel. There are other issues which will be vital in the 1990s — privatisation, deregulation, inward industrialisation. All these can contribute to prosperity.

Change in political status quo 'a must'

Cut govt spending, ^(LA) urges Zach de Beer

By Michael Chester

Business problems would persist into the 1990s unless there was a dramatic curb to government spending, Dr Zach de Beer, executive director of Anglo American and heir apparent to leadership of the PFP, said in Johannesburg yesterday.

In an address to an SA Megatrends conference organised by Systems Conferences and Independent Financial Services to examine the politico-economic outlook, he argued that the scale of State spending had to carry much of the blame for chronic high inflation.

Looking at the business scenario for the 1990s, he said difficulties might continue unless there was a sharp improvement in financial discipline in the public sector.

Dr de Beer said the inflation rate was one of the reasons South Africans were nervous about investment. Waning confidence was confirmed by a slide in the annual rate of gross domestic fixed investment by as much as 31 percent a year from a peak reached seven years ago.

Moreover, inflation, coupled with a miserable economic performance, had seen individual wealth — as measured by gross domestic product per capita — drop by 11 percent as the economic tempo failed to keep pace with a growing population.

The real average annual income of South Africans, counted in 1985 cash terms to ignore the distortions caused by inflation, had shrunk from R4 002 in 1980 to R3 530.

Everyone, he said, had



Dr Zach de Beer ... call for financial discipline.

to understand the message that heavy government expenditure made it difficult or impossible to bring the price spiral under control.

South Africa, unlike comparable countries, could no longer count on inflows of foreign investment capital, or borrow on world markets, to stabilise the sort of cash

flow problems that had forced the Reserve Bank to choke off the recent economic upswing because of balance-of-payments pressures.

"There just has to be a change in the political status quo in order to give business in the 1990s a decent chance," Dr de Beer said.

South Africa had huge potential to untap if society were managed properly. In turn, businessmen should realise they had a far better view than the politicians of what society needed.

"It is up to business and to academic and other leaders, who do understand such matters, to bring the facts home to policy-makers.

"There is no reason why South Africa cannot once more attract investment and grow — if it gets rid of apartheid and race discrimination."

Startling increase in money supply figures

(49) Star 25/7/88
Money supply figures published at the week-end have startled the monetary authorities. They show the globular monetary measure, M3, jumped by a totally unexpected R3 billion in June to a seasonally adjusted R104,3 billion to show a year-on-year increase of 24,92 percent.

May's figure for M3 was revised upwards from R101,38 billion to R101,45 billion, to give a year-on-year growth of 22,78 percent.

This steep increase has taken the monetary authorities by surprise as it is completely out of line with Reserve Bank forecasts.

At the beginning of this year the bank said its target range for money supply growth was between 14 percent and 16 percent.

The jump in the money supply indicates that there has been a sharp increase in commercial bank lending.

The question that has to be answered is to whom has this lending been made and what is the money being used for.

If it has been used to finance consumer spending and non-essential imports then the authorities are likely to act soon to increase interest rates to bring the money supply growth under control.

But if the money has been used to finance productive investments the Reserve Bank may take a more relaxed attitude to the increase.

However, there is also the possibility that the increase in the money supply figures represents substantial re-intermediation — the return to the banks of lending which had previously been done outside the banking system. If this has happened then the June figures will not be regarded as being so alarming.

'Growth prospects unsatisfactory'

Star 29/7/88

49

By Ann Crotty

The Government has been urged to implement its long-term strategy for the stimulation of growth by Hendrik Sloet, outgoing MD of Saambou Holdings.

At yesterday's AGM, Mr Sloet argued that although a conservative fiscal and monetary policy was essential to ensure stability in the short term, these measures would not be conducive to growth and that the business sector would not, in the long term, tolerate this state of affairs.

Mr Sloet felt the problem was that the economy could cope

with an average annual growth rate of only 2,5 percent without putting the balance of payments under pressure to such an extent that it jeopardised overseas debt commitments: "In the long term, this state of affairs is simply not good enough, keeping in mind a population growth of approximately 2,3 percent. If the gold price does not increase dramatically in the medium to long term, the business sector can prepare itself for a low to weak growth over the next three to five years, with all the socio-economic implications it will bring about."

Policy measures Mr Sloet be-

lieved could contribute to growth included a decrease in the share of the public sector in the economy and the restructuring of the Government's finances through the establishment of definite priorities by privatisation and deregulation and the implementation of tax reforms.

Christie du Kuun has been appointed MD and chief executive officer of Saambou Holdings. Mr Sloet will stay on as chairman.

Mr Kuun, who has been with Saambou for 24 years, will remain MD and chief executive of Saambou National Building Society.

AS AN ex-colony and a still industrialising country, SA does not have a long history of financial markets. Only one of the population groups, the English-speakers, can claim they are properly groomed in the finer arts of the modern money and capital markets.

A large part of the black population is still traditionally orientated and lack the necessary education. Their traditions are not future orientated.

Even in white circles the strong materialistic attitudes are not motive for a long-term prospective. Neither is the unhealthy concentration of economic wealth and political power.

Many examples exist to support the claim that the South African population's "telescopic faculty" is on average very defective and inclined towards short term-ism. Many other factors also undermine confidence in the future.

short term-ism Is government policy geared to compensate for these obvious market failures? Can we describe SA as a welfare state and a developmental state in the true sense of the word? The answer is, unfortunately, a categorical no.

SA is a welfare state for only a part of the population. The education, health and welfare services available for the whites compare very well with those of Western countries. But for the blacks, these kinds of services are very inadequate.

If the record of government as a welfare state is poor, its record as a developmental state is far worse. This government cannot be described as a developmental state. It does not succeed in twisting the growth path towards the future.

Over the last 15 years the real per capita income has declined by 0.6% annually, and there is no indication that this trend will be turned "upwards" in the foreseeable future. Since 1980, personal savings as a percentage of personal disposable income dropped from 12% to 2.5%, while gross domestic fixed investment dropped from R31bn in 1980 to R23bn in 1987 (in 1985 prices). These statistics are only a tip of the iceberg. The real situation is even worse.

Government has failed dismally in its attempt to compensate for the endemic trend towards short term-ism in SA. The reason is that government itself must be regarded as an important cause for the tendency towards short term-ism. The NP government's policies, attitudes and propaganda are at present not "compensating" the trend but aggravating it. There are several reasons:

□ Government's "group" approach (group areas, population registration, etc) is not moving SA towards an open society with shared interests, but is in fact perpetuating the "conflict society".

When the NP took over government in 1948 a promising melting-pot process was gaining momentum. Government's policies put this process in a reverse gear. All the measures that have strengthened "groupism" as well as the sectional political system make it almost impossible to define or to articulate

Our make-believe world of bluff and short-term gain

SAMPIE TERREBLANCHE, Professor of Economics at Stellenbosch University. Edited extract from a paper read at the Wits Business School Association's Executive Update Programme in Johannesburg yesterday

"general interest" or the "common good" of the 35-million people in SA.

In the absence of shared interests and of any notion of what the common good is (or is supposed to be), it is not possible to formulate a long-term development strategy. No wonder a long-term economic strategy to bring about the necessary structural changes is almost completely absent.

Proper welfare state and developmental state policies presuppose true South Africanism. But such a thing does not exist.

□ In the absence of an open society and of any notion of the common good, it is not possible to develop that kind of prudence or that kind of long-term self-interest on which Adam Smith put such a high premium for the successful functioning of a market-orientating economy.

Instead of articulating a common South Africanism and shared values and loyalties, the escalating propaganda campaign of government is perpetuating the "miseducation" of the population and strengthening ra-

cial and tribal prejudices, while intergroup envy and even hostility is stimulated.

Instead of educating the public about the true nature of the deteriorating situation, government is stepping up its propaganda while the flow of information is further curtailed. In this way, government has created a surrealistic world, a kind of propagandistic make-believe world. One can hardly blame people if they lose interest in long-term matters and become almost completely involved in (short-term) money-making and spending.

In the two years before the American defeat in South Vietnam, Saigon was the most swinging city in the world. The restaurants, casinos and other places were open for 48 hours a day. The Saigon syndrome was based on the assumption that the "swing" could not last. When we look at the way the super rich and the not so rich

are taking their swing in SA, are we observing something of a Saigon syndrome? I hope not — we cannot afford it.

□ Government's persistence with the policy of apartheid (or non-apartheid) and its defiant attitude towards the outside world have not only undermined the rest of the world's confidence in SA but also the confidence of South Africans in their country's future. The township unrest has proved to be endemic. It is difficult to see how it will be possible to govern the country without emergency measures in the years ahead.

All these factors undermine confidence. It is not only foreigners who are disinvesting but also South Africans. Disinvestment and non-investment have become part of the South African pattern. I am told that in the case where new real investment is still undertaken, the time period in which the investors want their money "back" is very short and getting shorter.

Attempts to create confidence in the long-term growth potential of

SA, by way of transparent propaganda campaigns, cannot succeed. During the Great Depression (1929-33) President Hoover tried without success to create artificially an optimistic scenario. It is of no avail to supply us with an overdose of Hooverism.

Even Dr Gerhard de Kock of the Reserve Bank must be careful not to become a victim of Hooverism. In the first half of every year he tells us why the growth rate is going to be 4%. In the second half he tells us why it is not going to be 2%. This is not the way to create confidence.

If the present trend towards a siege economy and towards a government run by almost invisible seurocrats continues, confidence will decline further, and short term-ism will paralyse the country more and more. The relentless grip of growing poverty operates as a vicious circle of growing violence, growing ideological polarisation, disinvestment, non-investment and stagnation. We cannot go on like this.

□ Government has not succeeded in developing a relatively efficient, streamlined and growth-promoting bureaucracy. On the contrary, it built a very clumsy structure with a large echelon of senior bureaucrats and politicians mainly interested in maintaining the status quo and their own position of privileged class for the time being. With this kind of bureaucratic state, short term-ism is institutionalised.

In conclusion, I must ask a question about the private sector. If the (mainly) Afrikaner-controlled bureaucratic establishment of Pretoria cannot act as a "countervailing power" against short term-ism and the decline of the economy, is it not possible for the (mainly) English-speaking capitalistic establishment of Johannesburg to be a "countervailing power" against the "political" and bureaucratic "failures" of Pretoria? Is it not possible for the business community to be a future-orientated "power" to conquer the trends towards short term-ism?

I am not optimistic they will or can take up the challenge. The cohabitative relationship between Johannesburg and Pretoria in the Seventies has developed (or deteriorated) into an unholy marriage in the Eighties. Given the growing international isolation and economic stagflation, it seems as if both Pretoria and Johannesburg are running for cover — towards each other — in an attempt to protect their large short-term interests.

What is needed is a strong stand by the business community to tell government openly and in strong terms that SA can definitely not be governed in the way it is being done. Apparently Johannesburg is not prepared to do this. Apparently too many short-term vested interests are at stake. Is this a prime example of short term-ism?

The need for a credible commitment to bring about a structural transition towards a new SA with a shared common good for the whole population is long overdue. We cannot afford to waste more time. It is imperative that as many people as possible should take a strong stand on behalf of the enlightened long-term (moral) interests or common good of an integrated South African society.

Do thy patient no harm

49

There appears to be some confusion about what inward industrialisation is. Is it a description of how market forces will deal with economic isolation, or is it a prescription for how government should structure the economy? An awareness of the difference and the respective consequences is vital for policy-makers.

Clear definitions are hard to come by. This is how it was defined in Old Mutual's *Economic Monitor*: "Domestically generated growth based on supplying basic consumer products (for example, clothing, shoes, furniture, basic foodstuffs) and facilities (for example, low-cost housing) to the rapidly urbanising black population, with the increasing labour force coming from the rural areas simultaneously finding employment in these expanding industries."

The *Monitor* points out that there is a conceptual difference between government policy and natural economic processes. This raises questions as to what role, if any, government should play in the economy.

The man most associated with inward industrialisation is Jan Lombard, a deputy governor of the Reserve Bank. He says: "Inward industrialisation simply refers to the process of increased economic activity which would arise if the millions of poor and unemployed people could be placed in a position to earn incomes to spend on the goods and services they need."

If people want to consume more and are willing and able to produce more goods and services, he says, "the scope for growth in their real incomes must be great. The thing to do is find out why this upsurge in real incomes is not taking place."

This suggests there is no explicit or official policy, but that government is searching for a market solution. Lombard says: "This pro-

cess can not only achieve a more equal distribution of income better and more surely than anything the socialist theories of fiscal confiscation can come up with, but can also save the economy from the secular stagnation which has beset its First World productive engine in the past decade or longer."

Lombard sees the greatest growth potential in the poorer segments of our population, but also recognises the growth possible in a less restricted First World sector. To tap all of this potential, he sees a need for manpower training, economic deregulation and an end to all racial restrictions in economic matters.

Given the preference for a market economy, Lombard points to two basic options. We can either move to a truly free market economy or choose a "mixed" economy that is freer than we have now. Lombard seems to prefer the first option but warns that political pressures will override economic considerations. Implementation of free market policies would require an understanding of market forces by the electorate and "keeping political constituencies convinced that these will indeed automatically produce the desired results."

Were the true free market option politically acceptable, the proper economic structure would emerge naturally. However, when intervention is used for political purposes, government must plan an idealised structure. Most discussions of inward industrialisation dwell on outcomes and distributions rather than economic processes — which suggests the acceptance of some government-imposed structures.

Three possible strategies have been identified: "export-led growth," "import replacement" and "orderly urbanisation." These are not mutually exclusive and will most likely

be seen together, as in the past.

The first two are related, both having their roots in the old mercantilist fallacy that a trade surplus makes a country wealthier. There is also a tendency to believe these strategies "generate" growth rather than just appearing with growth.

Orderly urbanisation entails a gradual yielding to labour market forces by allowing blacks to seek more productive employment and higher incomes in urban areas.

International opinion to an extent encourages import replacement. The economy is seen as increasingly isolated. Sanctions have reduced levels of trade and availability of overseas capital.

Ironically though, SA has throughout its history increasingly imposed economic sanctions on itself. "Protectionist" measures such as import controls and tariffs have trade-dampening effects — as do internal regulations and taxes.

In this sense, inward industrialisation is nothing new — government has been unwittingly encouraging it for decades.

Perhaps government is loving us to death. Regulations designed to protect us and make us more prosperous have backfired. Instead of letting market forces raise living standards in the entire economy, redistributionist policies have sabotaged our First World sector, pushing it into Second World status.

To answer our original question, if inward industrialisation is put forward as a *description* of how the economy will adjust, then it is instructive. It would conform to Hippocrates' sage advice: "Do thy patient no harm."

However, if it is advanced as a prescribed, ideal end-state, into the image of which our economy will be moulded, then we will be one step closer to matching the economic performances of our neighbours.

SAVE AN EXTRA 40%
ON ALL SALE MARKED MERCHANDISE
TODAY ONLY
(CASH 1903)

STOREWIDE Sale
IN A MILLION AT
Walldis

Cape Times

Funfinder Inside

FOUNDED 1876 208 4911

FRIDAY, JULY 29, 1988

50c (45c plus 5c GST)

A TIMES MEDIA PUBLICATION

FREWIN TROPHY
BEST DAILY NEWSPAPER 1987

Special
Skin Care
FREE
R35.00
COSMETICS
CAVEN

Bank rate rise ends spending spree

By **AUDREY D'ANGELO**

Financial Editor

SOUTH AFRICA'S spending spree is over. The man in the street will find himself poorer as a result of a 1% rise in the bank rate, from 11,5% to 12,5%, announced yesterday.

This means that overdraft and hire-purchase rates will rise and mortgage bond rates can be expected to follow suit before long.

Credit will become harder to obtain. Explaining why the bank rate is going up although the economic upswing is already over, the Governor of the Reserve Bank, Dr Gerhard de Kock, said it was necessary to dampen the demand for credit.

Spending must be curbed to limit imports. This must be done to preserve a substantial balance of payments

— necessary for South Africa to continue paying off its huge foreign debt.

The rise in the bank rate was expected after figures released last week showed the money supply was still growing in spite of an attempt to cool down the economy by raising the bank rate to 11,5% from 10,5% at the beginning of May, and that foreign currency reserves were dwindling.

But the rise has been greeted with mixed reactions. Cape Town Chamber of Commerce president Mr Andrew Coombes and the director of the Cape Chamber of Industries, Mr Colin McCarthy, said it was preferable to stricter import controls.

Mr Coombes, however, said the decision to raise the bank rate was "disappointing". It was inevitable because, although the economy was levelling off, it was

not doing so rapidly enough.

But, he said, chambers of commerce would monitor the balance of payments in coming months and, if it improved, would urge a reduction in interest rates.

He said that higher interest rates would affect employers' costs and this, together with reduced demand, would make it harder to provide more badly needed jobs in the Western Cape.

The chief executive of the Associated Chambers of Commerce of SA (Assocom), Mr Raymond Parsons, said: "As the economy is more interest-rate sensitive now than in previous years, Assocom hopes that the latest increase in rates may be the last needed to ensure that the pace of economic activity does not pose a threat to the balance of payments."

"It will be essential for monetary policy to remain

flexible, and for interest rates to be reduced again as soon as possible."

Mr Kingsley Loney, regional manager of the Natal Building Society (NBS), said he did not think building societies would put up their home loan rate immediately because they were not under as much pressure as banks which had offered "cheap" mortgages and were now feeling the effect of this.

But, ultimately, building society lending and deposit rates would have to move upwards with other interest rates. "Sadly, this will affect the less well-off people who are most in need of housing but will find it harder to qualify for bonds."

● Reserve Bank will crack down on banks for giving too much credit — Page 8

cut Tues 29/7/88

49

It's good for widows and orphans

31/7/88 (49) STIMULS



Gerhard de Kock
... a swipe at the lenders

By David Carte

THIS week's percentage point increase in interest rates will hurt borrowers, help savers and may not curb rampant consumer spending enough.

Higher interest rates were forced on the Government too early in the economic recovery by soaring imports, declining exports and capital outflows. How the economy goes from here depends largely on the gold price.

Reserve Bank Governor Gerhard de Kock told Business Times that more measures hinted at in his announcement of the bank-rate increase would be contemplated only if the present package was inadequate.

Dr de Kock said: "Rules on hire-purchase deposits and tax instruments, by definition, are always under review. We do not want a recession. Growth is politically vital."

Backs to wall

Dr de Kock said economic growth of 2,5% for the calendar year was still possible. It would be lower than the growth rate to June, estimated by economists at 4% to 5%, suggesting a considerable second-half slowdown.

Dr de Kock is hoping that the package and the weaker rand will permit a surplus on the current account of the

balance of payments for the year.

Economists say the Government agreed to the prime-rate increase only because it had to. Because they hurt more voters than they help, higher interest rates are politically unpopular.

The SA Agricultural Union says farmers — their debts total R14-billion — will be hit to the tune of R140-million by the rise in prime.

The rise in interest rates will move about R1-billion a year from the pockets of borrowers to those of savers.

The main losers will be farmers, home owners, consumers with linked HP debts and debt-bound companies large and small across the economy. The result should be reduced spending in all quarters.

Widows, orphans, pensioners and others with savings on deposit will be the main gainers. They have suffered sub-inflation returns for years.

Banks will improve profit margins — but only slightly. They are obliged to raise the rates they pay to depositors by a percentage point as well.

Assurance companies will receive more for the billions they put on deposit — but the value of existing fixed-interest paper, their shares and their

properties, are depressed by higher interest rates.

The insurance products they sell are made relatively less attractive to savers by higher interest rates.

Interest rates had to be raised because a R6-billion-a-year surplus on the current account of the balance of payments evaporated in the first two quarters of this year. Foreign debt repayments and capital outflows eroded the reserves alarmingly.

Having been as high as a brutal 25% in 1985, prime overdraft rate bottomed at 12% on Christmas Eve 1986. A month later it moved to 12,5%. It has subsequently risen in four more steps to the present 16%.

Critical

Only the best customers of banks borrow at prime. Most small companies and individuals borrow at higher rates linked to this base rate. The top rate permitted by usury laws is 27%.

Cees Bruggemans, group economist of First National Bank, is highly critical of present economic policy.

"The one-percentage point increase in prime, like the last one, will not do the job. It is an incomplete agenda, to which we shall have to come back time and again while our foreign reserves

□ To Page 3

□ From Page 1

bleed. Our balance of payments vulnerability is a structural weakness that is not being addressed.

"We refuse as a nation to seriously push exports in the way that Latin American and Far Eastern countries do."

His counterpart at Standard Bank, Nico Cypionka says a short-term adjustment has been forced on the Government. He agrees that diversified exports are SA's "only long-term salvation".

Banks are upset that they were made whipping boys by politicians, farmers, SABC television, and building societies before the interest-rate rise.

"Interest rates are a macroeconomic phenomenon. They rise and fall according to the supply and demand for funds and the Reserve Bank controls the supply."

Rates rise

says Mike Vosloo, managing director of Standard Bank.

"They do not reflect bankers' greed."

United Bank announced on Friday that it would hold its prime rate for another month. It has few prime clients, and other banks said its statement was a marketing gimmick — just as its accusations of bank profiteering had been.

Rudolf Gouws, economist of Rand Merchant Bank, says higher rates resulted from a monetary policy that was too loose. He finds the unseemly squabbling and finger pointing distasteful.

Individuals in SA do not pay more, after inflation, for loans than their counterparts in the UK. In the UK the top lending rate after inflation is 18%; in SA it is 14,5%.

LAST week we saw the release of sets of economic data, namely, consumer price inflation and money supply. Inflation is down to 12,9% for May from 13,3% in April. This is the first time since October 1984, that inflation fell below the 13% mark.

However, before we get too excited about such a low level of inflation a word of caution needs to be sounded. Firstly there is the fact that inflation is a year-on-year figure and we are coming off a relatively high base — inflation for May 1987, was 17,3%, the highest figure for that year.

We can expect this statistical distortion to impact on the inflation figure for June this year as the June 1987 inflation figure remained relatively unchanged at around 17%. However, the second half of 1987, saw inflation coming down rather rapidly so that the statistical advantage of a higher base year will be absent in the second half of the year.

Negative

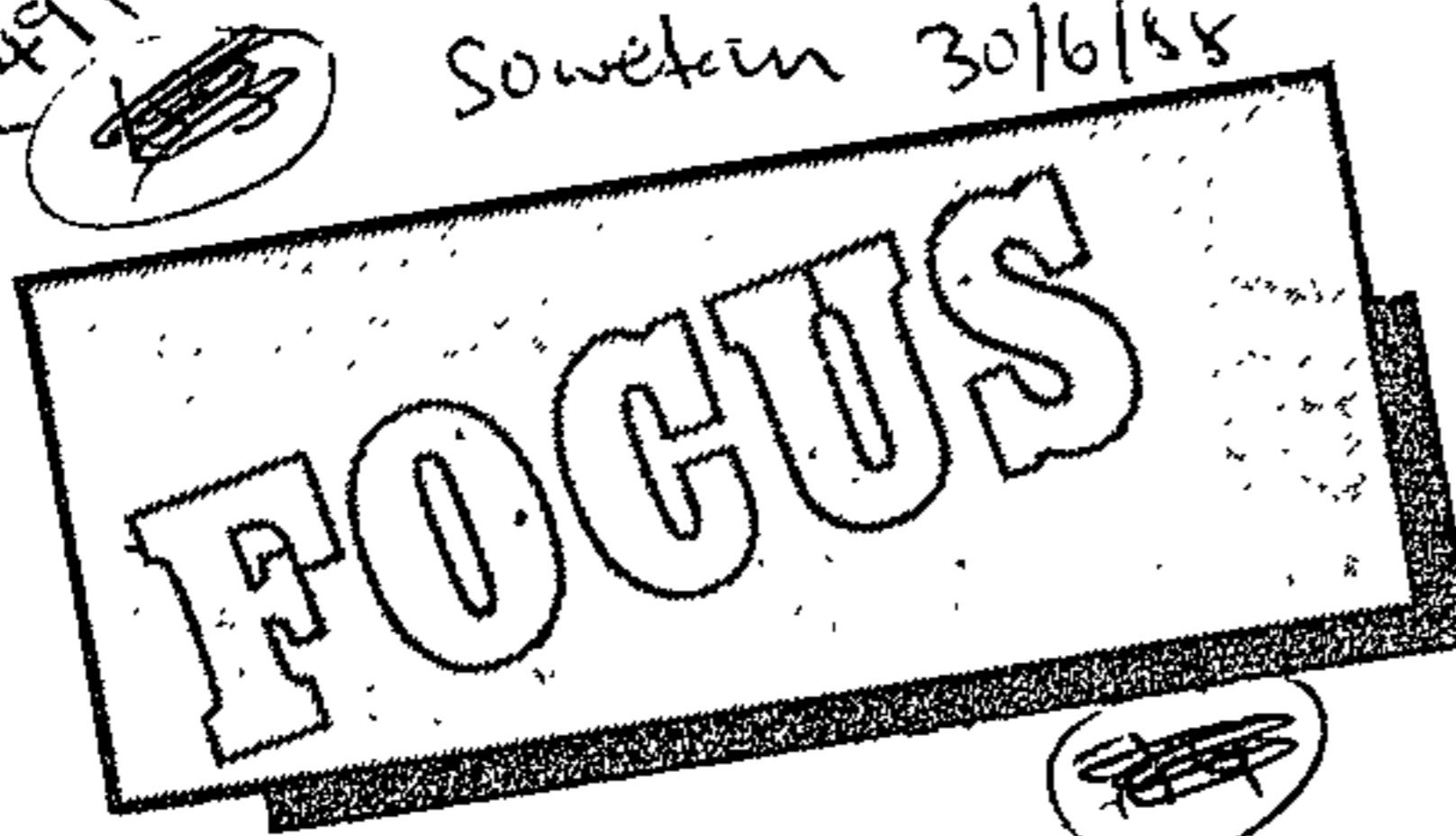
What this in fact means is that a higher inflation figure can be expected in the *second half* of the year. Furthermore, the way the inflation index is compiled means that there are certain items in the index, such as housing, transport equipment and motor vehicles whose prices are not measured on a monthly basis.

This could mean that there are price changes in these components which will only be reflected in the inflation rate in the second half of the year.

Another reason for not getting too excited about the lower inflation is that

No need to get excited about lower inflation (13%)

Economic fundamentals point to higher rate at year end



By an Economist

those things which constitute the bulk of the average person's expenditure, namely, food, clothing and footwear are still showing inflation rates of 16,8%, and 16,5% respectively.

Apart from the statistical quirks inherent in the inflation rate there are other economic fundamentals which point towards an inflation rate of around 13,5% — 14,5% by year end. In the first instance there is the balance of payments position which

has been steadily worsening for the past six months.

After seasonal adjustments the balance of payments moved from a R6,1 billion surplus at the end of the fourth quarter of 1987 to a R0,4 billion deficit in the first quarter of 1988. This movement from surplus to deficit can be largely attributed to the joint effect of a large rise in the value of imports and a decrease in exports.

Housing

Export volumes declined by 7% in the first quarter of 1988.



DR GERHARD de Kock ... Governor of Reserve bank.

Given the continued depreciation of the rand against all major currencies and the fact that we still have foreign prospects for a balance of payments surplus remain obscure. Furthermore, economic growth does not appear to be subsiding and therefore no damper on import growth is envisaged. In an economic environment characterised by a depreciating currency and untamed consumer demand, the higher level of imports translates into higher prices and therefore higher inflation.

Further evidence that the economy, is not slowing down can be found in the higher money supply figures. Money supply as measured by M3 (the broad definition of money) was revised upward to 20,7% for April and the preliminary figure for May is 22,7%. These figures are well outside the 12% — 16% target set by the Governor of the Reserve Bank, Dr de Kock. It now appears that this target will be hard to meet by year end. A closer examination of the components of money supply show that there has been no real slow down in credit demand. Hire-purchase lending, leasing, and commercial bank advances for April showed year-on-year increases of 22,5%, 32,8% and 29% respectively. Given the Reserve Bank's unwillingness to allow the interest rates to increase the outlook for inflation remains negative. After all the present economic recovery is consumers have access to relatively cheap credit the spending spree will continue.

Depreciation

All in all, the outlook for inflation is negative. The strong economic growth experienced in the first quarter of the year shows no sign of abating and therefore fears of demand pull inflation are not unfounded. Furthermore, money supply is growing at an alarming rate and the rand continues to depreciate against other major currencies, which given the growing import levels could only add fuel to the inflation fire. At the same time the position of the balance of payments gets more precarious.

One thing is clear South Africa cannot afford this type of growth.

(49) Star 29/16/85

BER sees ongoing rand decline

CAPE TOWN — The rand has entered a long period of steady decline against the dollar and will slide even further against the yen and Deutschemark.

The forecast was made by the Bureau for Economic Research (BER) at Stellenbosch University in its latest analysis of manufacturing activity.

Director Dr Ockie Stuart says: "These monetary developments mean South Africans are going to start paying more and more for imported goods, and consumer goods generally will from now on show prices increases at a faster rate."

The balance of payments seems to be heading for trouble, Dr Stuart says.

"Export earnings are dwindling, while import costs are rising rapidly.

"The authorities have already introduced steps to curb consumer demand and thus protect the balance of payments, but the best we can hope for is a very moderate build-up in reserves."

Sanctions will continue to dampen export performance and this will be aggravated by the further decline of non-gold exports.

BER writes that employees

will earn about 16 percent more in 1988 than they did last year. "Total taxed personal income will probably go up 16,5 percent this year," BER estimates.

However, higher interest rates and rising inflation are expected to put a damper on the average South African's ability to spend between now and Christmas.

Dr Stuart says: "We estimate that the country's inflation rate will average 13 percent this year, which means we're looking at an increase of about three percent in real disposable income."

As a result of the higher income, total spending by consumers will increase by a total of 4,1 percent this year, but will go up only 2,3 percent in 1989.

"Most growth this year will take place in the durable-goods sector, with non-durables receiving least attention."

One of the fields which will be negatively affected is car sales, which are expected to fall away fairly rapidly.

"This more sluggish demand will undoubtedly have a negative influence on the manufacturing industry, unless manufacturers can switch to exports," Dr Stuart says. — Sapa.

Steward

can be done without harm, the partitions are removed in conjunction with repairs and improvement works, (iii) (aa) and (bb) at 169 of the post offices referred to, a single official is in attendance, while at the other 52 offices, more than one manned counter serving point exists,

(iv) at offices with a single serving point the full range of services is available. At certain of the major offices separate postal and financial counters exist but all services are available to all members of the public. In the case of Hofmeyr the public area is separated by a ceiling-high brick wall and the two public areas can only be reached by separate entrances as an interleading door has not been provided. The partition supports the roof structure and cannot be removed at this stage without incurring considerable costs;

(2) yes, as soon as it can be combined with other construction work or periodic renovations of the buildings and public support is forthcoming, but it is not possible to attach a time-scale to the undertaking.

Mr P G SOAL: Mr Chairman, arising out of the hon the Minister's reply, does he not think, as segregation was abolished in post offices in 1976, it would be a good idea to issue an instruction now that, where temporary partitions still exist, they be taken down immediately?

The MINISTER: Mr Chairman, I suggest the hon member reads my reply, which is a very comprehensive and exhaustive one, and he will see exactly what we have in mind.

New Questions:

Economic policy: advertising campaign

*1. Mr C J DERBY-LEWIS asked the Minister of Information, Broadcasting Services and the Film Industry:

(1) What was the total cost to the State of the advertising campaign in the Press aimed at promoting the Government's economic policy for the Republic during the period 1 March to 31 May 1988;

whether he intends proceeding with this campaign; if so, for how much longer;

HOUSE OF ASSEMBLY

Huwana

KwaNdebele Police Force

*3. Mr P G SOAL asked the Minister of Law and Order:

(1) Whether a certain officer, whose name has been furnished to the South African Police for the purpose of the Minister's reply, has been transferred from his post in the KwaNdebele Police Force; if so, (a) when was he (i) seconded to and (ii) transferred from KwaNdebele, (b) why was he transferred, (c) (i) where has he been transferred to and (ii) why and (d) (i) what is his name and (ii) what post did he hold in KwaNdebele;

(2) whether, with reference to his reply to Question No 13, standing over, on 26 May 1988, the special investigation team has completed its investigations into certain allegations concerning the activities and/or conduct of this officer; if not, when is it anticipated that these investigations will be completed; if so, (a) who initiated these investigations and (b) why;

(3) whether the results of these investigations will be made public; if so, when; if not, why not;

(4) whether he and/or the Police received any representations requesting that this officer be transferred; if so, (a) from whom and (b) what was (i) the purport of these representations, and (ii) his response thereto, in each case?

The MINISTER OF LAW AND ORDER:

(1) (a) to (d) The officer concerned was transferred to fill a vacancy which arose elsewhere and because his duties were required there, in the interests of the Force.

(2) I refer the hon member to paragraphs (1) to (3) of my reply on 26 May 1988 to Question 13, standing over.

(3) Falls away

(4) No

(a) and (b) Fall away

*4. Mr P G SOAL—Constitutional Development and Planning. [Withdrawn.]

*5. Mr P G SOAL—Constitutional Development and Planning. [Withdrawn.]

Cloccolan: group areas

*6. Dr C P MULDER asked the Minister of Law and Order:†

(1) Whether a charge was recently laid with the South African Police in Cloccolan in respect of a contravention of the provisions of the Group Areas Act at a certain address, which has been furnished to the Police for the purpose of the Minister's reply; if so, when;

(2) whether the Police investigated this case; if so, (a) what steps were taken and (b) when; if not, why not;

(3) whether he will make a statement on the matter?

The MINISTER OF LAW AND ORDER:

(1) Yes, on 20 April 1988

(2) Yes

(a) and (b) A charge in terms of section 46(1) (a) of the Group Areas Act, 1966 (Act 36 of 1966) was investigated. On 25 May 1988 the case docket was referred to the Attorney-General for his decision.

(3) Yes. The residence concerned had recently been vacated.

False Bay: seine fishing

*7. Mr R J LORIMER asked the Minister of Environment Affairs:

(1) Whether further consideration is being given to the prohibition or further restriction of seine fishing in False Bay; if so, with what results; if not, why not;

(2) whether he will make a statement on the matter?

The MINISTER OF ENVIRONMENT AFFAIRS:

(1) No; on account of the limited effect of beach seine permits on the exploitation of the resources.

(2) No.

Motherwell: MEC

*8. Mr D J N MALCOMESS asked the Minister of Constitutional Development and Planning:

(1) Whether a certain Member of the Executive Committee (MEC) of the Cape Pro-

HOUSE OF ASSEMBLY

1912

(19) 6/10/88 2/16/88

Stable economy 'depends on political devolution'

A STABLE economy for SA lay in political devolution, which could take place only when government was able to free the country's resources for development by the private sector, said Industrial Development Corporation chairman Marius de Waal.

Addressing the National Partners Conference on Friday, De Waal, also Iscor chairman, said, unfortunately, the transfer of political

HELOISE HENNING

power to lower levels of government had outstripped their development of administrative capabilities and financial infrastructure.

"There is a danger that we could increasingly revert to centralisation if this imbalance is not corrected quickly," he said.

"It is urgently necessary to diminish the state's role in the eco-

nomy and limit it to the distribution of less extravagant and more realistic services with no disparities to the various sections of the community."

De Waal also said successful business leadership would have to make decisions under abnormally insecure conditions, while securing a future for SA.

One of the aspects of a stable economy rested on the business sec-

tor's reorientation from reliance on bureaucracy.

"It is sheer escapism to expect peace and normality in the political and social fields or even in the security arena in SA over the next few years."

"Part of the secret of successful business leadership is its ability to cope with and make decisions under these abnormally insecure conditions."

Rand comes under ⁽⁴⁹⁾ considerable pressure

Star 24/6/88

By Magnus Heystek

A drop in the gold price to below \$450 an ounce placed the rand under considerable pressure yesterday with the currency dropping to as low as R2,31 against the US dollar (43,30 US cents in the old terms) before Reserve Bank intervention led to a mild recovery later in the day.

The financial rand, however, dropped sharply to R3,09 against the US currency which is equivalent to 32,30 US cents. This offered some protection to gold shares in the face of renewed weakness in the gold price.

Gold came under pressure on international bullion markets yesterday as fears of higher US inflation subsided following on the news that the US economy grew at a less-rapid pace than originally announced.

The rand has been on a downward trend against all other major currencies since the beginning of the year and is now more than 11 percent weaker against the US dollar, 22 percent against the Japanese yen, 15 percent against the West German mark and

about 25 percent against the British pound.

The weakness of the rand is in reaction to the pressure being experienced by the current account on the balance of payments which has been sharply run down in recent months. In efforts to preserve the economic upswing the monetary authorities have relied more on a depreciating currency rather than allowing interest rates to soar.

The weakness of the rand has raised fears about the cost of imported goods which has obvious inflationary consequences.

Economists are convinced that last month's drop in the inflation rate to 12,9 percent is very close to the bottom of the current cycle and that a steady upward turn in the coming months is inevitable.

Major retailers of imported goods — which has a weighting of about 25 percent in the Producer Price Index — have already warned that the prices of imported goods, particularly from Japan, is set to increase by between 30 and 40 percent on an annualised basis this year.

REUTERS

(49)

Trouble spots

Statistics in the latest Reserve Bank *Quarterly Bulletin* suggest SA's fundamental economic problems remain: lethargic employment creation, high inflation, a weak currency, low savings and a government that continues to spend itself further into debt.

Among the trouble spots:

- Government debt. Central government debt increased R2,1bn in the first quarter to R57,5bn, promising higher debt-servicing costs for future taxpayers;
- Saving. Gross domestic saving fell from 23% of GDP in fourth-quarter 1987 to 21,5% in first-quarter 1988. Personal saving fell and there was a further increase in government dissaving as its consumption expenditure soared;
- Employment. Registered unemployment dipped in first-quarter 1988 but far more jobs are needed following the dismal performance of the past two years — when employment didn't even keep pace with population growth. Total non-agricultural employment rose just 0,3% in 1986 and 1,5% in

35

FM
24/6/88

1987. Private-sector jobs increased just 0,5% last year, compared to 3,9% in government;

□ Money supply. Sharp money supply growth promises to end the gradual drift in the CPI rate of the past two years. The broad aggregate M3 grew an annualised 30% in August-March, before dropping in April;

□ The rand. The combination of rising imports, foreign debt repayment and high money supply growth and inflation pushed the weighted-average of the rand down 10,3% from end-December to end-May. In the five months, it fell against the dollar (13,7%), pound (12,8%), D-Mark (6,8%), Swiss franc (2,7%), yen (11,9%) and French franc (7,3%); and

□ The JSE is feeling the pinch of sharply lower turnovers. The value of shares traded fell from a record R5,9bn in third-quarter 1987 to R4,6bn in the fourth quarter and just R2,4bn in first-quarter 1988.

There are some hopeful signs:

□ Significant increases in private capital spending pushed gross domestic fixed investment (GDFI) up for the third quarter in a row, despite cutbacks by public authorities and public corporations. Investment was broad-based — in mining, agriculture, manufacturing, commerce and finance — and GDFI increased by 2% annualised in the first quarter. With prospects of better harvests, farmers replaced worn equipment.

Several new ventures boosted capex by mines. And manufacturers, approaching capacity in the wake of higher consumer demand, expanded and updated facilities;

□ The volume of manufacturing production, seasonally adjusted, was higher in the first quarter than 1980's quarterly average for only the second time since second-quarter 1984. Notable increases were in paper and printing, chemicals, machinery and transport equipment; and

□ The finrand picked up 5,1% in the first five months of the year.

36

However, many economists predict slower growth and more international pressure and so doubt whether these will be sustained. ■

49

Dreary figures

The latest economic forecasts offer little cheer, as more analysts say sputtering growth and an upsurge in inflation will hit company profits and consumer pocketbooks.

"Indications are that SA's economy will slow down during the second half of 1988 and the business cycle will enter a downturn

40

24/6/88

in 1989," says Sanlam's latest *Economic Survey*, which sees 2,3% GDP growth this year and just 1,7% next — both lower than last year's 2,6%.

Despite relatively flat commodity prices and strong local cost increases, Sanlam says mining profits look "fairly favourable" because of the continuing fall of the rand. (It projects an average R/\$ exchange rate of R2,25 this year and R2,50 next).

For the next six months, good increases in trade and industry company profits are expected, because of large turnovers and better profit margins. But Sanlam warns that slower domestic spending (GDE growth dropping from 5,5% this year to 1,3% next) could hit company profits in 1989 — with suppliers of consumer durables especially vulnerable in the second half of the year.

Sanlam also projects that the average rise in the consumer price index will be 13,8% this year and 14,5% next; prime rate will rise to 16% by year-end; and fixed investment will fall next year after a modest increase this year — much of which has been on private housing.

Trust Bank's latest *Economic Report* suggests a couple of bright spots for second-half 1988, including a slightly firmer gold price and cheaper oil. It predicts gold will average US\$459/oz in the second half of the year, after averaging \$453 in the first half; and North Sea oil will dip to \$15,40 a barrel in the second half, from \$16,20 in the first.

But Trust Bank, too, sees consumer expenditure and growth slowing. It says GDP growth of 3,5% in first-half 1988 will fall to 2,5% in the second half.

Though the *Report* says there are some parallels between 1984 and 1988 — an upsurge in imports and a weakening rand — it doesn't expect the authorities to push interest rates as high this year to slow the economy as it did then, when prime hit 25%. ■

Star 23/6/88

Economy mirrors 1984 situation

Finance Staff (49)

The South African economy faces a similar situation as it did in 1984 when interest rates were pushed to very high levels says Trust Bank in its latest *Economic Review*.

The bank states that in 1988 the Government's fiscal deficit is lower than it was in 1984 and that the country was also facing lower gold production.

It says that in addition to these two factors, there is the problem of sanctions on some non-gold exports as well as enforced repayments of foreign debt.

The bank says: "Consequently it would appear — even more

so than in 1984 that only limited further growth in real domestic spending and imports can be afforded during the second half of this year."

"By the beginning of 1988 the country's gold and foreign exchange reserves stood at \$4,1 billion — exactly equalling the figure that applied at the beginning of 1984. In both cases this represented about two and a half months worth of total import payments for goods and services."

However, the bank points out that there are a number of positive factors working in the economy. They are:

- Agricultural conditions have improved.

- The substantial foreign debt repayments of 1985-1987 produced a more favourable debt position for South Africa with the foreign reserve/debt coverage ratio rising from 15 percent in 1984 to 20 percent in 1988.

The bank says: "Furthermore, a part of the debt repayment of the past few years comprised the switching of trade finance from foreign to domestic sources on a relatively large scale. Consequently South Africa entered 1988 with an abnormally low level of off-shore trade finance — implying the potential for noticeable short-term capital inflows in the form of a switchback to offshore sources."

Utilisation figures indicate healthy economy

PRETORIA — The economy was still in good shape, as shown by the latest utilisation of productive capacity figures, Stellenbosch Economic Bureau economist Glen Moore said.

Central Statistical Services figures showed capacity utilisation in February increased by 4,4% compared with February last year.

(49) 8/day 23/6/88.
GERALD REILLY

Increases in utilisation rates occurred in 22 of 27 major manufacturing groups, with the largest relative increase in the motor industry — 20,4%.

The under-utilisation of 17,3% was because of a shortage of raw materials (2,3%), skilled labour

(0,9%), semi-skilled and unskilled labour (0,3%), insufficient demand (12,2%) and other reasons (1,6%).

The food and motor vehicle industries were the main contributors to under-utilisation because of shortages of raw materials.

Moore said the current 82,7% utilisation rate compared with 74,9% in 1986 and 84,5% in 1981.

M3 figures soar again

By Sven Lünsche

Hopes that April's lower growth in provisional M3 figures would be the start of a downward trend in monthly money supply increases towards the 12 to 16 percent target were dashed yesterday by the release of new Reserve Bank figures.

The revised figures for April show that M3 grew by 20,7 percent from the same period last year, after initial forecasts had shown only a modest 19,21 percent annual growth.

And preliminary estimates show that the surging trend continued in May as a result of vigorous consumer spending across all sectors.

The Reserve Bank had hoped that April's preliminary figure would show the M3 growth of over 23 percent in March to be a seasonal aberration and that, in conjunction with a decline in the velocity of money, growth had been somewhat contained by restrictive monetary policies.

The full effect of measures introduced last month will have to be given time to take effect, but the latest set of figures rule out a more accommodative stance by the Bank in months to come.

Star 21/6/80

Recessionary conditions on the way

Finance Staff

Recessionary conditions are expected to characterise the economy late this year to halfway through 1990, Aloma Jonker and Heidi Vollmer write in stockbroking firm Frankel, Kruger, Vinderine's latest industrial report.

In a general scenario of rising interest rates, forecast slower economic growth, inflation and a declining rand, they recommend only shares fulfilling certain criteria.

These were: a proven track

record, high dividend yield stocks, shares of companies not largely dependent on imports, rand hedge stocks, low debt/equity ratio, shares expected to outperform their particular sector.

Jonker and Vollmer remain bearish on the industrial index. "We expect a further decline by the year-end due to declining corporate profits as the economy slows and interest rates rise. The current upward movement in the Industrial index threatens to be a bull-trap and

caution is advised.

Long-term investors should switch into blue-chip, non-cyclical shares, and hedging of market risk should be considered by selling futures."

They add the general effect of overseas disinvestment should be to increase opportunities for cash flush South African companies.

The report recommends the paper and packaging and pharmaceutical and medical sectors as worthwhile investment areas over the next three years.

Serious pressure mounting on the balance of payments

(49)

Star 21/6/88

Finance Staff

South Africa faces serious pressure on its foreign balance of payments, writes Sanlam's economist Johan Louw in the group's latest *Economic Survey*.

While the total foreign trade surplus for the first four months amounts to about R2,3 billion, Mr Louw considers this insufficient to compensate in full for the net foreign services and transfer payments.

"We estimate that the current account of the balance of payments produced a deficit in the region of R500 million in this period. After the usual adjustments by the Reserve Bank the situation could become considerably more favourable," says Mr Louw.

The sharp rise in the import account, in his opinion reflects the continued strong expansion in domestic economic activity.

As government action coerces consumers towards more moderate spending patterns, the import volume should be reduced later this year and in 1989.

"It would appear that there is considerable stock-piling of imports at present", he says.

Particularly as a result of a sustained weakening of the rand, import prices during this period will nevertheless be relatively high.

In view of the anticipated more sluggish growth trend in the economies of South Africa's major trading partners, Sanlam expects that although the weaker rand will lead to a higher revenue in rands from exports, the volume of merchandise exports (excluding gold) will decline further during the rest of 1988 and in 1989.

"Assuming an average gold price of R450 dollars an ounce in 1988 and 1989, and an average

rand/dollar exchange rate of R2,25 in 1988 and R2,50 in 1989, Mr Louw estimates that the current account of the balance of payments will produce a surplus of between R1 billion and R2 billion this year.

He says that apart from obtaining trade financing from abroad, the chances of South Africa acquiring much in the way of long-term loans in the foreseeable future are slim.

"It is therefore important that a sizeable favourable balance on the current account be maintained so that we can honour our foreign debt obligations."

Sanlam expects the anticipated strong growth rate in real gross domestic spending of 5,5 percent in 1988 to flatten out to only 1,3 percent in 1989. The growth rate in the real gross domestic product will ease from an estimated 2,3 percent in 1988 to 1,7 percent in 1989.

Businessmen fearful of repeat of 1984

By Sven Forssman

Businessmen are fearful the economic emergency procedures of 1984, when there was a three percent jump in the prime lending rate, might have to be repeated this year, Dr Chris van Wyk, managing director of Trust Bank, said at a luncheon last week.

Dr van Wyk said businessmen were also asking themselves whether the exchange rate of the rand would collapse, pushing up prices at the end of 1984; whether general sales tax would escalate, pushing up inflation further; whether the hire purchase regulations would be tightened to strangle the motor industry again; whether cash flows would dry and bankruptcies increase; whether the spectre of record bad debts was before the banks again; and wheth-

er the money supply of companies and individuals would dry up again?

Dr van Wyk said South Africa had entered 1988 with a delicate balance between an economic upswing, on the one hand, and an increasingly constrained balance of payments, on the other.

He said the situation could, in many respects, be compared with that of 1984, which still stirred nightmares for many.

"In both cases, the internal economy was boosted by rising real personal incomes, together with a stimulated fiscal policy. Import volumes rose, resulting in a tightening effect on the balance of payments.

"But, unlike in 1984, when there was a lot of foreign capital coming into the country, more than R2 million will have to be repaid in foreign debt this

year.

"The country's export prospects this year have also been less rosy than they were in 1984. The prospects for exports have been dampened by various sanction rules, together with a slower world growth rate and exchange rate appreciations in 1987.

"Also, gold production volumes this year are expected to be about 10 percent lower than they were in 1984.

"Against this sort of background, and despite one of the strongest upswings in the economy in years, there has been no significant movement with regard to net fixed investment, especially in the private sector.

"Consumer and business confidence have picked up over the past six quarters, but one still gets the impression that neither

Star 20/6/88
49
consumers nor businessmen are prepared to increase their long-term future responsibilities on a large scale."

There were, however, a number of plus factors when comparing 1988 with 1984.

"After the drought of the early 1980s, agriculture has recovered significantly, which implies that this sector could this year make a more positive contribution to the balance of payments," Dr van Wyk said.

"The overall foreign debt situation also looks a lot healthier. The projected rent burden on foreign debt has declined to 8,5 percent of the total exports for 1988, compared with 10 percent in 1984."

Dr Van Wyk said there was reason for neither panic nor complacency. "Financial caution is the watchword," he said.

19/6/88 (49) STines

Deregulate economy

By Robyn Chalmers

IF SA is to take the high road of economic and social development, it will have to open the economy and allow full participation by all sectors, Anglo American director Clem Sunter said this week.

Addressing a meeting of the German Chamber of Commerce, Mr Sunter updated the scenarios he proposed nearly three years ago in his book *The World And SA in the '90s*.

"For any form of development to occur in SA the economy must be opened so everyone has an equal chance to prosper.

"Micro-technology is dispensing people from the conglomerates to small production units with the result that small and medium businesses are creating all the new jobs," he said.

Miracle

He described the taxi industry in SA as "the miracle of the 1980s." It has created jobs for over 300 000 people, and the 100 000 taxis bought have meant a capital investment of more than R3-billion.

"This is a perfect example of the alliance between big and small business in a dual logic economy," he said.

The Triad group of countries — North America, Western Europe and Japan — were showing encouraging signs of moving towards the high road, he noted.

Examples of this could be seen in greater emphasis being placed on education, lower tax rates, the move to-

wards smaller government, the dropping of trade barriers and that US and the So- and the dropping of trade barriers.

Three other factors which had emerged strongly since his book were Angola, sanc-

tions and the rise of the right wing.

"It is essential to have settlement in Angola. The right wing must be closely watched as it is becoming a force to be reckoned with," he said.

44 7/16/88

Why the structure is weak



Parsons: Why could SA enjoy high growth, low inflation and a more comfortable balance of payments position in the Sixties and early Seventies? Firstly, what changes in the international

economic environment are related to performance in the past few years.

Dickman: The proportion of exports to GDP has dropped significantly over the past 20 years and the ratio of consumption, especially government consumption, has risen. Exports and foreign capital are a major driving force. There has been a slowing down in the rate of growth of global production since about 1973, from 5% to about 2%. We failed to adapt to this changing world, unlike the rapidly growing Pacific countries.

Hamersma: There are two other, perhaps less important, factors. One is world inflation since the early Sixties, which in turn helped the terms of trade in our favour. These factors led to significant export growth and we structured our economy on that basis. This is basically a high gold price, high export price economy. Those factors have simply fallen away. Technological change also harmed many of our exports.

What can we deduce from comparing SA's growth and productivity performance in world terms over the past few decades?

Hamersma: When the gold price is high our productivity is high; if the gold price falls, our productivity collapses.

Dickman: Other developing countries with which we should compare ourselves have done much better. Their GDPs have grown faster than their population, so they have had real increases in per capita income. We are talking about Brazil, Greece, Portugal, Chile, Spain, Hong Kong, Singapore, Korea, Mexico, Malaysia, and so on.

Of course, compared to many countries, ours are low-grade mineral deposits. We have to work much harder. People say we are a rich country. We look rich, but we're not.

Kantor: I question the presumption that our performance is poorer. There are major problems with the measurement of performance in the Seventies, because the output of

The FM Board of Economists looks at fundamentals relevant to SA's recent disappointing economic performance. Members of the board this time are André Hamersma, of Standard Bank; Aubrey Dickman, of Anglo American; and Professor Brian Kantor, of the University of Cape Town. The chairman, as usual, is Assocom's Raymond Parsons.

gold fell in response to the increased profitability of mining. There's been a big shift of resources towards the gold mining industry, but what GDP shows is less gold output. If you measure GNP, which to some extent takes account of terms of trade effects, performance in the Seventies was not much worse than in the Sixties.

Hamersma: While the balance of payments imposes a ceiling on growth, we're striking this ceiling at a very early level. The

balance of payments constraint is merely a reflection of far deeper problems: chronic overspending, low productivity, inadequate saving. Growth can only come about for two reasons, as we have had up to now; or improved productivity in the broadest sense, and not just in mining.

Have we adapted well to changes in the world economy in the past few years?

Kantor: I don't think there was terribly much else we could have done. Since 1981 we've suffered in the face of declining real metal and mineral and gold prices like the Brazilians and like the oil producers.

Hamersma: The important thing is whether

you regard that as a short-term cyclical problem or as structural — which is what I think. Bluntly, our economy is stagnating and on the basis of international trends one cannot see that changing.

Kantor: There is no structural change in the metals and minerals and commodity prices: they are cyclical developments, somewhat related also to inflation and inflationary expectations. In the long run I believe commodity prices will maintain their real value. There's been a substantial improvement in base metal prices in the past year.

Dickman: But are you not worried about

substitutes and general global growth? How do you view inflation in the Western world?

Kantor: There's slow growth in the rich parts of the world but much faster growth in the becoming-rich parts of the world.

Has SA serious structural problems?

Kantor: Again, there are problems in measuring a major structural change that is taking place, and for the right reasons. We're freeing up access to the cities. The established urban areas are growing rapidly and activity there is increasing significantly in real terms. What is stagnating is employment in the formal sector.

Hamersma: The growth of the informal sector is certainly spectacular. But that doesn't mean that we can be complacent.

What are your views on the concept of inward industrialisation?

Hamersma: It is necessary and very good, but we are expecting too much. Its philosophical basis is that we have a chronic balance of payments problem and if we could reduce our import-intensiveness, that would solve our problem. We are putting too much store on that.

Dickman: Isn't it only a new term for the sort of thing free market economists were saying as far back as the Twenties?

Kantor: What can we do? We can open markets and let people free. You can't design a strategy for economic growth from the top down — you've got to let people do as well as they think they can in the circumstances. That to a degree we've done.

Dickman: Of course this is the solution, but if we look at why we haven't grown, there are other problems of macro-management. Against this background, do you welcome the fact that regional economic development and decentralisation policy is being reviewed?

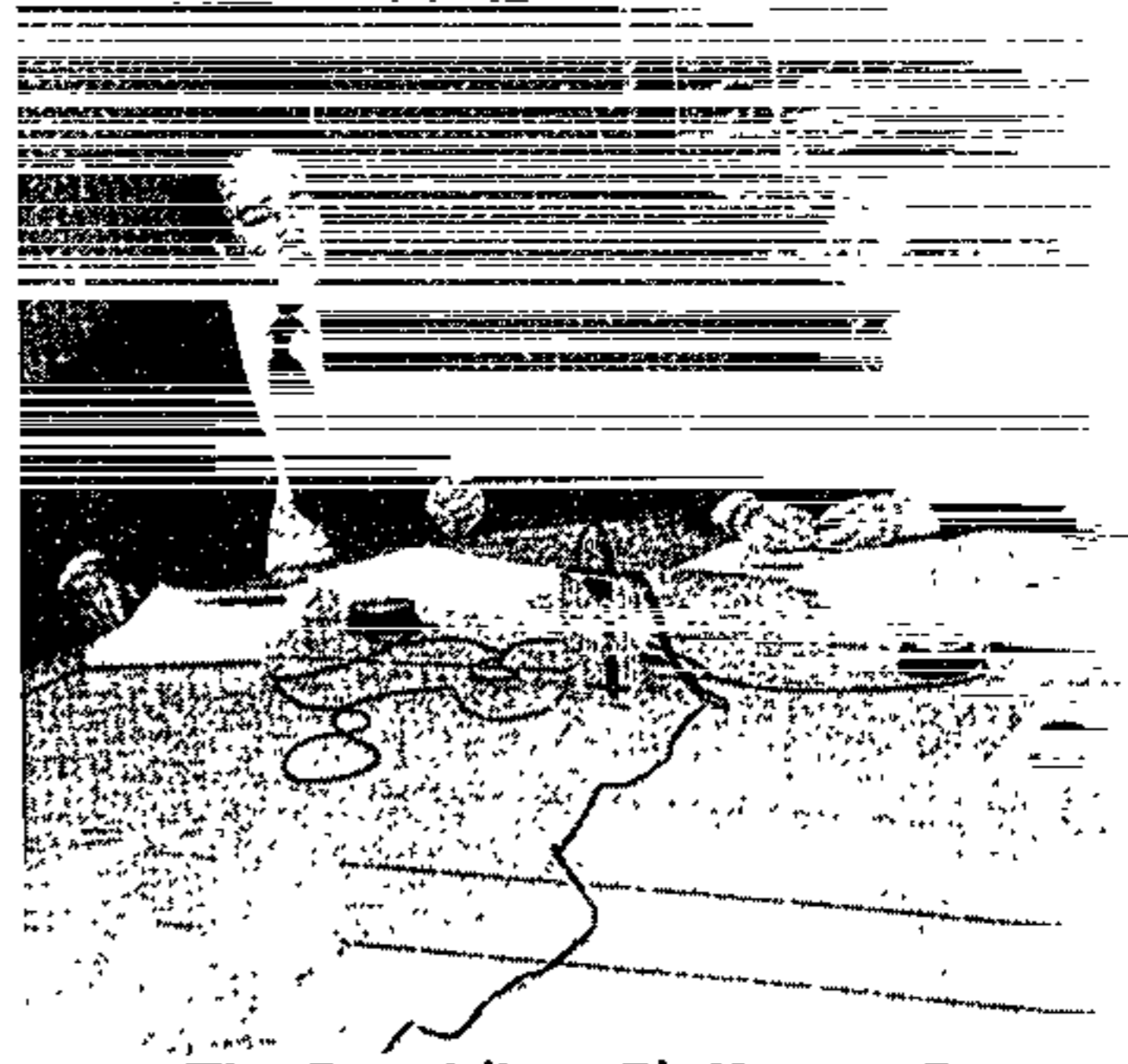
Hamersma: Obviously it must be reconsidered. These are relics of apartheid which we are slowly getting rid of.

Dickman: I am not against regional development, but it is a question of what you can



A major structural change is taking place, and it is hard to measure. What is stagnating is employment in the formal sector.

— Kantor



The Board (L to R): Kantor, Parsons, Dickman

4 (19)

afford.

Next comes a whole issue in which several other elements are embodied: the role of government, management of the economy, government spending, taxation, privatisation and deregulation. To what extent has that contributed — or not contributed — to economic performance, and how do you see the future?

Dickman: The dirigiste approach is gradually being dismantled, but questions of monetary and fiscal policy, and so on, are still very much alive and terribly worrying. Fundamentally, the public sector was allowed to grow because we didn't realise the limits to growth that André has mentioned. Only now

with the State President's address in February — though I have reservations about some of the approach in the short term — has affordability become a tenet.

Hamersma: Government cannot produce economic growth. It can produce the environment in which economic growth can take place. In that they have made tremendous progress. But the man in the street doesn't fully realise the implications: we will have to get individuals to work harder, save, become more competitive internationally.

Kantor: Our public sector is a very different animal to 20 years ago. SA Transport Services, for one, has cut its labour dramatically. An economic efficiency culture, a management culture in the ordinary sense of that term, seems to be permeating these bodies. They're no longer affirmative action programmes for Afrikaners, as they were set up to be. For senior managers the next step to privatisation isn't all that dramatic.

We must look at the composition of government spending. Investment has fallen,



The balance of payments constraint is merely a reflection of far deeper problems: chronic overspending, low productivity, inadequate saving.

— Hamersma

but what is investment? Education is defined as current expenditure but is basically an investment in the future. When Bar-end du Plessis says the growth in employment is in teachers, nurses and policemen, nobody can argue. But the price of economic freedom is eternal vigilance against government spending.

Dickman: Government spending is looming as an important part of our structural problem. This year it was put off, but to hold back public-service salaries creates its own problems and distortion. That is a good entry point for taxation. Tax reduction and tax reform are not the same thing and there are differences of opinion on how important

tax is to productivity. What view does the panel have of the role of taxation in terms of people's behaviour and how we can address certain structural problems?

Dickman: Though people make a tremendous fuss about company tax and personal tax, in the end the individual pays all taxes. But if you look at the ratio of indirect and direct taxes and declining personal savings, tax must have some effect. The burden of tax has certainly increased.

What are the prospects of a reduction in the tax burden in the next few years?

Dickman: I find it difficult to see any.

Hamersma: It's not impossible but it won't be easy.

Kantor: The burden of tax is the burden not just of government expenditure, but of government absorption. To the extent that government makes transfers, it takes from some and gives to others. So you must look at government absorption separately from government expenditure. But unless you can hold back government spending you can't hold back the tax burden. The way to collect revenue equitably and cost-effectively from the informal sector is to move a stage back and add it into the price of inputs.

Do you want smaller and more efficient government?

Dickman: We must have had wasted public-sector absorption. We can't need all those opera

houses in every city.

Kantor: Every country has waste. As economies grow, the evidence is that the share of the public sector increases. It is important to see that the share of the public sector doesn't increase ahead of economic growth and throttle it. It has been held back to facilitate growth.

Sanctions are over and above the sort of challenge that would normally be faced by a developing country at this stage of development. What effect are they having?

Hamersma: Sanctions, particularly financial sanctions, are very harmful. But if foreign capital is translated purely into higher living standards, all we will do is deepen our problems, not resolve them. It depends on what you use foreign capital for. In the past we used capital flows to sustain high standards of living. If we're not going to get foreign capital, at least sanctions may impose a necessary discipline.

Kantor: Sanctions and the higher cost of capital from abroad have made it much harder to grow. If you can attract foreign savings your cost of capital is low, investment is high, and growth is high. You can't have growth in infrastructure generally without growth in living standards. You don't need investment in car plants unless people will buy motor cars. The ends of production are consumption and a rising standard of living. More consumption means more investment. **If we did not have sanctions and were facing a normal international environment what difference could it make?**

Kantor: If we could provide foreign investors with a sense that the future is going to be pretty much like it is now, that attitudes to their capital will be pretty much like they are now, and a stable political environment, we would be overwhelmed with capital. It would then be a problem to find good uses for it — which, incidentally, is a problem with some very poor countries.

At what rate could we grow?

Kantor: I don't think there is any limit, really — the limits are people's ingenuity and willingness to work. If you provide the right institutions growth can be very fast. In Japan, South Korea and Taiwan growth has been over 10% per annum for 10 years.

Hamersma: Government has done well to create an environment for growth. One cannot create growth through gimmicks. Growth ultimately depends on productivity and we must become internationally competitive in more areas than just mining. That means lower real wages.

Dickman: The wage-

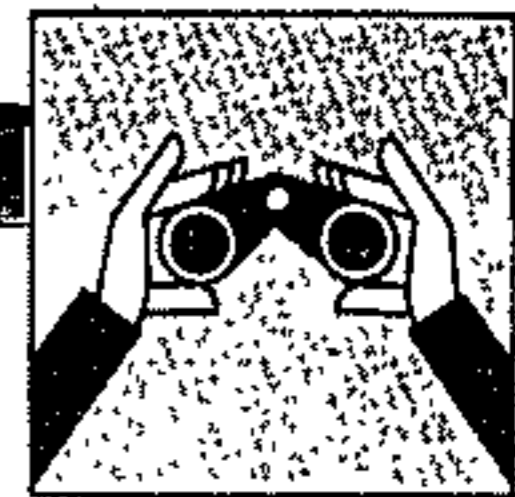


Compared to many countries, ours are low-grade mineral deposits. People say we are a rich country. We look rich, but we're not.

— Dickman



Hamersma, Dickman; and FM's Coulson



Seize the high ground



Richard Grant, an FM contributing editor, is a former lecturer in the Wits Department of Business Economics.

For years, under the guidance of well-known economists, government has put great effort into managing the economy. The results have been pretty good for a Third World country, but not for the First World.

This is not to say that the First World countries set a good example — they don't. All countries over-manage their economies: the cost in lost wealth and lost potential has been enormous.

The cause of all this needless waste is clearly rooted in politics, but not only politicians are to blame. They have been able to hire certain economists to rationalise their dirty work for them by bringing elaborately muddled mathematical theories to bear on the perceived problems of our economy — making those problems worse.

The problem is not "theory." Theory is essential — without it there is no "practice." The real problem is the unthinking acceptance of *incorrect* theory. This is rampant in the social sciences. Many economists love incorrect theory because obfuscation makes them sound more clever. Politicians also love the fallacies because they enable them to either hide or justify handouts to selected interest groups.

Just as all politicians were not created equal, neither were economists. The remedy lies in learning how to choose your economist. There are many jokes about economists not being able to agree. But this does not mean that all economists are wrong, just most of them. If you can't tell which ones, then the joke's on you.

Expensive joke

It's an expensive joke, though. When an individual uses bad advice, he usually gets hurt. But when a government uses bad advice, millions get hurt.

It's too bad that businessmen don't know how to defend themselves against political bullies. Despite being attacked repeatedly on all sides, they always seem to accept the moral low ground. Some think they are playing smart politics, but they are really taking the coward's option, accepting second best.

It's not that businessmen are stupid or lack the will to stand up for themselves. You don't get to the top of a company by being stupid and weak. Top businessmen I have

met are extremely bright and wouldn't hesitate to set things right — if only they knew how.

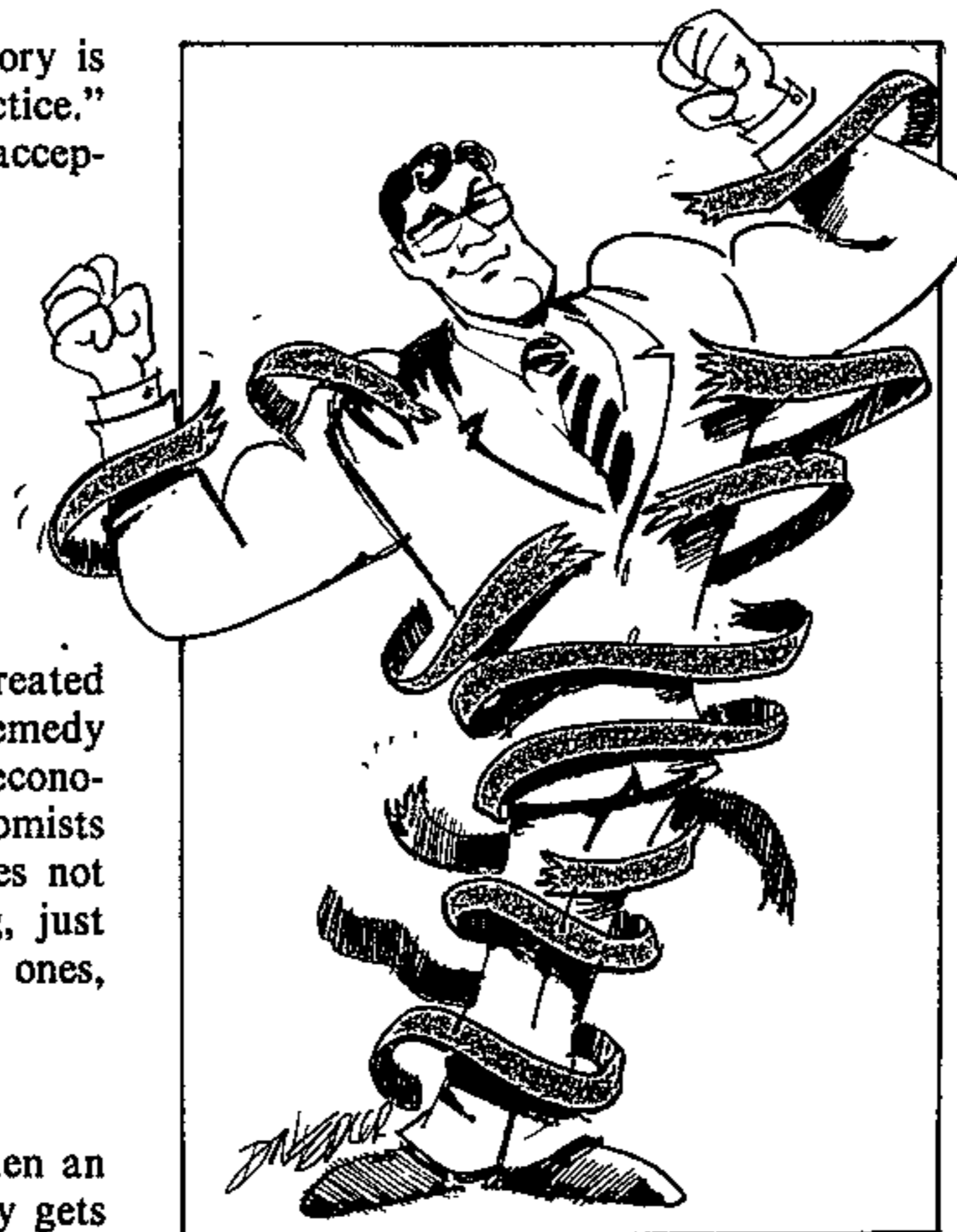
Why don't they know how? The reason is that running a business is demanding enough without having to fight off political interests and their parliamentary lackeys.

Few businessmen do both well.

Unfortunately, most take a short-term approach and play politics on the politicians' home field.

It's a common assumption that anyone who runs a company or succeeds in making a lot of money must be an expert on economics. Even though this isn't true, their views are respected. Successful business people are listened to. The trouble is that they tend to get their ideas from the wrong economists.

It is said that the most dangerous lies have a little bit of truth mixed in with them. The same is true with bogus economic theory. Few people ever take the time to trace the logic to its ultimate conclusion, so fallacies persist. And interest groups who tend to benefit from a particular fallacy try to protect that fallacy from exposure.



The one force that economic fallacies cannot withstand is logic. Logic is the businessman's ultimate weapon of self-defence against anyone who would regulate, intimidate or even belittle him. But appeasement seems more popular than logic.

Since fallacies are the only weapon that regulators have, they are totally dependent on the acquiescence of their victims. Everyone who lives in a regulated economy is a victim to some extent. Even those who bene-

fit from one regulation are the victims of another. Yet they acquiesce.

So how does one fight back? First you must recognise the enemy. The least dangerous are the overt socialists. Their policies are so obviously foolish that their only supporters are honest idiots and closet dictators. Socialism is a recipe for poverty and always results in the exploitation of the many by the few.

Our most dangerous enemies are those who use sentences like, "I'm all for free enterprise but..." Invariably the sentence ends with a load of self-serving rubbish mixed with a little bit of truth, usually capped with an activist policy recommendation that would, in fact, make the situation worse. Such interventions always have unintended side effects that ripple across the economy.

There are many fallacies that look quite plausible at first glance. I shall list some big issues and suggest the proper approach.

Balance of payments constraint

A country is not an economic unit — only individuals can import and export. The apparent constraint is on income, not foreign exchange. Similarly, "import cover" is savings, not dollars. Misperceptions are compounded by exchange controls and other governmental disruptions.

Inflation and exchange rates

Inflation is not caused by the falling rand. Both are caused by a third factor — loose monetary policy. The exchange rate responds to the rising quantity of rands faster than other prices, thereby creating the illusion that imports are causing inflation. Note that we can have inflation even when the rand rises.

Money and credit

The interest rate is not the price of money — it is the price of credit. Credit comes from savings. This is why the Reserve Bank can't create capital — just the illusion of liquidity.

Overheating

Machines overheat, not economies. Engineers should not work at the Reserve Bank. Expansion of the monetary base disrupts economic activity.

Many fallacies remain for future refutation. This is not an academic exercise. The bottom line is greater prosperity.

I call on businessmen to reject the negative-sum game of seeking advantage in regulation. And I call on economists to take an honest look at these issues and expose the political roots of economic problems. It is time to stand up and depoliticise the economy. Those who perpetuate the fallacies must now either "put up or shut up." I challenge you to trial by logic.

The economy is 'cooling nicely'

(19) BLOOM 17/6/88

MORE measures to sharpen the existing package aimed at cooling down the economy did not seem to be necessary at present, Finance Minister Barend du Plessis said yesterday.

Du Plessis told Parliament it now seemed the May package, together with the moderate decline in the value of the rand since then, had helped improve the current account on the balance of payments (BoP). Domestic demand was also bottoming out.



Since May, more reliable statistics on the economy and the balance of payments showed the content, intensity and timing of the package had been fully justified.

Although the current account (at seasonally adjusted annual rates) had swung from a fourth quarter surplus of about R6,1bn to a deficit of about R400m in the first quarter of this year, most projections pointed to a surplus of between R1,5bn and R3bn for the year. The cyclical upswing in domestic demand would probably be much weaker during the second half of the year.

However, even if the surplus on the

GRETA STEYN and HAROLD FRIDJHON

current account was below projections, it should present no problems for the capital account, because SA's capital obligations during 1988 were considerably lower than in 1987.

Repayments in terms of the Second Interim Debt Agreement would amount only to R850m in 1988, compared with R1,2bn last year.

Gold and other foreign reserves would be adequate to finance this capital outflow.

When the May package was introduced, fears had been expressed that interest rates might reach the heights of 1984 and 1985. But the the present economic situation differed substantially from that in 1984/85.

Much stronger fiscal discipline was now being applied, while monetary policy was being implemented in a significantly different and sharper way.

In 1984, the inflation rate had been increasing and the balance of payments was in deficit. At present, the inflation rate was declining and the balance of

● To Page 2 →

Economic package is working: Barend

payments, in contrast with the deficit of four years, had improved.

In recent months, interest rates had increased from very low, in real terms negative, levels and were becoming positive.

If negative real interest rates were allowed to persist, this would have a detrimental effect on savings and economic growth.

This was fully appreciated by government, but present policy was not aimed at artificially setting positive real interest rates.

It would be preferable if positive interest rates could be achieved by a drop in the inflation rate and a healthy level of credit, rather than through a sharp increase in nominal rates.

← ● From Page 1 17/6/88

Du Plessis tells of improvements in several key areas

Economic upswing ⁽⁴⁹⁾ maintains momentum ^{Stv 17/6/88}

The economic upswing in the second half of last year had maintained its momentum in the first quarter of this year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Introducing debate on the Budget's second reading, he said the real gross domestic product (GDP) had grown by a seasonally adjusted five percent in the last quarter of 1987 and by about four percent in the first quarter of this year.

Real private consumer spending had grown by four percent in the first quarter of this year, which was nearly as much as the rate since the second quarter of 1987.

Firming in commodity prices and especially those of minerals and metals improved the prospects for exports, which would lead to an improvement in the balance of payments.

The Minister said it was unlikely interest rates would again increase to the high levels of 1984/85.

On inflation, he said there had been a further bottoming out of the rate, as measured by the consumer

price index, during the first quarter of 1988.

The 12-monthly rate of increase in the consumer price had dropped from 20,6 percent in January 1986 to 14,2 percent in January this year, declining still further to 13,3 percent in April.

The 12-monthly rate of increase in the production price had reached a low point of 11,3 percent in December 1987, but had since increased to 12,5 percent in May this year. — Sapa.

Top 100 companies outpace the economy 49

At more than R11,6 billion, the assets of South Africa's largest industrial group, Barlows, total almost four times the combined assets of all the country's Top 100 industrial companies in 1968.

The Top 100 have grown more than twice as fast as the gross national product in recent years.

Collectively, they have also grown almost 100 percent faster than major state corporations like Eskom and Sats.

This emerges from a study for Sapa of the growth of the South Africa's largest companies in the 20 years between 1968 and 1988.

The study shows, however, that if the market value of the Top 100's holdings in JSE-listed companies is excluded, their growth

has been rather less impressive.

On this basis — and particularly since the JSE's October Crash last year — the leading state corporations continue to dominate, and organisations like Eskom and Sats continue to hold the top positions in the "allcomers" table.

According to the Bureau for Financial Analysis, Barlows assets totalled R11,692 billion in the latest full financial year.

The combined assets of all the Top 100 companies in 1968 totalled R2,624 billion, according to figures from the Financial Mail. In May this year assets totalled R120,926 billion — a 4 500 percent increase over 20 years.

The assets of Eskom grew some twenty-three fold from

R1,158 billion to R28,173 billion over the period, and the assets of Sats about ninefold from R2,157 billion to R18,808 billion.

By comparison, industrial groups like SA Breweries grew faster — its assets climbed some 3 500 percent to R4,333 billion in 1968-88. Off a low base, Barlows' assets rose more than 5 000 percent.

In 1988 Anglo American had assets down to R19,65 billion, but this reflects figures from the balance sheet after the October stock market crash last year.

In the allcomers league, Eskom still holds the top slot, followed by Old Mutual with assets of R25,7 billion.

In the 1968-88 period, the share-

holders' funds and taxed profits of the Top 100 both rose some 3 600 percent to R54,679 billion and R6,063 billion respectively.

Market capitalisation lifted from R2,152 billion to R49,967 billion — a rise of only about 2 300 percent reflecting the severity of last October's market crash.

Twenty years ago, many companies still refused to disclose turnover. The Top 10 that did, however, produced a total of R709 million. This compares with an 83 times higher R58 384 billion from the Top 10 in 1988. Ten years ago in 1978 the total for the Top 10 was R6 388 billion, about nine times the 1968 figure and a ninth of the 1988 total. — Sapa

Standard cautions on low output

(49) Below
15/6/88.

Growth stable but slowing

STEADY but slower growth is likely to follow the surge in first quarter economic activity, the Standard Bank says in its latest Review.

But the bank points out that present levels of output are still low, especially when set against the country's rapid population growth.

Noting that the current account will be the economy's deciding factor in the immediate future, the Standard said an improvement in the trade balance was possible.

A hopeful sign on the export side was the recent rise in gold and platinum prices from the levels of the first quarter.

On the import side, the buildup of inventories was unlikely to continue throughout the year at the rapid pace of the first four months.

The recent rise in imports was promising in one respect — it augured well for fixed investment.

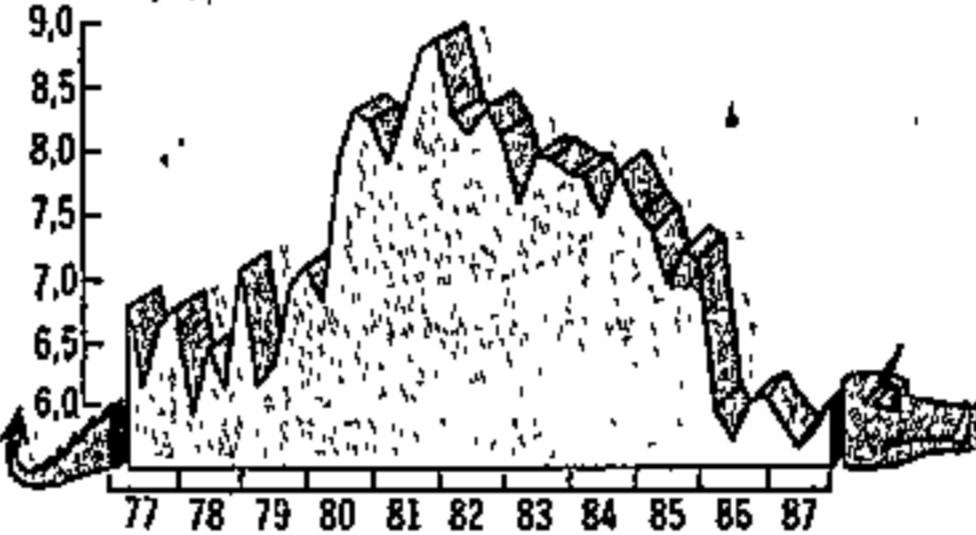
The most rapid rises in imports had occurred in machinery and transport equipment, suggesting a rise in gross domestic fixed investment (GDFI), at least in the private sector, might be taking place.

Currently, real GDFI was at roughly the same level as in 1973 —

Can investment rise again?

Gross domestic fixed investment

Rbn 1985 prices



Source: STANDARD BANK Graph: JOHN McCANN

GRETA STEYN

which was evidence that output levels remained low in spite of the current buoyancy in most sectors of the economy.

This was clear from:

- Wholesale and retail trade, catering and accommodation remaining below the 1984 level;
- Production levels in construction falling back to the same level as in 1972;
- Manufacturing production remaining below the 1981 peak.

The bank said given that the population was growing at about 2.8% per annum, the implied decline in per capita expenditure and production levels was disconcerting.

No consensus exists as to what is the true cause of inflation

WHEN releasing the consumer price index inflation figures last week, the Central Statistical Services commented that the average South African consumer did not understand what inflation meant.

It is acknowledged that inflation is indeed a complex subject. Even among those well-versed on the subject, no consensus exists as to what is the true cause of inflation, how to best measure it and what the best remedies for curing it are.

This article is the first in a series on the topic of inflation. The objective of this particular article is to provide a general overview of the traditional theories of inflation.

We will also examine inflation in the South African economy. In particular we will analyse the structural imbalances part and parcel of our economic system.

Inflation is defined in the Economics Dictionary as a process of steadily rising prices resulting in decreasing purchasing power of a given nominal amount of money. Put differently inflation shrinks the purchasing power of the rand in your pocket. Textbooks differentiate between various types of inflation. In the first instance there is monetary inflation. This type of inflation arises out of an increase in the country's money supply. It is for this reason that the monetary authorities, namely the South African Reserve Bank, have made it their policy to control the growth of money supply.

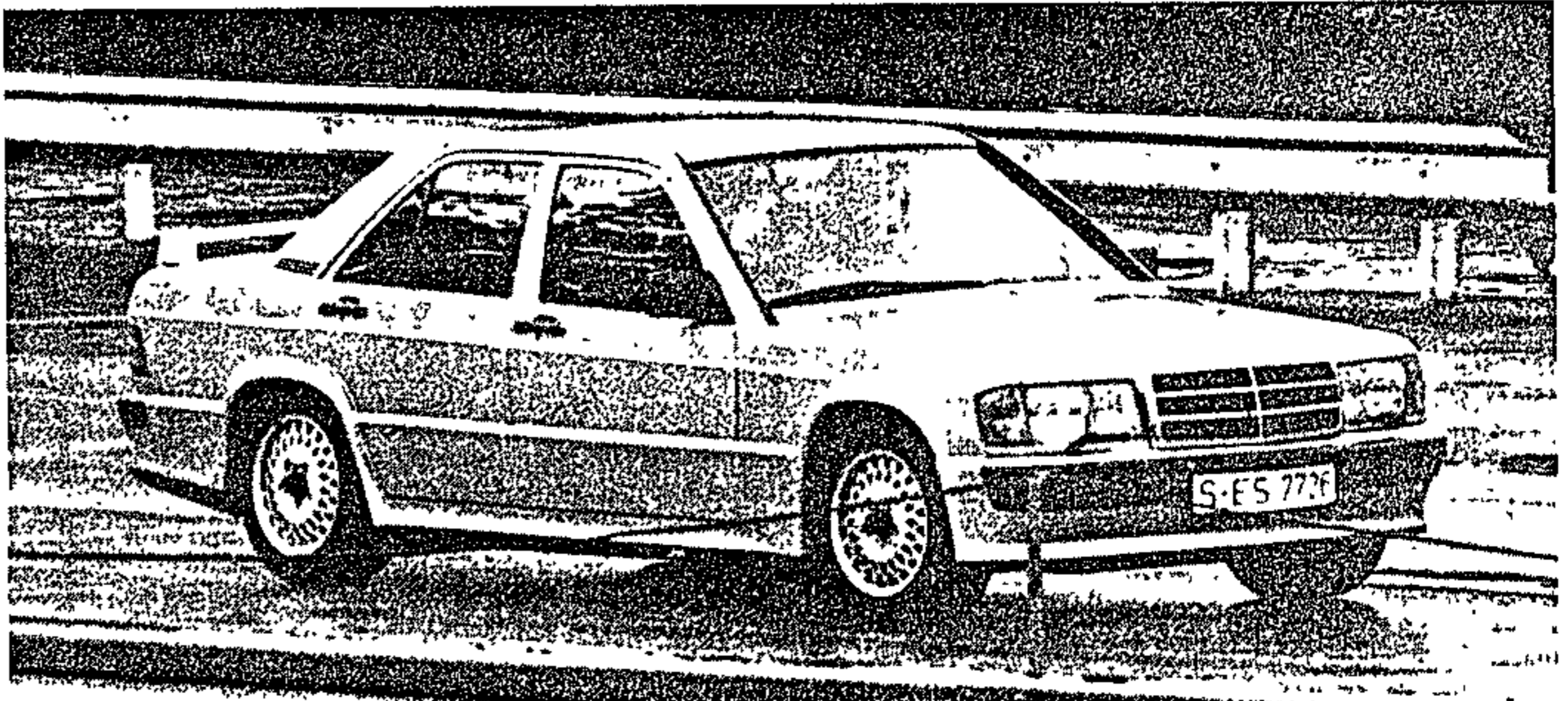
In the second instance, there is price inflation which results from an increase in prices. Here we can distinguish two further categories of inflation: Cost push inflation and demand pull inflation. Cost push inflation refers to inflation which is created and sustained by increases in production costs. In other words, the price of an article increases because the costs of producing it increase. Cost push inflation could result from a number of things, for example, there could be wage increases which are not accompanied by increases in productivity. Or, we could be looking at an article with a high import content, in which case a depreciating (lower) rand could make the article more expensive.

Demand pull inflation results when the demand for goods exceeds the

supply of goods. In theory the increase in prices should stop some buyers from entering the market (as they can no longer afford the higher prices). However, this does not always happen. Some theorists argue that demand pull inflation is sustained because of the composition of the market. The market is made up of consumers, private corporations and the Government. It is the Government that in times of increasing prices continues to spend almost indiscriminately, therefore putting more upward pressure on prices.

The Effects of Inflation

Why should the authorities and the public in general be concerned with inflation? Because inflation reduces the purchasing power of



A PROCESS of steadily rising prices resulting in decreasing purchasing power is what inflation is all about. It eats deep into your pocket and should surely make it difficult for you to own a car such as the one shown in the picture.

Inflation shrinks the buying power

By An Economist

money, there are significant effects for a number of people in the economy. More specifically for those on fixed incomes such as pensioners and people on welfare for these people increasing inflation means that their fixed incomes can purchase less goods and services. Therefore their standards of living, which in most cases is already low, decreases even further.

Inflation destroys people's confidence in money. People stop thinking of money as a store of value, and begin seeing money merely as a unit of account. In other words, inflation leads to money becoming simply an indication of the price to be paid and not an indication of value.

Furthermore, inflation leads to serious distortions in the economic process. One of these distortions is linked to the tax system prevalent in the country. In South Africa we have a progressive tax on income earned. This in effect means that as higher incomes are earned, the higher the taxation paid. Inflation leads to demands for higher incomes. As people's wages rise, with a rise in inflation, so they are pushed into higher tax brackets.

However, inflation is itself a form of tax. We must bear in mind that the Government prints money which it uses to pay for its spending. By printing more money the Government is aiding the inflationary process, given that output remains unchanged. In effect what this means is that the man in the street has to suffer higher prices. Therefore, the average person pays for government expenditure in two ways. Firstly by means of taxes and secondly through higher inflation/prices.

Another consequence of inflation is that it benefits borrowers at the expense of lenders. This happens because as the value of money decreases or becomes debased, borrowers repaying loans do so with debased money. This means that those who are thrifty and save get punished, whereas those who borrow get an unearned discount. In a country where savings should be encouraged and rewarded this makes little sense.

The Structural Imbalances in the South African Economy

Why is inflation

endemic in the South African economy? There are both internal and external structural factors which contribute to the presence of inflation in the South African economy. On the external side there is the fact that as a developing economy South Africa is a net importer of goods and services. In the current climate of a low rand the result is quite obviously higher cost of imports, which translates into higher domestic prices.

On the internal side the structural imbalances in the system are many. Firstly there is the political pressures which have come to bear on the closing of the wage gap between skilled and non-skilled labour. There are two dimensions to this problem. In the first instance emerging black trade unions have legitimately fought for the closing of the gap in wages and for the payment of a living wage. On the other hand the emigration of skilled people from South Africa has led to substantial increases in the wages of those left behind. In both cases the increases in wages and salaries have not been accompanied by increases in productivity. As discussed earlier this is inflationary.

Conclusion

Inflation in the South African context is a highly complex phenomenon. In any economy inflation is treated as an undesirable creature whose demise should be pursued at all costs. In South Africa this is also the case. However, the demise of the creature is not so easy. The reason being the structure in which the creature was spawned and continues to be nurtured.

Sowetan 15/6/88

49

Hopeful signs of steady growth

By Sven Lünsche

A probable improvement in South Africa's balance of payments position is likely to result in further steady, but slower growth, according to Standard Bank's latest *Economic Review*.

"Immediate prospects for the sustainability of the recovery appear to depend on the outlook for the current account over the rest of the year," says the bank's economist Nico Czypionka.

Detailing the prospects for the account, Mr Czypionka states that the recent rise in platinum and gold prices from the levels of the first quarter was a hopeful sign, as was the broad-based rise in commodity prices.

"Prospects for lower imports are probably better than indicated by the trade statistics over the first four months, as the sharp rise in volumes can largely be attributed to temporary build-up of inventories, that is unlikely to continue.

"In one respect the recent rise in imports is very promising. The most rapid rises have occurred in machinery and transport equipment, suggesting that a rise in gross domestic fixed investment may be taking place."

Mr Czypionka adds that the value of gold and foreign exchange reserves rose in May, which, in conjunction with indicators showing that the rate of growth in some sectors has levelled off recently, suggests that an improvement in the trade balance may occur. "Some scope probably exists therefore for further steady, but slow growth in the economy."

Government in control of spending ⁽⁴⁹⁾ — Volkskas

Finance Staff 13/6/68

The deficit before borrowing is in line with its budgeted forecast, with the Government exercising firm control over its expenditure.

Writing in Volkskas' *Economic Spotlight*, chief economist Adam Jacobs says that departmental issues are only 8,9 percent higher than a year ago.

Mr Jacobs says: "Should this be the case, it would of course contribute to a lower rate increase in the real gross domestic expenditure in coming months. And to reduce pressure on interest rates from this source could help to protect the balance of payments."

The bank also says there is little doubt that the current account on the balance of payments is inadequate.

Volkskas says: "This is largely attributable to the large increase in imports, which can be directly related to the sharp increase in domestic expenditure."

"The important question is whether high import levels can be maintained. We believe this will be the case for some months to come as imports, in their adjustment, lag behind trends in domestic expenditure. It would seem the latter is now increasing more slowly and that it could even move sideways."

"A greater extent of stock replenishment could, however, be expected, while real fixed investment could increase moderately."

"Substantial pressure on the balance of payments could therefore be expected for some time, which, in turn, could lead to a drop in the the foreign currency reserves and in the exchange rate of the rand, provided that the gold price does not increase sharply in the meantime."

MONEY SUPPLY

The bank concludes that this means a growth in the money supply figures could be above 20 percent over a 12-month period.

Says Mr Jacobs: "The components of bank credit could, however, shift from credit for consumption expenditure to credit especially for the financing of debtors and stocks. In the process, the figures for money supply could therefore contain a large amount of re-intermediation."

The bank says the underlying financial position of the consumer is not strong and, as far as risk and liquidity are concerned, financial institutions will not allow a further strong increase in advances for consumption expenditure.

Mr Jacobs concludes that no further steps should be taken to protect the balance of payments because the weaker position of the individual coincides with a budget which should have a moderately curbing effect on growth and on interest rates which have shown a dramatic rise over the last few months.

A SINGLE economy covering the 12 Common Market countries, and including a European central bank and a common currency, has been called for by Lord Cockfield, vice-president of the EEC Commission and author of the plan to create a single European market by 1992.

In a speech to a Financial Times lunch for the international financial community, he said the single market should be followed by steps to complete "the economic integration of Europe."

"The single currency is what should now be demanding our attention. We will not achieve it by 1992, but it is essential that we should do so as rapidly as possible thereafter," Lord Cockfield said.

Essential, too, is the strengthening of

Call for one economy in Common Market

ALAN OSBORNE
in Brussels

the European Monetary System and full participation by all member states. "Discussion of a European central bank has already started, and the time for a detailed study of this issue has surely come. The future of the European currency unit and its development into the single

currency must then follow."

This bold vision is not shared by Nigel Lawson, Britain's Chancellor, and will strengthen speculation that the government will not reappoint Lord Cockfield to Brussels when his term expires.

While the government supports the liberalisation of the EEC capital markets, it has refrained from joining in the Franco-German enthusiasm for an EEC central

bank, still less the growing demands for sterling to join the fixed exchange rate mechanism of the EMS.

But Lord Cockfield provided some reassurances for the City over aspects of the 1992 single market in financial services. He dismissed fears that the proposed single banking licence would expose London to unregulated competition. The licence would depend on "high" standards of supervision and capital adequacy, and marketing and advertising would remain matters of national competence.

Moreover, Brussels did not plan to supervise the banking market in detail. "We aim to set out the essential principles, leaving the member states to fill in the details," he said.

49 13/6/88

WASHINGTON — In an assessment of the upcoming seven-nation economic summit in Toronto, US Treasury Secretary James Baker said the

World economy in great shape — US

world economy was in better shape now than it had been for any of President Reagan's previous seven summits.

Few new policy decisions are expected during the session because US officials don't want to upset financial markets in the middle of a presidential election campaign and because US allies would prefer to wait and deal with Reagan's successor.

In a recent interview, Baker said he wouldn't let widespread reports that he was about to leave his post to join George Bush's Republican presidential campaign distract him from giving his full attention to the economy.

The economic summit, the 14th in as many years, will provide a forum for the leaders of the US, Japan, West Germany, Britain, France, Italy and Canada to map out strategies to promote world growth.

But because the world economy is doing surprisingly well now, world leaders see no reason to launch any grand new initiatives at the three-day meeting, which begins June 19.

"I think the world economy is in the best shape that it has been in going into any of the eight economic summits that I have attended with President Reagan," Baker said. — Sapa-AP.

49
Baker
12/5/88

Tourism, retail and manufacturing boost

(49) 6/10/88
13/6/88

Economic surge brings good times

GRETA STEYN

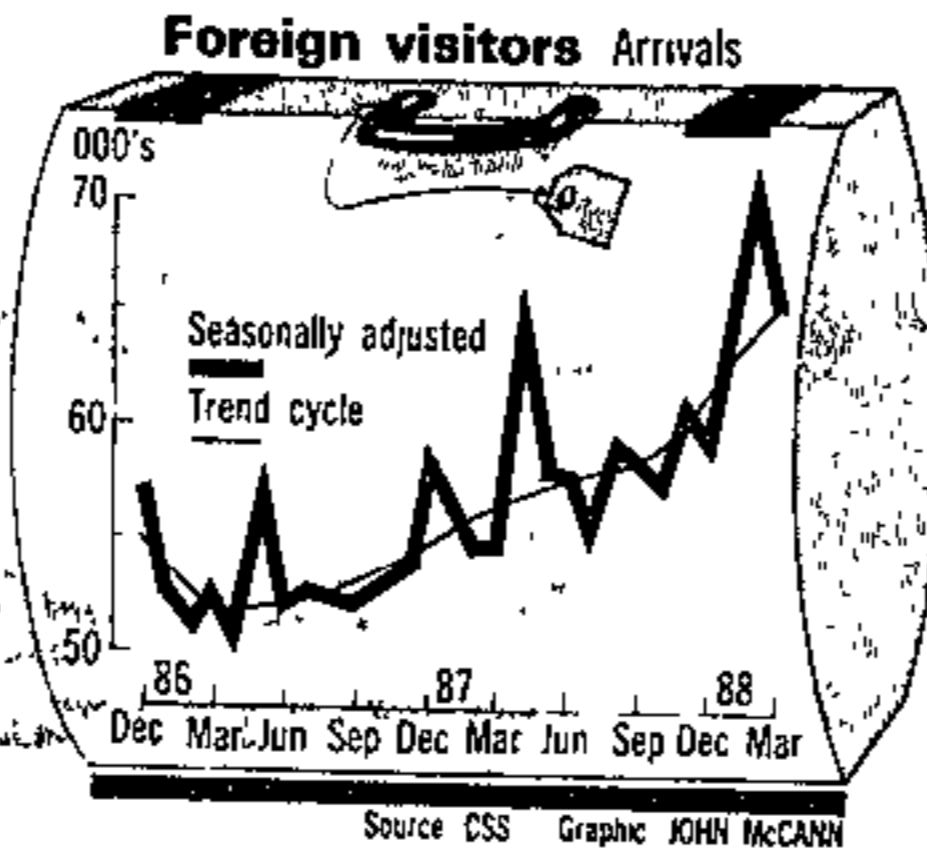
THE surge in economic activity in the first four months of the year has meant a boost for tourism, ringing tills for retailers and better times for manufacturers.

Latest Central Statistical Services (CSS) releases provide more evidence that the economy neared boiling point earlier this year, leading to a package to cool it down.

It is not yet clear whether demand has weakened, but some retailers and banks report quieter times may be here.

The tourist industry benefited from the upswing, with hotels in most categories increasing real incomes and room-occupancy rates from last year.

Hotel income increased by 21.5% in the year to March 1988 — beating the inflation rate. Only one-star hotels fared poorly, while



four-star hotels did the best, increasing income by 41.9%.

While increasing room-occupancy rates, hotels also did more business with tourists and less with permanent residents. The number of room-nights sold to tourists was upped by 9%.

Foreign tourism figures confirm the good times experienced by hotels in the first quarter of 1988. Foreign visitors who arrived in SA during March increased by 17.8% compared with the same month

last year. Visitors from Europe, however, increased by 46.9%.

CSS figures also show the surge in retail sales continued in April, with preliminary sales figures higher than those recorded in March. Real sales were 5.2% higher than March (seasonally adjusted) and 8.7% more than the previous year. However, a survey conducted by the CSS indicates retailers expect a slight decrease, in real terms, in May from April.

Retail sales advanced by 3% in the first quarter this year from the last quarter of 1987, on a seasonally adjusted basis.

In the manufacturing sector, the value of sales for February this year increased by 17.4% from the previous year — well above the inflation rate. The largest increases in sales figures were recorded by the motor vehicle (48%), transport equipment (64%) and professional and scientific equipment industries (33%).

'R30bn will be lost in foreign reserves'

DURBAN. — The net loss of foreign reserves as a result of sanctions and disinvestment will total some R30bn by 1990, Trust Bank MD Chris van Wyk said yesterday.

Speaking at the annual conference of the SA Institute of Chartered Accountants, Van Wyk said the cumulative net capital outflow of R20bn in the form of disinvestment and debt repayments which had occurred since mid-1984 would probably rise further to R25bn by 1990.

"Add to this an estimated cumulative export

loss of R10bn, subtract a saving of about R5bn in interest and dividend payments, and the total net cumulative loss of foreign reserves due to sanctions and disinvestment will amount to some R30bn by 1990.

"Apply the relevant multipliers to this huge loss of foreign exchange and one arrives at a substantial cumulative loss of productive economic activity by 1990.

"This implies that by then the average South African could be as much as one-third poorer than he or she would other-

wise have been.

"Constraints imposed by the balance of payments apparently limit SA's annual real economic growth rate to at best the population growth rate — too low to create net new employment.

"Consequently, SA apparently has to accept reducing annual increases of 200 000 in total unemployment — an additional one million jobless every five years.

"That is the stark, sombre reality confronting us."

Van Wyk said a new strategy, headed by a

team of the State President and the private sector, was needed to break the economic log-jam and the dire potential of higher inflation and unemployment.

He outlined a six-point programme that would create work and increase output in many areas as well as solving some of the problems facing SA.

● There was need for a national housing drive that would encourage the supply of basic building materials and spread over into household

goods.

● An accelerated drive to provide electricity for everyone.

● This could be linked to 'televising' the nation, providing audio-visual education which could help to diminish the unacceptably high birth-rate.

● Importers should be making greater use of supplier credit.

● The development of a vibrant jewellery manufacturing industry.

● The further expansion of tourism. — Sapa

Sanctions cost will be R30-bn by 1990

Start 10/6/88

44

DURBAN — The total net loss of foreign reserves as a result of sanctions and disinvestment will total some R30 billion by 1990.

Explaining this in an address to the eighth National Congress of Chartered Accountants in Durban yesterday, Mr Chris van Wyk, managing director of the Trust Bank, said the cumulative net capital outflow of R20 billion in the form of disinvestment and debt repayments since mid-1984 will probably rise further to R25 billion by 1990.

"Add to this an estimated cumulative export loss of R10 billion, subtract a saving of about R5 billion in interest and dividend payments, and the total net cumulative loss of foreign reserves due to sanctions and disinvestment will amount to some R30 billion by 1990.

"Apply the relevant multipliers to this huge loss of foreign exchange and one arrives at a substantial cumulative loss of productive economic activity by 1990.

"This implies that by then the average South African could be as much as one-third poorer than he or she would otherwise have been."

"Constraints imposed by the balance of payments apparently



Chris van Wyk — "People will be one-third poorer than they would otherwise be."

limit South Africa's annual real economic growth rate to at best the population growth rate — too low to create net new employment.

"Consequently, South African apparently has to accept recurring annual increases of 200 000 in total unemployment; an additional one million jobless every five years.

"That is the stark, sombre reality confronting us." — Sapa.

S
I
C
g
r
n
S
a
p
a
f
d
\$

Sanctions cost will be R30-bn by 1990

Stev 10/6/88

2/22

44

DURBAN — The total net loss of foreign reserves as a result of sanctions, and disinvestment will total some R30 billion by 1990.

Explaining this in an address to the eighth National Congress of Chartered Accountants in Durban yesterday, Mr Chris van Wyk, managing director of the Trust Bank, said the cumulative net capital outflow of R20 billion in the form of disinvestment and debt repayments since mid-1984 will probably rise further to R25 billion by 1990.

"Add to this an estimated cumulative export loss of R10 billion, subtract a saving of about R5 billion in interest and dividend payments, and the total net cumulative loss of foreign reserves due to sanctions and disinvestment will amount to some R30 billion by 1990.

"Apply the relevant multipliers to this huge loss of foreign exchange and one arrives at a substantial cumulative loss of productive economic activity by 1990.

"This implies that by then the average South African could be as much as one-third poorer than he or she would otherwise have been."

"Constraints imposed by the balance of payments apparently



Chris van Wyk — "People will be one-third poorer than they would otherwise be."

limit South Africa's annual real economic growth rate to at best the population growth rate — too low to create net new employment.

"Consequently, South African apparently has to accept recurring annual increases of 200 000 in total unemployment; an additional one million jobless every five years.

"That is the stark, sombre reality confronting us." — Sapa.

Fast Soviet Singlety

28/9/01 N/S

Gold

London close \$455,45 (\$457,85)
 New York close \$456,75 (\$456,00)
 Hong Kong open \$458,05 (\$456,60)

JSE

Overall 1725 —20
 All Gold 1311 —33
 Industrial 1593 —1

Forex reserves improve just in time

R400-m of 'netted' debt will be paid next week

Star 10/6/88 (49)

By SvenLünsche

South Africa's first rise in its foreign exchange reserves since January this year came just in time to facilitate the repayment next week of R400 million of foreign debt falling inside the standstill net.

The five percent rise in the total gold and foreign exchange assets in May to R6,2 billion, allowed the country to repay the debt without depleting its already hard-pressed gold reserves.

Under the terms of the second debt rescheduling agreement, hammered out by South Africa and 34 creditor banks in March last year, this will leave the country with just over half of its \$1,42 billion debt commitment to meet by July 1990.

In the second half of this year a further \$200 million will have

to be repaid, followed by \$346 million next year and \$166 million in the first half of 1990.

Once these payments are met, South Africa still has about \$11,5 billion "frozen" under the August 1985 debt standstill agreement, while about \$9 billion of official debt outside the net will have to be made on the original maturing dates.

Pressures

Repaying \$712 billion within two years might seem an easy task, but recent pressures on the balance of payments through a surge in imports have put a big question mark over the country's ability to meet its capital commitments, including the interest accruing on the debt.

Initial repayment estimates

were based on a current account surplus of \$1,5 billion this year, assuming an average gold price of \$450. The latter assumption could hold true, but economists have already indicated they would be happy with a surplus of \$1 billion during 1988.

Pointing out that May's increase in forex and gold reserves in dollar terms translates to only a \$100 million rise to \$2,8 billion, Trust Bank notes in its latest forex report that the continued decline in the physical gold holdings is cause for concern.

"The amount held by the Reserve Bank dropped to 5,39 million ounces from 5,646 million ounces at the beginning of the year. This decline was not reflected in the figures, as gold accounted for R4,94 billion of reserves in May against

R4,913 billion in April, mainly due to the sharply higher rand gold price value — R916,71 per ounce versus R870,14 in the previous month," Trust Bank says.

"Apart from the improvement in the gold price, possible higher gold production volumes could contribute to higher foreign exchange holdings supporting the balance of payments and possibly improving prospects for the rand.

"However, if domestic expenditure and imports continue to rise and the gold price and gold production volumes weaken, the balance of payments and the exchange rate could remain under pressure for the remainder of 1988," the Bank writes.

"On balance, an improvement in the balance of payments would seem to be in sight for the second half of the year."

The levers of power for all are economic as much as political

Star 8/16/86

49

INDUSTRIAL AND SOCIETY

The Urban Foundation has adopted certain values against which it constantly tests both its policy and its developmental work. I believe that outside of radical circles on both the left and the right these values represent a consensus among thinking South Africans on what a future dispensation should contain.

These requirements are:

- A system which provides for inclusive (instead of exclusive) decision-making.
- A common destiny. It requires a move away from the emphasis on group differences.
- Economic growth and equitable distribution. It is necessary for faster economic growth.
- Justice and civil liberties. It is necessary to reverse the erosion of the principles of justice.

On the issue of inclusive decision-making and its implicit commitment to a democratic form of government, it is as well, however, for us to be realists.

Exploitable demands

In societies with large masses of undifferentiated need, the popular demands on government are immediate and powerful — and very easily exploitable by democratic opposition to the point that no government can enjoy the security to pursue its longer-term priorities.

Hence, in many parts of the less-developed and developing world, democracy fails. These societies are not possessed of moral failings or political immaturity. Democracy simply has to carry too large a burden to survive. One-party states are often the inevitable outcome.

One-party or other non-competitive systems encourage over-centralisation of power and severely reduce the motivation of governments to address problems of development with urgency and commitment. These societies lose the cutting edge of motivation for development. Hence the dilemma; many

societies cannot afford democracy yet even less can they afford not to have it. South Africa is a prime contender for this contradiction in terms in its future development.

We are slowly — far too slowly for many, too slowly for some — moving towards a more open society with wider participation. The possibility of achieving democratic forms in a future open society depends on the development of our presently less-developed and under-privileged mass populations.

Unless development can ensure that South Africa's black communities are not exclusively reliant on the political system for their welfare and progress, we will also run the serious risk of ending up as a one-party state.

A balanced society is one in which politics is not seen to be the cure for all ills. It is a society in which there is community self-reliance in the processes of problem solving. Hence what I term an economic "franchise" must accompany political participation.

It is vital for Black "economic enfranchisement" to accompany political participation, says Mr Jan Steyn, head of the Urban Foundation. These are extracts from an address to a congress of chartered accountants in Durban today.

What we have achieved thus far: Trade unionism: Black unionisation is approaching European levels and is well above the proportions typical of most developing countries, and certainly of most African states ... Many black workers now possess a means of articulating their material demands without depending entirely on hopes of political liberation. Housing: The urban reforms of recent years, which the Urban Foundation has been privileged to help to



In many parts of the world, democracy sometimes has to carry too large a burden to survive, warns the Urban Foundation's Mr Jan Steyn.

achieve, have launched the process of economic empowerment of blacks in developments which are quite as meaningful as the labour reforms out of which black trade unionism grew.

First, the 99-year-leasehold system and, in 1986, the extension to blacks of full ownership rights, by opening doors to home-ownership and its associated benefits, has brought possibilities of wealth accumulation to ordinary black people for the first time for many decades.

However, even at existing levels of demand, the shortage of suitable land for housing in urban industrial areas is critical. A further problem is that, even where opportunities to purchase homes open up for blacks, these will be expensive relative to the cost and quality of homes in the older, more established white residential areas, and they will inevitably be further away from places of work.

The cost of new land and home construction is such that value equivalence with established areas is not possible. Therefore, due to the late entry of blacks into the housing market, they will be disadvantaged.

Success story

For these reasons, among others, home-ownership, like trade unionism, will not provide a panacea for mounting political frustrations. Until the Group Areas Act is removed and further informal impediments to black entry into white areas are overcome, home-ownership will be perceived as an unequal game perpetuating white privilege.

Small business: The emergence of small black business is the third aspect of economic empowerment which is proceeding apace. Some examples can be given. There are presently some hundreds of thousands of black-owned shops, service industries and, to a lesser extent, manufacturers in South Africa's formal sector.

One of the greatest success stories is that there are approximately 45 000 black taxi-operators registered with the SA Black Taxi Association and a further estimated 60 000 to 120 000 informal operators.

We are aware that the Government has passed legislation enabling the State President to suspend inhibiting business regulations and is actively investigating the deregulation of business activity to expand opportunity for small businessmen who perforce have to operate at lower standards. A number of urban

authorities have moved to remove restrictions on hawkers and vendors.

The concept of deregulation is well established. Actual deregulation has not yet emerged on a comprehensive scale, but the breakthroughs could come quite rapidly from now on.

A massive contribution to the development of black business is the now impressive range of over 30 organisations sponsoring and promoting small entrepreneurship. These include the very successful Small Business Development Corporation, 10 regional development corporations in the homelands backed by their governments and by the Development Bank of South Africa, and several private organisations supporting black business, including the Urban Foundation, the Equal Opportunity Council, the "Get Ahead" organisation, and many others, including initiatives by individual private companies.

Various problems remain. The Group Areas Act is one. Other impediments are the fact that black small businessmen still lack adequate access to capital and credit. Blacks also lack training and experience.

What is needed first and foremost is a higher level of growth in our economy as a whole.

We simply cannot afford to be satisfied with levels of real GDP growth of 2 to 3 percent, which is about the best that our economic performance over the past decade would suggest. Each year that our economy grows at less than 4.5 to 5 percent in real terms, the number of unemployed and under-employed black people increases.

Capital needed

A growing economy needs a net inflow of foreign capital; instead we have a growing clamour for sanctions abroad which makes it more difficult and more expensive for South Africa to obtain foreign capital and credit.

Slow economic advancement among blacks, with its corollary of a frustrated and resentful black labour force, will in the end reinforce the basic perceptions which underlie apartheid. This is the vital appreciation which is missing in the thinking behind the external sanctions campaigns.

If the energy and expense currently going into the sanctions campaign were to be redirected to promote and assist black business, professional and labour associations in South Africa, concerned South Africans with a sense of responsibility would feel obliged to match the efforts with complementary endeavours.

It is quite clear that most whites have ceased to believe in absolute power for the white minority, notwithstanding their hesitation about how to share power. They are hardly likely to respect demands for absolute majority power. The government could never achieve what is often demanded of it — its constituencies will not allow it.

For these reasons I would like to appeal to those in South Africa who seek to promote fundamental change, to formulate demands which most whites, however reluctantly, will have to concede as being justifiable in terms which are not destructive of or inimical to reasonable minority interests.

In the same way concerned community leadership should consider formulating its demands, however tough they may be, around concrete social and economic issues and around political changes which are stages in a realistic programme for the extension of democracy.

Our major responsibility is to redress inequality of opportunity. If we want stability and growth in our society and the basis for an eventual democracy which protects us all, then black economic empowerment is a fundamental duty we dare not shirk.

Fears lessen about growth in money supply figures Star 8/6/88 (49)

By Sven Lünsche

Fears of a surge in the growth of money supply have been lessened by figures pointing to a decline in the velocity of circulation of money in the first quarter of the year.

Monetary authorities have been extremely sensitive recently about news pointing to an overheating economy and the re-igniting of inflation, such as a sharp growth in money supply figures.

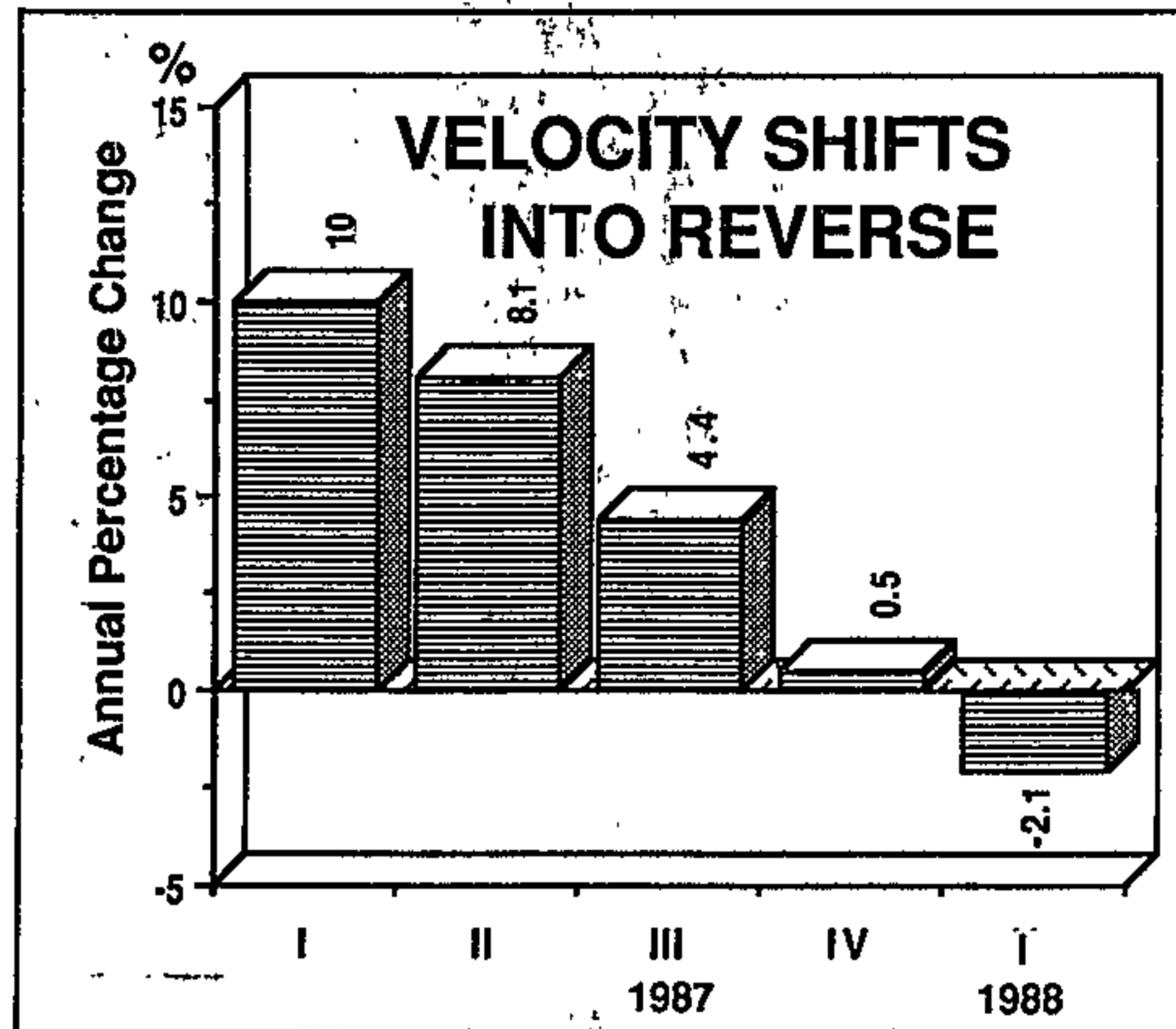
But the Reserve Bank should get some comfort from the fact that the income velocity of circulation of money — the number of times each rand circulates in a year — actually contracted in the last quarter.

Normally, a larger money supply is associated with a stronger economy and higher inflation. But if the velocity actually falls, each rand supports less business activity.

Economists define velocity as the ratio between nominal gross domestic product (GDP) and M3, the broad money supply measure.

In the first quarter of this year, M3, which includes all private sector deposits with banks, building societies and the Post Office, rose by an annual rate of about 23 percent, compared with 26 percent in the fourth quarter of last year.

Because GDP did not grow so strongly — according to Central Statistical Services GDP growth



at 1980 prices in the first three months of this year was 3,5 percent, compared with 5,3 percent in the previous quarter — velocity declined at an annual rate of 2,1 percent, extending the downward trend evident throughout 1987.

In the first quarter of last year, the income velocity of circulation was a staggering 10 percent. Since then the figure has fallen rapidly, with transactions coming back onto the balance sheets of the banks.

Economists are cautious about reading too much into the decline of velocity as they argue that na-

tional accounts take a while to be worked out and that M3 is very sensitive to technical trends.

But the decline in velocity could mean that the stimulatory impact on the economy and, in turn, on inflation, of recent stronger monetary growth is considerably less than commonly assumed.

This was confirmed in April when M3 slowed significantly to 19,21 percent, according to preliminary Reserve Bank figures.

Bank Governor Dr Gerhard de Kock said earlier this year the authorities would keep a watchful eye on velocity.

Launching the new money supply targets for 1988 in February, he said: "In considering whether policy adjustments are called for, the Bank will, as in the past, pay close attention to the behaviour of actual expenditure and output, thereby taking into account changes in the velocity of circulation of money."

Commenting on the decline in velocity, Deputy Governor of the Reserve Bank, Dr Japie Jakobs, said yesterday the extent of overshooting the monetary targets was actually less than most people had predicted at the time.

"In April we could actually be within the targeted range of between 12 to 16 percent," he said.

"Most observers tend to overlook the possibility of a decline in velocity, and while the national accounts are usually available only much later than the release of M3 figures, markets tend to overreact," Dr Jakobs argued.

Recent comments by monetary officials have indicated that further restrictive measures are not imminent and most economists agree that for the time being the economy should be allowed to follow its own course.

"If the Bank tightens monetary policy much further, while velocity is falling, the economy could slow down faster than the Reserve Bank — or anyone else — may want," one economist said yesterday.

Reserves rise by 5% in May

49 By Sven Lünsche

Total gold and foreign exchange assets increased by some R314 million, or more than five-percent, to almost R6,2 billion in May, the first time since January that the reserves have shown an improvement.

The figures show that South Africa will be able to repay another R400 million within a month to reduce its foreign debt — without depleting gold reserves. The repayment, which falls inside the debt standstill net, will be made next week.

The figures will be welcomed by the authorities as the current account surplus had recently declined to such levels that many economists feared the

country would have problems in meeting its repayments.

Total reserves climbed from R5,878 billion to R6,192 billion in May, latest figures released by the Reserve Bank in Pretoria yesterday show. Gold holdings, which were valued at R916,71 per ounce, rose by some R25,7 million to R4,94 billion in value during May, although in physical terms the reserves declined by about 260 000 ounces to 5,39 million ounces.

Notes in circulation rose from R6,197 billion to R6,406 billion, while the ratio of reserves to liabilities to the public less foreign assets was 71,2 percent at end-May compared with 68,7 percent in April.

Demand for durables is easing off

Star 21/6/88
By Sven Lünsche

The demand for durables will decline towards the end of the year, as consumer demand from the black community is tapering off, writes the Bureau of Economic Research at Stellenbosch University (BER).

In its latest poll conducted among black consumers, BER finds that on average blacks are still anticipating a growing economy, but it was clear, however, that they have, since the middle of last year, began to lose faith in the economy's vigour.

"Black consumers are on balance still expecting their financial position to ease over the next 12 months, but they now also expect their finances to be in a much tighter position than anticipated a mere six months ago," BER writes.

Economists generally point out that black consumers are currently responsible for over 60 percent of the retail food and grocery sales and that this trend will continue in the coming years.

And while increased disposable income is usually spent on luxury goods in the durable and semi-durable sectors, a gradual move to non-durables is evident at times when incomes decline.

"With the worsening of attitudes described above it is not surprising to find that the net balance of blacks regard the current situation inappropriate for the purchasing of furniture or domestic appliances," BER says.

"A lack of confidence together with relatively high interest rates and slower growth in income point towards less keen demand for credit.

Economy growing rapidly ^{(19) 8/10/88} Kantor

THE economy was growing at a far faster rate than generally perceived, UCT's School of Economics director Brian Kantor said.

He said as well the informal sector was making a substantial unrecorded contribution to this growth — possibly as much as 40% on top of measured GDP.

Kantor was addressing delegates at the SA Property Owners' Association think-tank at Kwa-Maritane in Bophuthatswana.

He said the only way to measure the informal sector would be to compare the growing demand for notes against informal GDP or to measure consumption or expenditure.

The streets had taken over as a trading venue. To continue to do business in this burgeoning Third World



● KANTOR

economy, the stagnant formal market would have to move into those regions.

On government spending, Kantor said the state had done a "pretty good" job in holding back its expenditure, growing annually at about 5% in real terms.

He predicted interest rates would rise by 0,5% to 1% by the end of the year, flattening out and falling away by the end of 1989.

Inflation would go no higher than 15,5% through to the end of the next, although there would be a dramatic fall in the rand.

The exchange rate could go to 0,356 and to 0,37 by the end of 1989, based on respective gold prices of \$500 to \$550.

Referring to the tax "illusion", he noted the balance between corporate and personal tax was not as important as many people thought, since the individual consumer ultimately paid almost all taxes. — Sapa.

Economists see signs of cheer on the horizon

Star 6/6/88

49

Finance Staff

It may be that the outlook for the economy is not as dismal as generally considered.

UCT's Professor Brian Kantor believes the economy is growing at a far greater rate than is generally perceived. And according to Nedbank chief economist Edward Osborn, in the bank's latest *Guide to the Economy*, South Africa could still achieve a surplus of R2 billion on the current account of the balance of payments.

Addressing the SA Property Owners' Association (Sapoa) thinktank last week, Professor Kantor pointed out that the informal sector was making a substantial, unrecorded contribution to growth — possibly as much as 15 percent to 40 percent on top of measured gross domestic product (GDP).

The only way to measure this sector would be to compare the growing demand for banknotes against formal GDP or to measure consumption or expenditure. "The street has taken over as a trading venue, providing very real competition for retailers. In order to continue to do business in this burgeoning Third-World economy, the stagnant formal market has had to move into this arena."

Professor Kantor felt the



Mr Edward Osborn

Government had done a pretty good job in holding back its own expenditure, which was growing annually at about 5 percent in real terms.

He predicted that interest rates would rise by 0,5 percent to 1 percent by the end of this year, then flattening out and falling away by the end of 1989. Inflation would go no higher than 15,5 percent through to the end of next year, although there would be a dramatic fall in the rand.

The exchange rate could go to R2,810 to R2,700 by the end of 1989, based on gold prices of

\$500 and \$550 respectively.

Referring to the tax "illusion", Professor Kantor said that the balance between corporate and personal tax was not as important as many people thought since the individual consumer ultimately paid almost all taxes anyway.

Referring to the possible R2 billion surplus on the current account of the balance of payments, Nedbank's Mr Osborn said that although this would be down from last year's R6,2 billion, it would suffice to meet debt repayments over the year.

He said: "The outlook for the year as a whole is not encouraging, but the substantial depreciation of the rand, an improved gold price and a more modest growth rate of domestic demand during the remainder of the year, could result in a surplus of about R2 billion."

However, the trade surplus had already narrowed significantly in the first quarter of 1988 — from R3,3 billion in the final quarter of 1987 to just under R1,9 billion — and a further rapid decline was recorded in April. This compared with a surplus of R3,6 billion in the first quarter of 1987.

"The contraction was largely due to an increased import bill that was 35 percent up over the

year and nine percent higher than in the previous quarter, and a 5,8 percent decline in exports from the first quarter this year, compared with the last three months of 1987," Mr Osborn said.

He added: "The services deficit balance on current account normally runs at just over R2 billion a quarter. This would imply a marginal current account deficit in the first quarter — the first since 1984.

"However, factors such as diamond revaluations and timing adjustments could combine to give a small surplus."

Analysing recent capital outflow figures, Mr Osborn said that a net capital outflow of R1,771 billion was recorded during the last three months of 1987, bringing the total outflow for the year to R3,069 billion, down from R6,097 billion in 1986.

"Of this, R1,698 billion represented long-term movements and the remainder short-term flows and unrecorded transactions.

"This narrowing of the trade gap, together with continued capital outflows, combined to reduce official gross reserves during the year. They fell further in the first quarter of 1988 to R5,88 billion, compared with R6,14 billion at the end of last year," Mr Osborn said.

12% of the market.

MORE optimistic projections for the South Africa economy are emerging.

There is a widespread belief that the Government's new credit curbs were too little too late, but Santam Insurance general manager, investments, Roy Justus is more bullish about the next two years.

He says there is likely to be a stable inflation rate and a return to positive interest rates, lending and borrowing rates only marginally above their present levels.

Sensitive

Mr Justus says in his Quarterly Economy Review that there is a good bit of upward pressure on interest rates. But this is a sensitive area where the authorities will do all they can power to avoid rates rising as high as they did in 1983-1984.

"The smaller businessman and the entrepreneur should, therefore, be able to do some planning, taking the prime overdraft rate at a maximum of around 17% for most of the next two years."

Mr Justus believes that the authorities have done enough to dampen the economy.

"It takes time for measures to work through, and care is needed not to overkill."

"The sudden burst of consumer spending was prob-

Hopes for
STimes
economy
 (49) *5/16/88*
rising

Business Times Reporter

ably only pent-up demand coming into the open, and now the spending spree is over."

He says that even if no new steps had been taken it is possible the economy would eventually have cooled off on its own, although the banks and building societies were "possibly a little too lenient" on granting credit.

Mr Justus forecasts that the inflation rate will level off now and is likely to stick at 13% or 14% -- probably into the 1990s.

"This, in itself, is positive when viewed against the 20% spectre of not so long ago. It also allows for some medium-term planning. I don't see the wild fluctuations which have prevailed in the past."

With the yield on long-term stock 16% or 17%, he welcomes the return to a real return on capital.

He hopes it will result in an increase in real domestic saving.

The case for producing a platinum coin

Finance Staff

The international investment market for platinum is set to receive a fillip in coming months in the wake of the pending introduction of legal tender platinum coins by both Australia and Russia.

The Australians for a start anticipate that roughly 100 000 ounces of platinum a year will be absorbed by the new coin. This once again raises the issue whether South African should introduce its own platinum coin.

At the present time only one country, namely the tiny Isle of Man, is marketing a platinum coin which has legal tender status. This is called the Noble. Yet since platinum production is concentrated in South Africa this has made the Republic the most obvious candidate in the past to market a platinum coin.

Political events

The case for South Africa to adopt such a course of action has been considerably weakened by political events in recent years.

Antagonism towards South Africa is such that the scope for marketing a South African platinum coin in overseas markets would be severely restricted.

The launching of such a coin at this stage could also jeopardise the coin

ventures of Australia and Russia. It could be counterproductive to the development of other legal tender platinum coins.

Even so, this still leaves open the question of developing a South African legal tender platinum coin for sale primarily, if not exclusively, in the local markets. This is an option which raises numerous issues.

It can be argued that any decision to monetise platinum in South Africa would set a precedent, and could lead to pressure being exerted on the government to recognise legal tender coins based on other metals.

Even the idea of platinum being used as a coin in general circulation and employed, if necessary, to pay for goods and services, is not readily accepted.

In addition, the Reserve Bank has been reluctant to agree to the launching of a platinum coin because this would commit the Bank to buy the coins at market price. The central bank has not been keen to hold platinum as part of its reserves.

The metal is not a traditional international reserve asset, and it is not as usable in the international monetary system as gold.

These arguments are not particularly convincing. For instance, silver like platinum does not possess the same status as gold as a reserve asset, but

this has not prevented important silver producing countries such as Mexico and Peru keeping part of their foreign reserves in the form of silver.

Moreover, opposition to platinum coins with legal tender status on the grounds that they are not suitable as a medium of exchange would appear to be a pedantic argument.

In reality legal tender gold coins such as the Kruggerand are not employed for everyday transactions, and the same would apply to platinum coins which are classified as legal tender coins.

There are indeed several powerful arguments to support the introduction of a legal tender platinum coin in South Africa.

Excess production

Firstly, platinum medallions have been available in the Republic for a number of years, but the premiums over the international platinum prices are substantial. A legal tender platinum coin sold at a modest premium would have much greater investment and numismatic value.

Secondly, although disputed there is a danger that by the early 1990s the global market for platinum will be characterised by excess production in view of the increases which are planned by South African producers.

By that time around 30 tons of additional platinum could be going on to the market. A major slump in the price could eventuate unless new sources of demand emerge. One such source could be sales of platinum coins in South Africa.

At the present time only 300 000 new Kruggerands can be legally sold in South Africa each year. This represents a mere 0.5 percent of world gold sales, and has no influence on the gold price.

On the other hand, a similar number of platinum coins sold locally could significantly underpin the much smaller platinum market. Such sales would amount to roughly 10 tons which compares with annual global production of platinum of around 90 tons, of which South Africa produces roughly 80 tons.

Thirdly, the diversion of some platinum output to the local market for coinage would bolster the platinum market in a similar manner to the withholding of South African platinum supplies from world markets as retaliation for economic sanctions, on this country.

Such diversions of platinum, however, would not entail the serious disadvantages which platinum sanctions would bring to the fore in the form of frantic attempts by overseas platinum buyers to find new sources of supply independent of South Africa.

Economy growing more strongly than expected

Star 1/6/88

49

By Sven Lünsche

Economists are optimistic that a growth rate of three percent can be maintained for 1988, although some sectors might feel the effect of the recent economic stabilisation measures taken by the authorities.

Their optimism is largely based on a number of statistics which show that growth in the first quarter was even higher than originally anticipated.

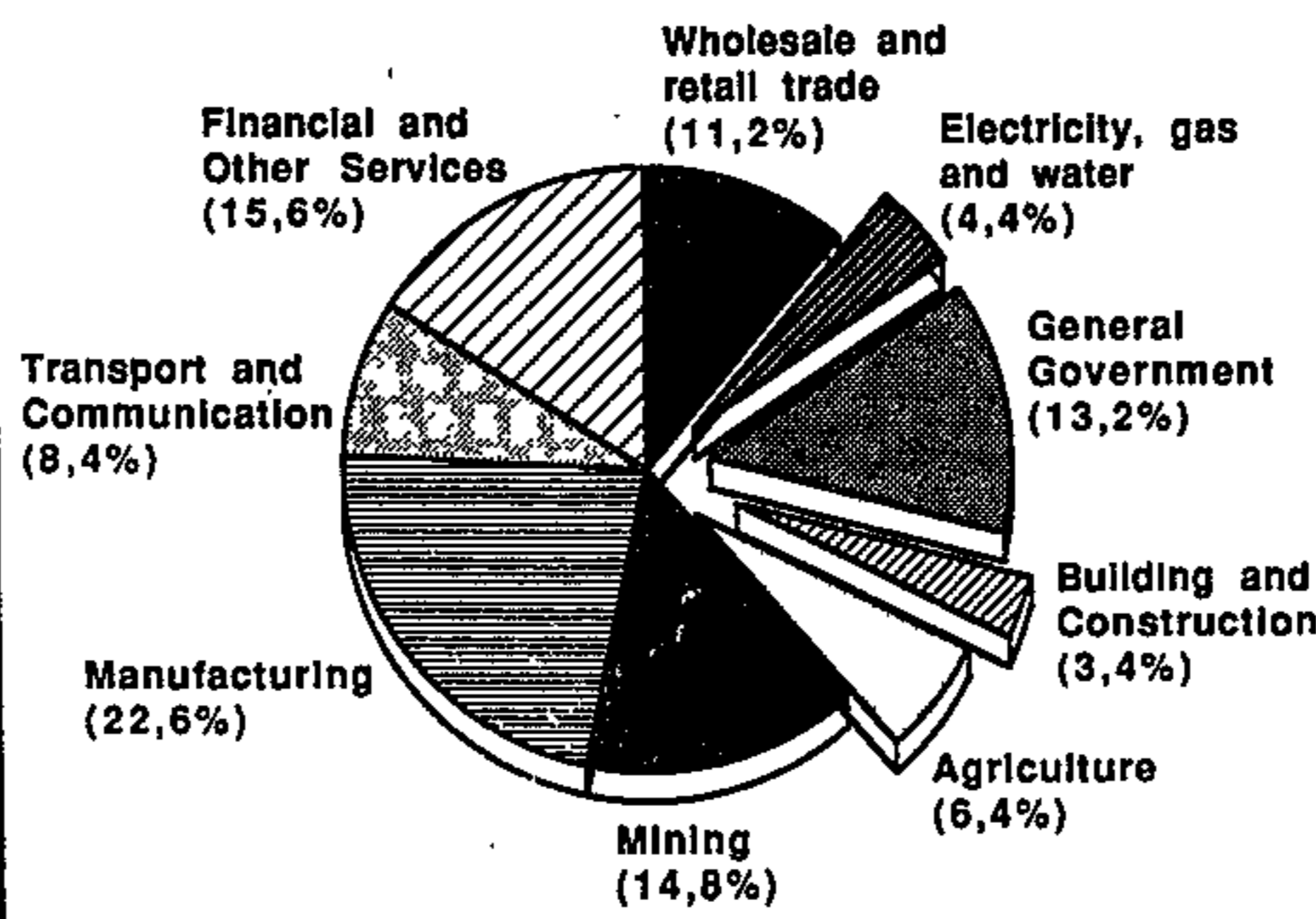
The Central Statistical Services (CSS) reported on Monday that the volume of manufacturing production rose by 6,4 percent in the first quarter of this year compared with the first three months of last year and was also 2,6 percent up on the last quarter of 1987.

Other figures to confirm this trend are the 22,6 percent rise in the M3 monetary aggregate — despite a lower rate of growth in April — a 31 percent rise in imports during the first four months and stronger fixed investments.

Taking the tremendous surge in consumer expenditure into account it is now assumed that the CSS' initial GDP growth forecast of 3,6 percent in the first three months of the year could well be revised to four percent soon.

Commenting on these figures Trust Bank economist Ulrich Joubert says: "The economy has

Relative contribution of various sectors in 1987



The pie chart shows the contributions of various sectors to overall growth during 1987. Significant is the contribution of the manufacturing sector which is expected to show even further improvement this year, while the contribution of the mining industry, the pillar of the country's economy, is falling.

grown so strongly in the first half of this year that a real growth rate of around three percent can be achieved for the year, even if the second six months produce no further expansion."

Writing in the bank's latest *Economic Report* he provides a detailed sectoral analysis of growth prospects and expects that certain economic sectors could experience a moderate

decline in activity during the second half, in response to higher rates, low public sector salary increases and other restrictive measures.

Mr Joubert nevertheless expects that total real personal consumption expenditure will register a small increase of about three percent for 1988 and coupled with an expected five percent rise in fixed investment should provide a further injection

for the economy.

"Higher spending would comprise a moderate improvement in the consumption of services and non-durable articles, stable spending on semi-durable products and lower purchases of consumer durables," he writes.

Durables in particular would be affected by tighter credit, higher interest rates and stricter credit finance regulations and Mr Joubert expects a decline in motor car sales in the second half.

The continued growth foreseen in housebuilding activity will benefit the production and sales of building materials, while building and construction industry should perform better in the second half, due to black residential expansion and expansion in mining.

Mr Joubert says that total government expenditure will show little change in real terms, but some import-intensive and credit-based spending components — like motor car sales and investment spending on machinery and equipment — can decline in real terms.

The other major primary sector, agriculture, should also show better production volumes given the good summer rains, but profitability will not show further growth, given higher interest rates, over production of grain and possible price cuts.

Addressing

problems

of black education

50

Soweto
12/1/74

A NUMBER of interesting things have been happening in education over the past few days and many more are lined up for the next few days. I was delighted on arrival from Harare on Sunday to hear that some parents and teachers had met at Funda Centre to discuss the education crisis and that some school principals had formed a committee to address the problems of education.

tions. Our concern is that they are not doing enough because there are many people who are for one reason or another, not involved.

We want to stimulate those into doing something even within the constraints of apartheid. We just want to break the culture of silence among our people by creating a forum for more constructive debate on education.

We must remember that the Government will not easily change the system of education because our concept of education is totally opposed to that of the Government.

We are not therefore, suggesting that we give up the fight. We suggest that while the fight for a complete overhaul of the system goes on, we should be doing something that will make education just good enough to sustain us.

We believe that our effort will conscientise people into adopting constructive ways and means of changing our education system.

Right now, we boycott schools and condemn Bantu Education for training us to be drawers of water and hewers of wood. But we have not spelt out exactly what we want as an alternative.

Change

We need to change our perceptions of what education is and what is to be expected of educated people in our community. The perception that to be educated means being a professional with a string of university degrees has to be outgrown because it makes many people who cannot go to university feel inferior and that they are useless and have no contribution to make towards nation-building.

We have no plumbers, carpenters or electricians in the townships. But there is a high rate of unemployment and very few of the youngsters who roam the streets will be too keen to learn those skills they look down upon.

Shouldn't we do something about this for a better future for our children?

What was even most delighting was that pupils were also at that meeting and they pledged their co-operation and support for what their parents and teachers were doing.

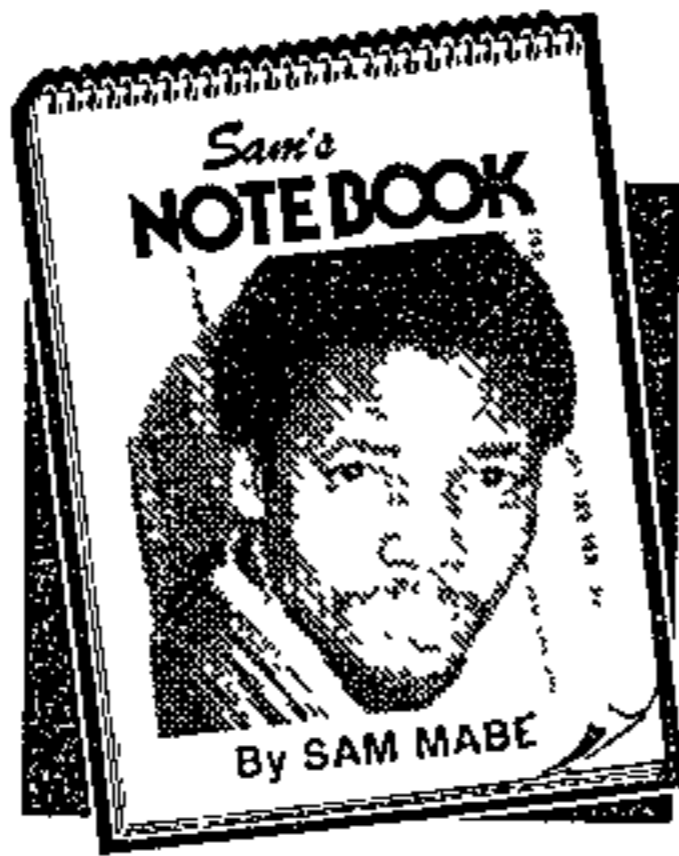
Another meeting of parents was held somewhere in Orlando East on Sunday where the same issue, including the rebuilding of Orlando High School, was discussed.

In Harare, the National Council of Trade Unions met with the Black Consciousness Movement of Azania and among other things, they discussed education.

They did not mince their words in condemning school boycotts. I was told the PAC and the ANC are also opposed to school boycotts and would encourage any effort to get every child into the classroom.

We should remember that if and when liberation comes, many whites are going to leave the country and we will not be able to take their jobs unless we are educated and skilled.

Like it happened in most African countries, we will have to recruit



skilled personnel from overseas at exorbitant salaries. But even if whites don't leave, the new government will inherit all sorts of problems we might only be able to solve if we are educated.

Take unemployment in the black community as an example. If the new government does not wave a magic wand to provide jobs, there will be trouble in the townships.

Start now

We must start now to reduce our dependence on whites for employment. We must instead, learn to create jobs ourselves and this can only be possible if we increase our knowledge and skills by using the slightest available opportunity to learn.

On Saturday, there will be two other meetings to discuss education in Soweto. One will be by parent members of parent-teachers associations in Diepkloof and the other one, will be a brainstorming session with selected personalities in the field of education.

We are not going to engage in any form of flag-waving, neither do we intend forming a political organisation, or compete with or to replace existing groups that are also working towards the resolution of the education crisis.

We know there are many such organisa-

WOMAN

Some reject literacy

SO

Sowetan 4/7/88

MILLIONS of black South Africans are illiterate — particularly those in the rural areas.

According to Mr Gugu Ngema, co-ordinator of the Lembede Mda Foundation's literacy project which runs literacy programmes for hostel-dwellers in Soweto, most rural people see education as something that undermines their culture and value systems.

"Most of them rebel against it because of a historical perception that it was meant to co-opt them into white culture," Mr Ngema says.

"This attitude was sparked by the missionaries who introduced literacy to this part of the world. They did not accept, for example, their pupils in traditional clothes.

"They insisted that they discard their *beshus* for trousers when they went to church and expressed contempt for their culture. This alienated the lot that had

strong cultural beliefs and encouraged a rebellion against education.

"They saw it as something foreign. Something that they had

to avoid lest it tainted them."

Mr Ngema says that the teacher-centred approach is also another factor that leads people to rebel against education.

"Some people believe they have the right to determine the direction of their education. They feel that the formal method of teaching in our schools undermines their intelligence. They want to participate in the classes and have a say in what they are taught."

Mr Edward French, of the Human Science Research Council, believes that the tendency to treat literacy as a "technological medicine" that can be used to eliminate illiteracy is wrong.

"Literacy should be considered as something that people create, make sense of, partake in and grow in. It should be approached with due regard to the problems encountered in the real world — poverty, repressive politics and cultural distortions."

Bop intensifies TV use as school instruction medium

City Press 3/7/88

109

50

By BONGANI HLATSHWAYO

THE use of television as a medium of instruction in Bophuthatswana schools has been intensified.

Bop TV is now teaching schoolteachers how to use the techniques better to help pupils.

This has been organised by Jackie Phaka, 33, a teacher for nine nine years before she joined Bop TV in 1985.

This Turfloop BA graduate said the poor standard of teaching at rural schools brought about the introduction of television as a medium of instruction.

"All the schools in Bop have television sets, but there are not enough - at the moment there is one TV for every 750 students," she said.

Phaka returned last month from a four-

month trip to the US, where she studied TV teaching techniques.

"I will be conducting workshops for teachers on how to use television, but this is not intended as a threat to their jobs, as some of them think. The system is merely being implemented to 'make ends meet,'" she said.

Bop began by using programs from overseas, but had started producing their own, said Phaka, who liaises with teachers before the programs are screened, so they can record them for use in their classes.

"I wish the teaching staff could hang on and be patient, because we are working on a small budget. But things will be better soon," said Phaka, a mother of two children, a boy and a girl.

Take the high road

50

Sowetan
1/7/88

AN integrated system of education, free from prejudice, would result in unity, justice and democracy in South Africa, the assistant director of the South African Institute of Race Relations, Mr Mondli Kunene, said this week.

Speaking at a symposium in Märtizburg, Mr Kunene appealed to the Government to open education to all races and to big business to finance the building of private schools.

"Unity, non-racialism, justice and democracy will continue to elude us whether a white man or a black man is in power if we ignore education — especially integrated education."

Shock

"It is the high road to unity — now or never," Mr Kunene said.

He said dictatorship and undemocratic practices would always flourish where the majority of the people were illiterate and backward.

Mr Kunene lambasted the 1909 British Government for having "fanned the flames of this country by failing to ensure the inclusion of blacks in the 1910 constitutional dispensation."

Mr Kunene also attacked those who called for school boycotts while calling for "liberation now, education later."

'Catch-22' for SA

By AUDREY D'ANGELO
Financial Editor

SA is in the "Catch-22" situation of needing sustained 5% growth to provide employment and raise standards of living for its growing population but not being able to afford this while it is a net exporter of capital and unable to borrow overseas.

Pointing this out Old Mutual chief economist David Möhr — whose monthly Economic Monitor stresses how seriously the deficit on the balance of payments will restrict economic recovery — said at the weekend that the financial sanctions against SA were far more

effective than trade sanctions. Although their effects could be lessened if South Africans changed their lifestyles, with less emphasis on imports such as video machines and more import substitution and inward industrialisation, growth would still be too little.

He admitted that the only real longterm solution was a political one which would enable SA to obtain an inflow of foreign currency.

In the Monitor — released yesterday but written before the 1% rise in the bank rate last week — Möhr points out the dominating influence of balance of payments trends on the domestic policy-making process and the overall performance of the economy.

"Judging from past experience, maintaining a surplus on the current account of the balance of payments has had a progressively more suppressing effect on the domestic growth rate."

Stressing the importance of exports, he continues: "In the absence of regaining full access to international money and capital markets our potential growth rate can be increased only by means of improving our export performance and/or reducing our dependence on imports."

"As far as our export potential is concerned, every effort should be made to diversify our mix of exports placing greater emphasis on manufactured exports."

"On this score, the outstanding achievements of the Asian economies should serve as an example. Furthermore the authorities should ensure that the level and behaviour of the exchange rate at all times encourages export activity."

Möhr says that a shortage of skilled labour could also curb growth in this country.

"Although skilled labour shortages are not yet posing a serious constraint at this stage the demand for such labour has increased noticeably over the past year. In the past the supply of skilled labour was supplemented by a strong immigration flow, a possibility which seems limited under present circumstances"

AS South Africa's beleaguered currency once again approaches its all-time post-Rubicon low, the economic alarm bells are starting to ring in the corridors of Pretoria.

And if a nation's economic health is to be measured by the state of its currency — an international accepted yardstick — then the South African Government's economic planners need to take urgent action to prevent an ailing patient from becoming terminal.

It is three years since the State President delivered his ill-fated Rubicon address — an event which dashed confidence in the country's political and economic future and sent the rand plunging from US 53c to a US 38c trough in the short space of five months.

At US 41c, the rand is challenging that low, thereby questioning the sustainability of the current economic upswing and casting doubt upon authoritative statements that the economy is inherently sound enough to afford a rising standard of living for all its people.

Any solace that might be taken from a rand still above its post-Rubicon slump is confounded by the revelation that against all other major currencies it is at its worst-ever level.

Thus, at the end of 1985:

- You need R380 to buy £100 sterling. Today you need R420 to buy the same amount of British currency.
- You got one German mark for one rand. Today you get a mere 0,76 marks for your rand.
- You bought 80 Japanese yen for one

GOVT IS URGED TO ACT QUICKLY

32/88
49
Sowetan
3/8/88



Sowetan Correspondent

rand. Now all you get is 54 yen.

Nor is the rand's collapse confined to the past three years. Its weakness is endemic, for, going back to the beginning of 1981, the rand has fallen 68,5 percent against the American dollar, 62 percent against sterling, 72 percent against the mark and a massive 80 percent against the yen.

The implication is that in the last seven-and-a-half years, the South African economy has worsened by an average 71 percent relative to the world's major industrial nations.

Confidence in South

Africa's economic outlook, it seems, is confined to a few economists and businessmen who can't or won't accept reality.

It must be recognised that much of the rand's sickness stems from political factors. National Party policy has hardly endeared itself to foreign investors.

Symptoms

Yet the two factors at work — economics and politics — are symptoms of the same malady, with the economy being bled in order to maintain a political system which is anathema both to the international community and to most South African citizens.

Financing an increasingly bloated bureaucracy to police the political system has necessitated growing demands on taxpayers. Standards of living have collapsed in the face of double-digit inflation propelled by a mammoth shift in scarce

Rand's weak state stems from political factors



PRESIDENT Botha... Rubicon speech.

resources from an efficient private sector to a bungling public sector.

And the collapse in the value of the rand has unfolded in tandem with mushrooming State expenditure, rocketing taxation and soaring inflation.

It is difficult to comprehend that a relatively short 18 years ago, inflation was running at an annual rate of 3 percent.

That was when the Government was happy to allow the private sector to get on with the business of wealth creation. It was a time when the consumer enjoyed a measure of the after-tax disposable income that today goes into the taxman's insatiable maw.

The alarm bells are reaching crescendo proportions because South Africa's gold and foreign exchange reserves are shrinking rapidly.

A substantial portion of the country's gold holdings has had to be pawned to service and repay foreign debt — a drain exacerbated by the dwindling value of the rand, since every decline in the rand's value means

the nation has to work that much harder to earn the income needed to pay for its imports.

Capital from overseas is not forthcoming and further large loan repayments are scheduled for next year.

The economic recovery must be truncated to ensure that the rising trend in imports is reversed, thereby conserving the foreign exchange needed to service and repay foreign loans.

It is for this reason that Thursday saw another increase in the Bank rate — a step designed to cool down the economy by making money more expensive and expansion more difficult, thereby helping to choke off demand for imports.

It is a measure of the authorities' concern for the gold and foreign exchange reserves that the Bank rate was hiked ahead of October's municipal elections. Increased money costs are not going to be popular among a civil service deprived of salary adjustments this year.

Against such a background, confidence in South Africa's economic future is surely misplaced.

What's to be done?

The Government itself has — very belatedly — hit upon the solution by setting the following objectives:

- Cut back on State spending.
- Do away with all the red tape that hampers the private sector's efforts to enhance the nation's wealth.
- Sell State and semi-state enterprises to the private sector, in the process reducing the Government's need to bleed the taxpayer and placing these enterprises on a more efficient footing.

Pretoria has got the theory right. But it hasn't put the theory into practice.

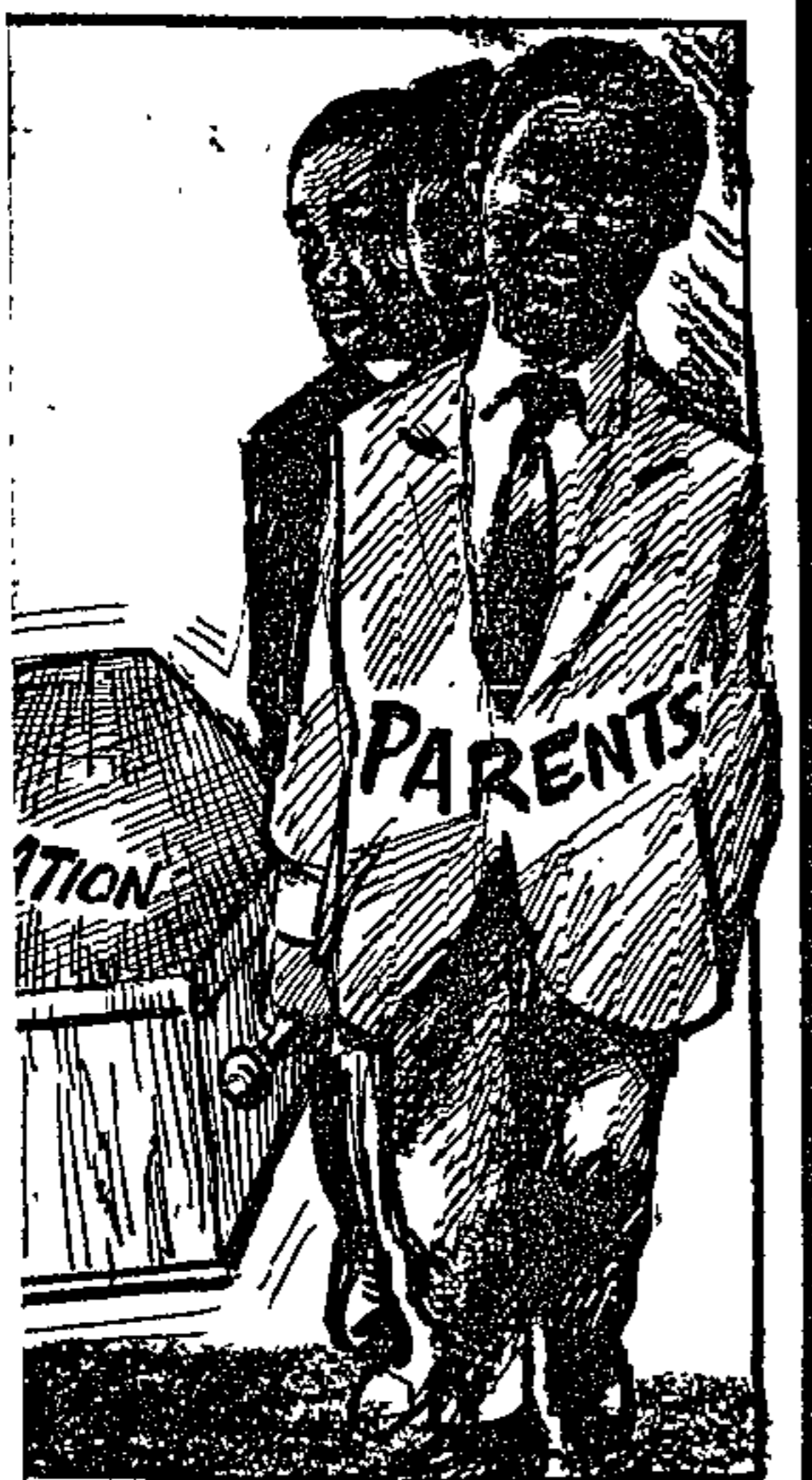
Why all the heel-dragging? Because the correct economic medicine doesn't dovetail with political expediency. South Africa's economic future is being sacrificed on the altar of petty party political interests.

Cabinet Ministers' empires will be eroded, votes will be lost in the wake of the short-term unemployment problems that will follow the Government's abandonment of inefficient employment practices. Pretoria's bungling will be exposed once private enterprise transforms loss-making operations into lean and profitable ones.

If the nation is to avoid economic catastrophe, the measures so confidently enunciated by the State President six months ago must be implemented right now.

Nor are privatisation, deregulation and smaller government exclusively long-term solutions to the country's economic ills.

They are steps which could electrify the economy into action.



Political comment in this issue by Aggrey Klaaste and Joe Thlooe. Sub-editing, headlines and posters by Sydney Matlhaku. All of 61 Commando Road, Industria West, Johannesburg.

The reproduction or broadcast without permission of articles published in this newspaper on any current economic, political or religious topic, is forbidden and expressly reserved to The Argus Printing and Publishing Company Ltd under Section 12(7) of the Copyright Act 1978.

• Write to the Editor at PO Box 6063, Johannesburg 2000. Nom-de-plumes can be used, but full names and addresses should be supplied or the letter will not be published.

Short-term economic picture 'not a happy one'

Upswing was stopped too soon, says Brand

4/8/88 (49) B/Daw

DURBAN — Economic brakes had been applied before the upswing had achieved the desired effect — but it was wrong to accept that nothing could be done to get the country out of the impasse, Development Bank of Southern Africa chief executive Simon Brand said yesterday.

He told the SA Property Owners convention that the short-term picture was not a happy one. The upswing had not been strong — certainly not a boom — and it had been checked by the recent rise in interest rates.

But if the upturn had been allowed to continue, the inevitable consequences would have been more inflation, a worse exchange rate and an increasing imbalance in trading fig-

Own Correspondent

ures, he said.

Brand said if political change was accepted, the country had to accept the consequences on the economy.

"We require a tightening up, as in the interest rates, in fiscal management and public spending," he said.

Homelands

On the brighter side, he said there was a long-term economic strategy and he had been surprised that there had been so little reference to it.

Sight was being lost of how some elements were coming into place.

Brand outlined:

□ Urbanisation — this had been ac-

cepted by government through such measures as the removal of influx control. It was more than providing a home, it was an improvement in the quality of life;

□ The SBDC had been doing good work and other financial institutions were moving into black areas;

□ The Regional Services Commissions were working on such problems as rent boycotts, disruption of services and poor administration;

□ Agriculture in rural areas was being improved;

□ Homelands — there had been a negative reaction towards the funding of the homelands, an investigation had been launched and tighter controls would be introduced; and

□ Decentralisation — a re-evaluation was being undertaken.

● See Page 5

Import curbs could stunt country's economic recovery

By TOM HOOD
Business Editor

NEW import controls and a tighter credit squeeze are on the horizon as the government tries to fight a balance of payments crisis threatening the country's gold and foreign exchange reserves.

Combined, the curbs could seriously restrict the country's economic recovery.

The Minister of Finance, Mr Barend du Plessis, confirmed today that the government is considering imposing import controls.

And the Reserve Bank governor, Dr Gerhard de Kock, said in a television interview that the credit curbs announced in May to cool the economy were being reviewed by the monetary authorities and could be tightened.

Dr Jan Hupkes, professor of management economics at Unisa, said South Africa was having to repay foreign debt out of its reserves and this was putting intense pressure on the rand.

Foreign trade reports show imports, particularly of machinery, have soared in the past 12 months — a normal event in an economic upswing. But exports have been stagnant.

A R6-billion surplus a year ago has been wiped out and the balance of payments is in deficit to the tune of about R400-million, estimates Old Mutual's chief economist, Mr David Mohr.

"The country needs to run surpluses of around R2-billion to R3-billion a year to meet its

foreign debt repayments," he believes.

Extensive import control measures would hit local industry and the higher bill would inevitably be carried by the consumer, said Mr Colin McCarthy, director of the Cape Chamber of Industries.

Economists say the government must either raise interest rates to punitive levels or control imports if it is to protect the reserves.

Commerce and industry may not like curbs on imports but will probably accept them as the lesser of two evils, they believe.

Dr Hupkes said South Africa had a "hole in the bucket" economy which made it necessary to curb spending on imports to conserve foreign exchange.

"We simply made public what we stood for," he added.

● To Page 2 →

GDP falls as production slows

4/8/88 (49)
GRETA STEYN

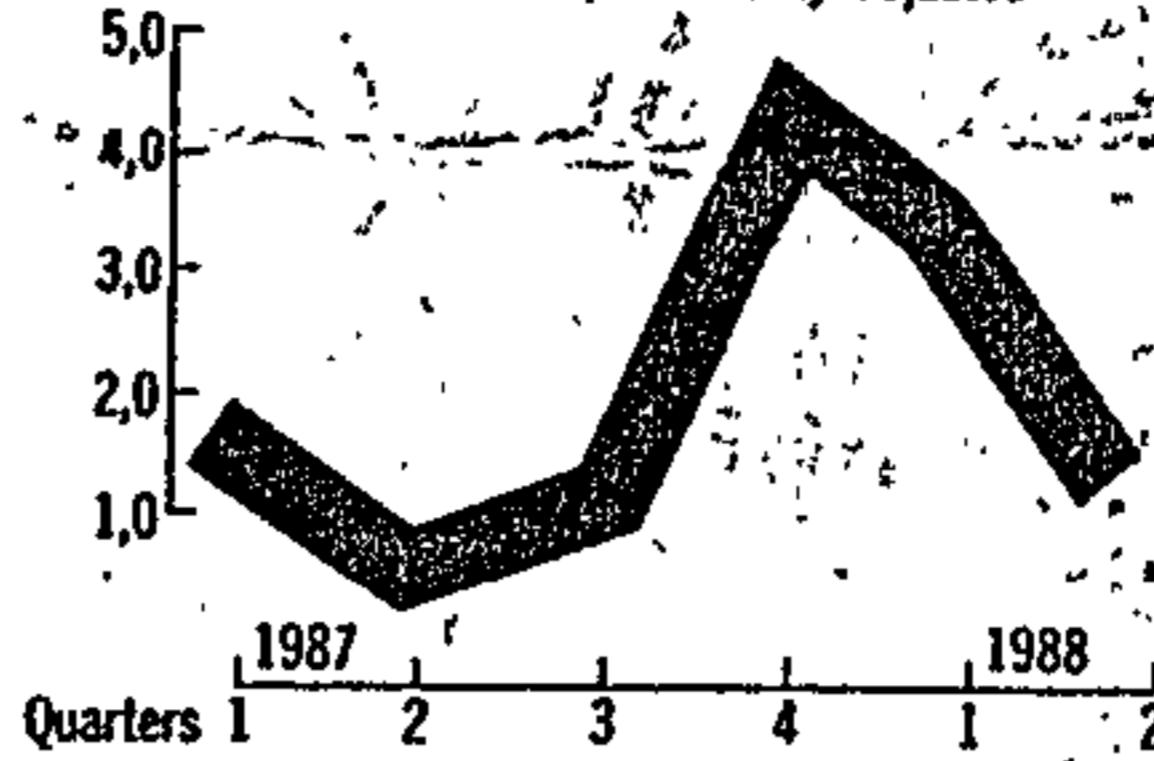
REAL growth in SA's Gross Domestic Product (GDP) slowed to 1,5% in the second quarter from the strong 3,6% in the first quarter, Central Statistical Services' (CSS) figures show — reflecting lower production in most sectors except mining.

Stayaways aggravated the declining trend in manufacturing production, which dropped by 5,4% in the second quarter. Agricultural production dropped by the same amount.

● To Page 2 →

GDP Gross domestic product

% increase Annual rates, seasonally adjusted



Source: CSS Graphic: JOHN McCANN

Production slowdown causes GDP fall

The impetus for growth in the second quarter was a surge in gold output, causing production in the mining sector to rise by 11,9%.

Though CSS says the lower growth rate "signifies a meaningful slackening in economic growth", it does not yet indicate that domestic demand has cooled, says Nedbank economist Edward Osborn.

(49) ← ● From Page 1.

Rand Merchant Bank's Rudolf Gouws said domestic production had declined at a time when domestic spending remained strong.

"SA is spending more than it is producing, which means a high import bill and strain on the balance of payments," Gouws said.

THE current account of the balance of payments has swung into deficit more rapidly than expected. In past years such a trend, typical late in a domestic upswing, used to be offset partially by capital inflows, and other facilities were available to shore up the gold and forex reserves while remedial action was being taken.

The need to repay foreign debt for political reasons, and limited access to trade and other credits, has fundamentally altered the normal pattern; the consequences for the reserves, the exchange rate and growth potential have become painfully obvious.

Should we be surprised by the magnitude and speed of the current account deterioration from a seasonally adjusted annualised surplus of R7,2bn in the first quarter of 1987 to a deficit of R410m in first quarter this year? After all, GDP growth was running at almost 4% per annum in Q1 '88 as against only 2% in Q1 '87.

Fixed investment, which was still declining in the first half of 1987, turned around by year-end and continued to move ahead in the early months of this year. Moreover, the actual current account surplus for the first quarter, small though it was, was sufficient to cover a further capital outflow and allow some addition to net reserves.

Conditions in the second quarter were much less favourable. The trade balance was considerably lower and the current account, in all likelihood, was in deficit. The fact that it may have been in surplus after seasonal adjustment, as Reserve Bank Governor De Kock has intimated, is significant but is not of much consolation in the very short-term.

Repayment of debt in terms of the standstill arrangement and other net flows clearly dented the reserves, as evidenced by a massive gold swap and pressure on the rand/dollar exchange rate, which has persisted since end June.

It may well be that a slowdown in imports is under way — in dollar terms imports appear to have started levelling off since their sharp climb last year. Exports, however,

Economy must be geared to what country can afford

A perspective on the balance of payments, by
AUBREY DICKMAN, senior economic consultant for
the Anglo American Corporation

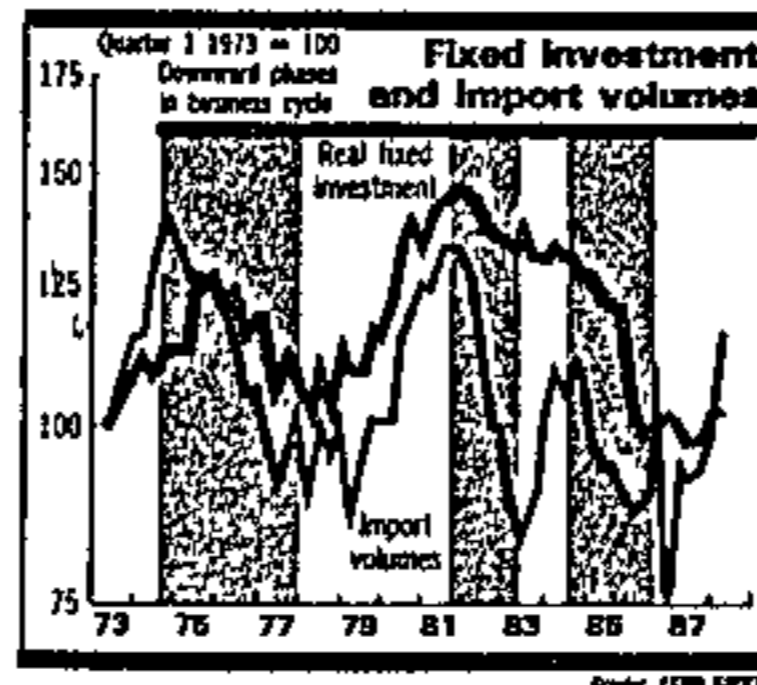
remain disappointing. The disturbing aspect, however, is that the current account surplus has evaporated. Admittedly, it was in deficit to the tune of 10% of GDP at the end of the 1980/1 boom and nearly 5% during the 1983/4 mini boom. But we have had only one year of growth above 2% since 1984, with a somewhat better six months so far this year. Furthermore, we have experienced a calamitous drop in fixed investment.

Yet the current account — and the total BoP — is once again under severe pressure. This raises important questions about export performance and possible aberrations in import behaviour, as well as the role of foreign capital.

The following figures help put the position into better perspective. They are quarterly averages of unadjusted trade data in millions of US dollars, and the average dollar price.

| | Exports | Imports | Gold Price |
|-------------|---------|---------|------------|
| Jan-June 87 | 942 | 1 079 | 428 |
| Jul-Dec 87 | 1 136 | 1 277 | 465 |
| Jan-Jun 88 | 954 | 1 416 | 453 |

Measured in dollars, these figures



give a fair indication of actual volumes. In fact, from 1984 exports responded to the brighter world economy. They are much higher than in 1982/3, and exceed their previous 1980 peak. Yet they have been flat recently and have not reacted to burgeoning OECD production and soaring commodity prices.

Sanctions may have played a part, but the issue is more complex. A major reason could well be the diversion of products to the domestic market as growth accelerated, albeit moderately, from late 1986. It could be that exports are still reacting to

the real appreciation in the rand last year or are lagging the world upturn.

However, the failure to perform is worrisome, given a pedestrian gold price, it suggests that domestic demand is excessive relative to BoP realities.

Turning to imports, we must bear in mind their fall as a percentage of GDP over the years as the economy has grown more self-sufficient. A cessation of the declining trend in recent years has focused attention on the need for renewed but soundly-based import replacement via inward industrialisation.

That is one aspect: the chart displays the well-known connection between imports and investment and their corresponding movements during different phases of the business cycle. It is interesting that imports, while fluctuating with investment, increased more slowly until 1983 (the role of Sasol III was important here) but since then have risen on balance while investment performed abysmally.

The jump in the first quarter of this year is, of course, particularly pertinent.

To what can we attribute this relative change? A major explanation must lie in the growing proportion of GDP accounted for by government consumption (including defence), whereas private consumption and investment now have a lower share. At the same time, the capital intensity of production continued to increase.

The more recent surge in import volumes relative to the hesitant turn-around in investment, taking into account sanctions threats and, perhaps, fears of import control or further currency depreciation, no doubt reflects anticipatory stockpiling which must inevitably abate.

This brief analysis suggests that the growth in imports seems somewhat higher than warranted relative to current and potential demand, and that exports might do better.

Nevertheless, adjustment is not assured and there are no grounds for complacency. On the contrary, the situation is fraught with risks, the gold price being a key element. Furthermore, import growth is clearly demand-driven, and this has been validated by an effective money supply growth which has exceeded 1984 levels.

It must be obvious that direct controls can provide no solution, for they do not address the causal nature of the problem. Given the need to repay debt, just how excessive monetary demand relative to export earnings has been is reflected in the parlous state of the reserves.

In the circumstances, and considering the trend of interest rates internationally, the further increase in Bank rate was essential. Consistently prudent monetary and fiscal action is vital to keep the economy geared to an affordable level of spending.

A country of our extraordinary potential should not have had to be unduly concerned with the BoP at this stage of an upswing. The sad truth is that the foreign capital constraint has blunted our growth and that, in the last resort, the question of what is affordable is political, not economic.

FOREIGN EXCHANGE/David de Kock

WHILE pondering the ebb and flow of the tide down on the Natal South Coast last week, it struck me that one must be able to build a statistical model for the supply and demand of foreign currency in SA.

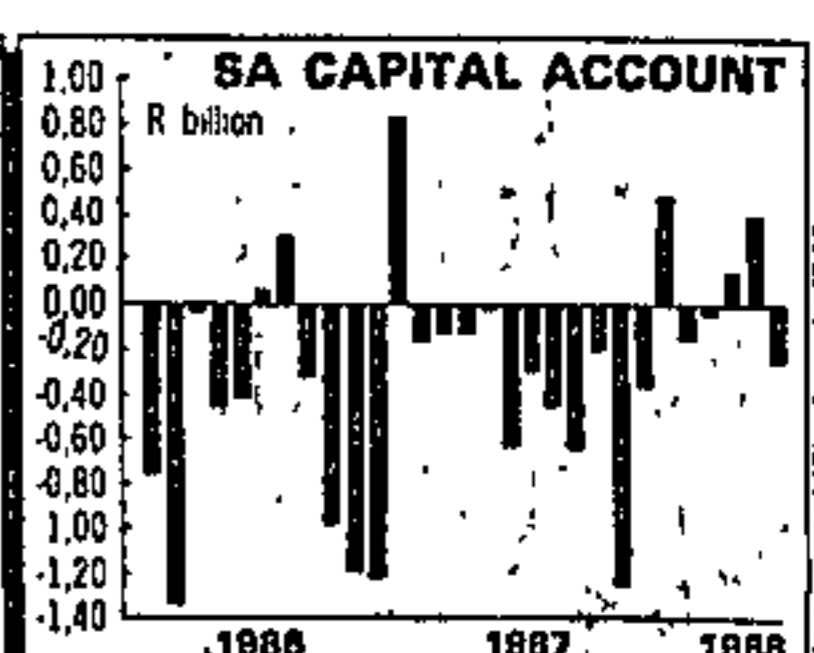
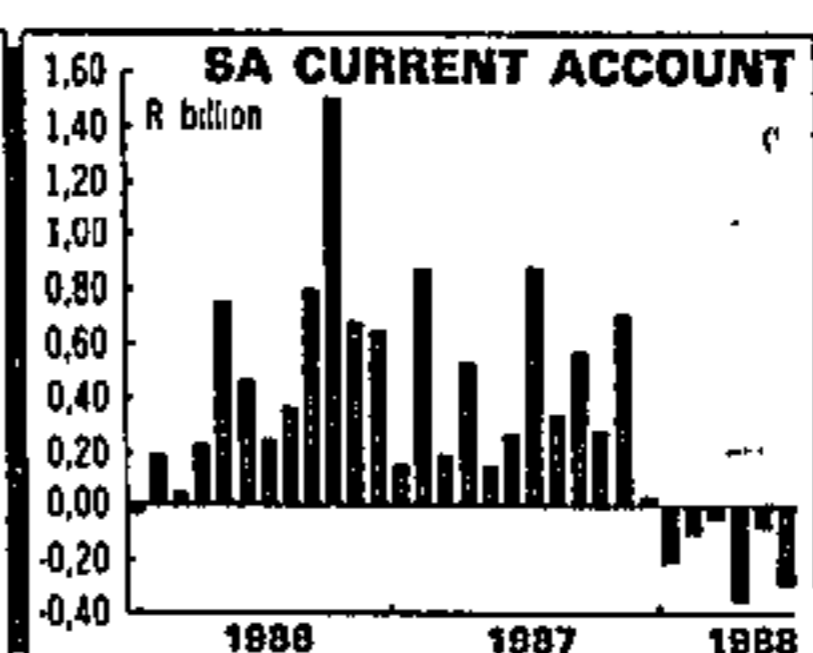
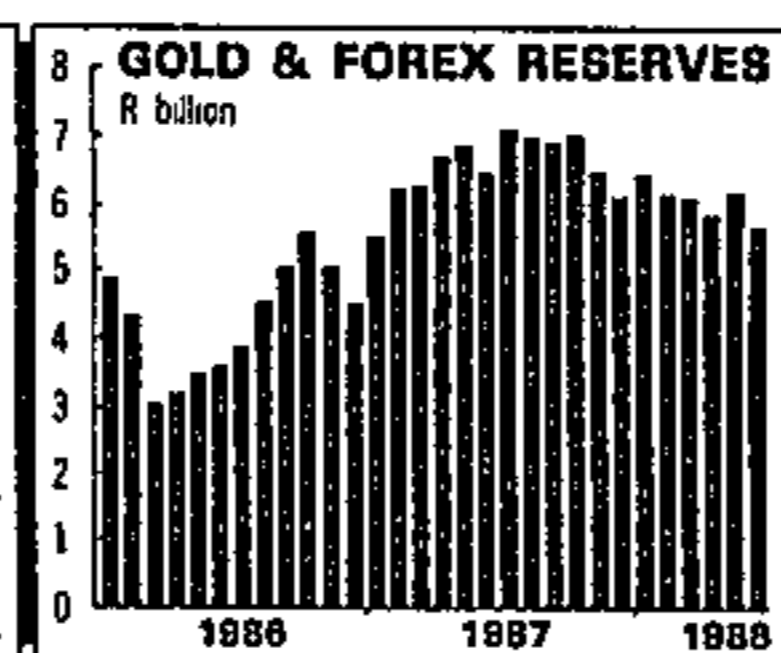
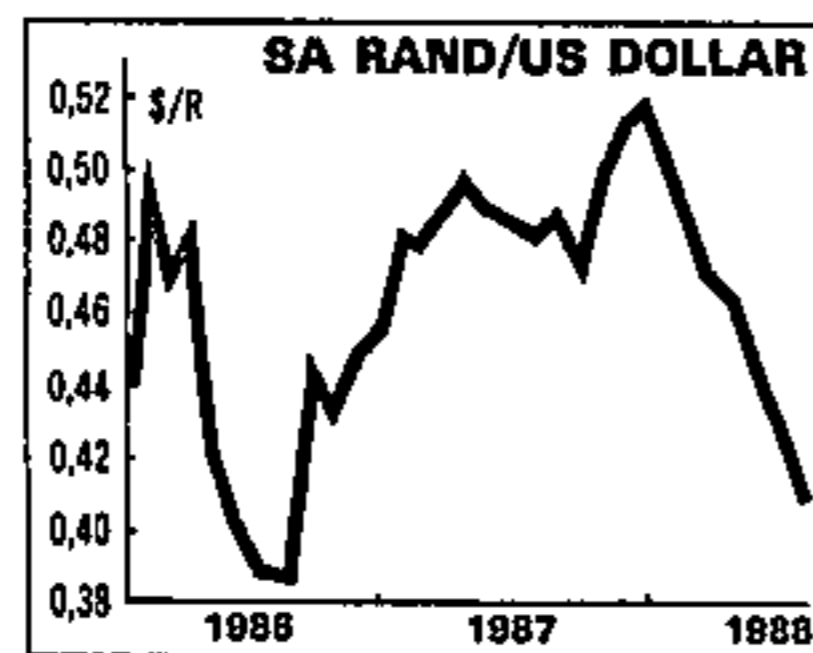
Fear not — I am not about to present you with a mass of confusing numbers. In fact, I am not even going to give you the results of such a model. The main reason for this is that I am still developing it — so more on that score next week.

Today I want to share with you some of the interesting factors and relationships I have come across in gathering the base data for a supply/demand model. No doubt you will have taken a look at the accompanying graphs and begun to develop your own conclusions.

Decisions

People have extraordinary short memories, and more especially so when it comes to the foreign exchange market. I would guess that by far the majority of decisions in the market are made in the light of the mood of the moment and a kind of generalised "remembering" of what happened last time such-and-such occurred. This is not to knock that approach — most decisions tend to be made that way, anyway.

The point I want to make at this stage is that much blame for the rand's current weakness is being ascribed to the balance of payments, and perhaps this is not fully justified. Certainly, the BoP is not really coming up roses, but it is in no way



It's all in the mind

exhibiting the kind of performance to put the rand on the skids as has happened.

If we compare the fall in the rand during 1988 with the fall in 1986 we can see similarities in the rate and duration of the decline — but not so when we compare the comparable situation in the BoP accounts.

Collapse

I am deliberately using the old basis of quoting the rand so as to enable comparisons both from what we remember from the past and also between the BoP accounts and the exchange rate.

The essence of the international value of our currency is what we have in the bank — the level of gold

and forex reserves. We had a fairly precipitous fall in 1986 and a corresponding decline in the rand.

In 1988, however, we find the same kind of collapse in the rand but a much less steep fall in the value of the reserves, although the reserves have actually been trending downwards since mid-1987.

Now let's look at the two main accounts of the BoP. In 1986 the current account began the year barely in balance, but we had massive outflows through the capital account. This is, of course, the reason for the huge decline in reserves.

Up until mid-1987 we had fairly substantial surpluses on the current account, which more than offset the negatives on the capital account. The net result was a steady climb in the value of reserves and also in the

value of the rand.

In 1988 we find a somewhat different situation. The current account is in deficit for the first time in two years, but the capital account is not reflecting the kind of massive deficits that were evident in the previous period.

Unchanged

Thus we have a situation which we could argue has been relatively unchanged in general terms for a year and a half. Just look at the level of gold and forex reserves, for instance. Changes in this is the net of the two BoP accounts, and for 18 months it has been relatively flat.

What has changed has been the contribution of each to the level of

our reserve holdings. What has not changed is the perception in the minds of those who have to make decisions with regard to foreign exchange transactions.

Because the current account balance is a relatively easily obtainable statistic and the capital account is not, people have just assumed that the current account deficit in 1988 has been accompanied by a continuation of huge outflows on the capital account.

The graphs show that this is not correct. It is all in the mind — and the marked collapse of the rand this year is not at all justified by BoP considerations.

Next week I want to look at the supply/demand features in the local market to illustrate how this kind of anomalous situation can arise and how it always tends to self-correct.

I note that one bank economic report is forecasting an improvement in the BoP in the second half of this year, and thus also in the rand. I agree — but possibly for different reasons. See you next week.

inflation remains one of the major problems facing South Africa. What trend do you foresee?

TO THE extent that State expenditure plays a role, I am confident we have been reasonably successful in doing our bit.

But we must accept that the strengthening of the dollar and also the depreciation of the rand against some of the other currencies of our trading partners must have had an inflationary effect on some of the vital imports.

Our sensitivity to inflation is also apparent in the seriousness with which we approach the whole question of money supply and creation of credit.

But I can confidently say that the balance between fiscal and monetary policy, although not perfect, is certainly much better attuned to fighting inflation than in 1984/85.

TALKING about money supply and credit demand, is there further consideration of another package to cool the economy, or an extension of the May 5 package?

WE ARE continuously looking at other aspects which have an influence on demand, and since we definitely do not rely solely on interest rates to effect the necessary adjustments, we shall react in terms of other measures once firmer figures indicate the desirability of such action.

At this stage we do not have those figures... we are very sensitive not to overkill the economy or hurt any sector. Therefore, we must make absolutely certain the basis on which we consider such actions is reliable.

TURNING to taxation, some believe that SA generates sufficient savings to fund growth without foreign capital. However, they say, domestic savings are mainly flowing to life insurers, who use them to acquire shares in listed companies. Is government considering measures to channel the savings held by insurance companies into more productive uses?

THE ISSUE of tax on assurance companies is right now being investigated on the basis of very constructive co-operation between the tax committee and the insurance industry. I wouldn't like to preempt possible results.

But I have often said it is necessary for us to look at the optimal application of our available resources with a view to creating the necessary jobs that will make sure that, by the time insurance policies must be paid out, we still have a



DU PLESSIS... "balance between fiscal and monetary policy certainly better attuned to fighting inflation"

Economic issues: The view from the Ministry

Finance Minister BAREND DU PLESSIS reviews domestic economic issues in an interview with Deputy Editor NEIL JACOBSON and Economics Correspondent GRETA STEYN. The minister's views on the looming balance of payments crisis were reported yesterday

country in which they can be paid out.
IS THE best way to create jobs not for government to intensely speed up the deregulation drive and, in effect, simply get out of the way?

YES, SURE — but you must remember that it is not only first tier of government that may be in the way of self-employment.
Our constitutional history enabled both second and especially third tier

government — where things really happen on the streets — to design a lot of regulations over many decades.
In other words, we on the first tier of government don't always know

where we are in the way. We have made very substantial progress, but there is still a lot to be done.
We work on it as rapidly as we possibly can, but again we do have to rely on the private sector and individuals to bring to our attention where officialdom and regulations may stand in their way.

IS THERE not a pressing need for central government to take the lead right now in deregulation before the October elections, with the prospect of a strong CP showing in winning local authorities?
I THINK, regardless of the outcome of the October elections, it is imperative we promote development of the informal sector as rapidly as we can. There are several initiatives under way in this regard.

THERE ARE a lot of suggestions in the marketplace that political pressures are playing a major role in determining economic factors — for example, that interest rates have been held back, and that the petrol price has been kept artificially low.
Your comments?

NOBODY can deny the vital interaction between economics and politics. You can't run the country like a business and then be accountable at the polls, and you can't run a business as if it were a political party.

You have to take into account, the political consequences of a hike in interest rates, because political consequences do not only comprise unpopularity. They immediately focus your mind on financial consequences, such as demand for subsidies and rescue actions should interest rates become the only and exaggerated method of managing aspects of the economy.

The same goes for the fuel price. YOU ARE on record as saying that government's share of GDP must be cut. How successful has your campaign to rein in government expenditure been — for example, by restraint of public service pay — and can the line be held?

I DON'T think the answer lies in withholding salary increases from public servants. I think the major portion of the answer lies in proper execution of a priority budgeting system.

As far as remuneration is concerned, it has often been said — and I support that view — that we need a smaller but higher paid public service.

YES, BUT is that going to happen? IF CANNOT happen overnight, these things do take time. The only thing worse than not having such objectives is to be impatient in your application of methods to achieve them.

The 'illegal' hidden wealth

By **DICK USHER**
Staff Reporter

CENTRAL to the South African dilemma is the lack of jobs for the country's ballooning population.

Not only has the formal, developed sector of the economy failed to create enough jobs to keep pace with the army of workseekers who leave school and enter the market each year, but the number of jobs available actually shrank by about 147 000 between 1980 and 1986.

And the prospects of the formal sector ever being able to grow sufficiently to satisfy the need are almost non-existent. So the cure must be found in freeing the informal sector.

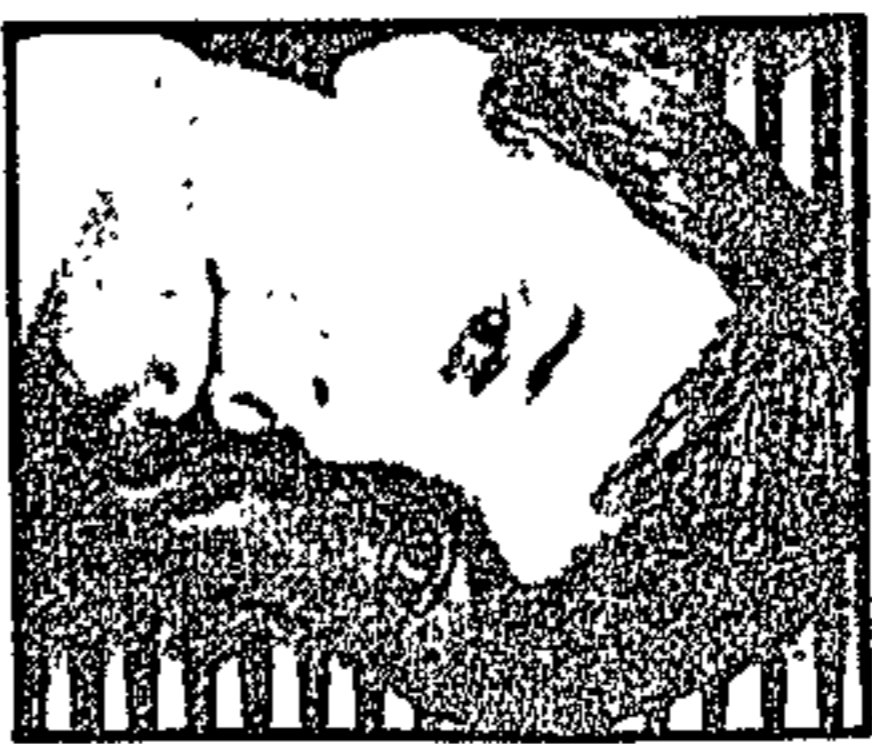
This is the central theme of a new book called *The Third World: South Africa's Hidden Wealth* by Theo Rudman, executive director of the Self-Employment Institute.

The crisis is already here and is not waiting poised to trouble some future generation. And related to it are the socio-political problems which have been endemic in South Africa for many years but have swelled in the past 12 years.

All of the 4.5-million people who will need jobs in the next 12 years have already been born, and the race to create gainful employment for them is being inexorably lost.

Already the country is poorer than it was a decade ago.

Gross domestic product declined by about 8.5 percent (measured in constant 1980 rands) from 1975 to 1985 while in many countries — about which white South Africans, existing in what Rudman terms the modern sector of the economy, are often so scornful — grew during the same period. Taiwan's GDP



Theo Rudman

grew by 96 percent, Mexico by 15 percent, Portugal by 30 percent.

In Kenya the GDP has remained at least static while in Tanzania it has declined by only one percent.

Rudman estimates that the capital cost of creating the necessary jobs in the formal sector by conventional means at around R4.5-billion a year — and this does not include training.

Third World

Against this, the efforts so far produced in the battle for jobs seem a drop in the bucket — R75-million on training the unemployed in the 1987/88 financial year, the Small Business Development Corporation's mini-loan programme for the informal sector granted 1 730 loans totalling about R3-million in 1986/87.

Meanwhile the peripheral sector of the economy continues to swell. By the year 2000 the supply of job seekers will have grown to an estimated 17.9-million while jobs in the developed sector will have grown from about 7.7-million in 1985 to about 8.1-million.

The peripheral sector, those who will not be able to find jobs in the modern sector, will have grown over the same period from 4.3-million to 9.8-million.

It is this sector which, Rud-

man believes, freed from the unimaginative shackles of restrictive bureaucratic practices, has the potential to be, not the burden that many see it as, but the powerhouse of development.

"In the past we have always applied First World criteria to solving our problems. Now we need to look for answers in our Third World element if we are to develop our First World goal," Rudman contends.

Unrecorded

Already this is happening as thousands upon thousands of people cut, sew, hammer, bake and hawk their way to a living.

Officially unrecorded, most of their activities are illegal, strictly speaking.

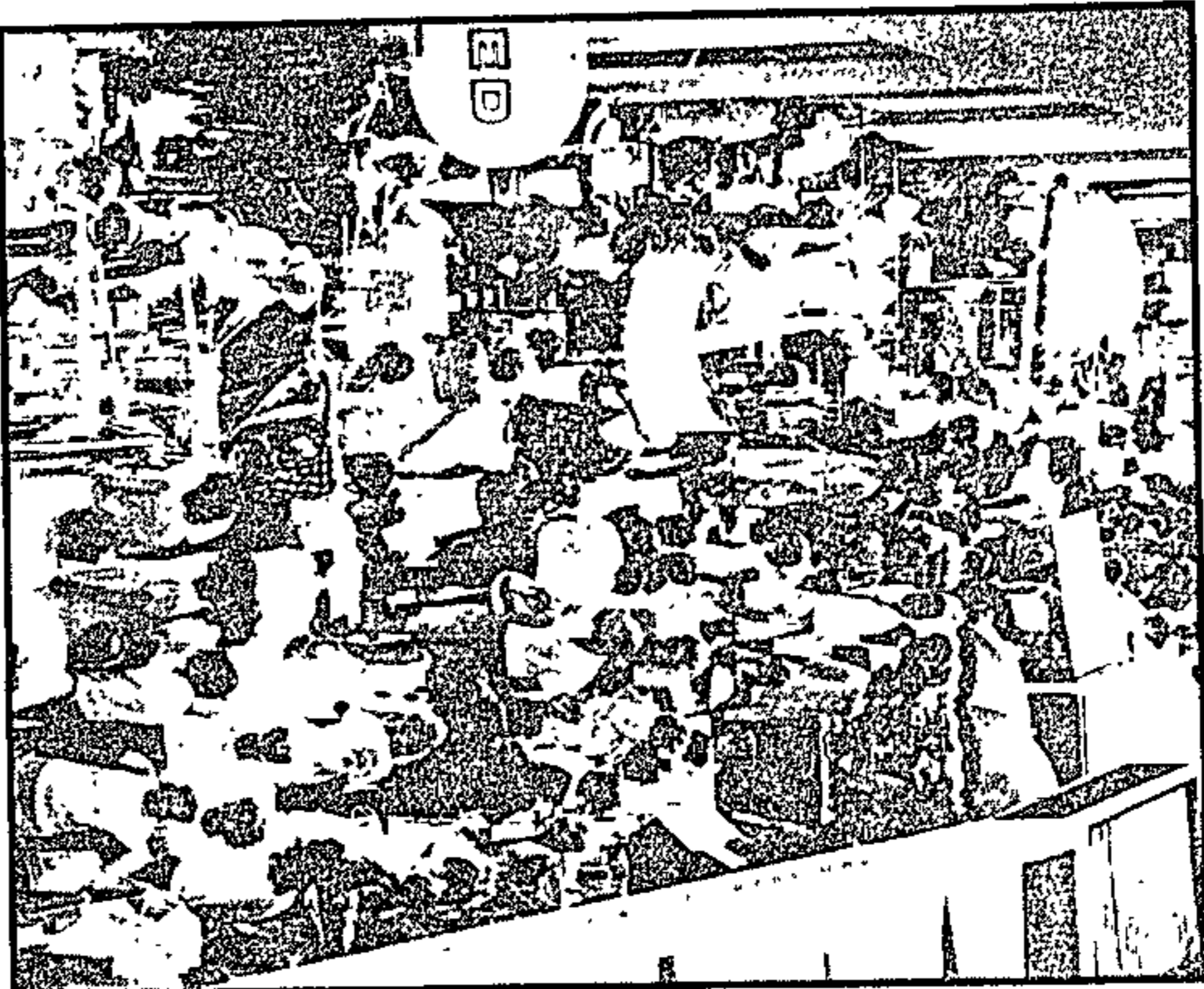
They have no trade licences, they pay no GST or income tax and operate from homes, backyards and in the streets without benefit of trade organisations and other supporting infrastructures and too often subject to official harassment.

But the wealth they create through their entrepreneurial ventures now account for an estimated 27 percent of South Africa's GDP.

In the white community Rudman estimates that as many as 300 000 families are running unofficial businesses worth as much as R1.8-billion from their homes.

But this is far outstripped in the black community where, he estimates, informal economic activity (which ranges from "legal" activities such as sewing and baking to those such as drug dealing and prostitution) produces between R15 and R20-billion a year.

The only way out for South Africa is to encourage these people, and the millions to come, by encouraging them, by making things easier, by removing as many restrictions as possible.



Flea markets: where self-employment is making an impact.

And yet, although the government has made a start on encouraging small business, has taken policy decisions on deregulation and privatisation, the process is too slow, too hesitant.

Almost begrudging, which is an attitude Rudman cannot comprehend, given the magnitude and urgency of the problem and the potential rewards for its solution.

As his chapters on street traders and other informal activities illustrate, authority has appeared unwilling to loosen the stranglehold of controls to the extent that Rudman feels is necessary.

But it is not only authority which has proved reluctant. Rudman reserves special

castigation for big business.

"The real reason for slow or ineffective deregulation is not government bureaucracy or lack of interest, but rather the vested interests of big business, who are lobbying secretly to maintain the regulations which they usually lobbied for in the first place," he says.

And while this type of resistance may be understandable, it is certainly not in South Africa's best interests, either sociologically or economically.

"It is a regrettable fact that big business sometimes feels itself threatened by what it considers the uncontrolled freedom of the informal sector," he says.

But their mistake is that they fail to realise that each are complementary links in the marketing chain and the informal sector has the advantage of seeking out demand where it did not exist before, or where it existed but could not be served by big business.

The time to start is immediately, the place to start is with local authorities and licensing regulations.

Rudman says that licensing procedures are clearly used to protect the formal sector against competition and, by setting arbitrary but extremely high standards, hinder people from entering economic activity and reinforce the pernicious principle of privilege.

Taxi trade

Not only should licensing boards be abolished and the registration of businesses made a routine responsibility of local authorities, but getting licences should be simplified and any trade be allowed from any premises — within acceptable parameters of nuisance and morality.

Among other illustrations, he cites the example of the taxi trade as one that emerged and survived because it filled a definite need which neither big business nor the public sector could fulfill.

It thrived in spite of official harassment and flourished to the extent that it is now a powerful and organised industry with enough clout to cut deals with oil companies, motor manufacturers and others.

His programme calls for the government to return to the broadly nationalistic principles it espoused when coming to power in 1948 — the building and development of South Africa.

This means "putting all

South Africans first, not just the wealthy and powerful ones".

Rudman says this would require five major measures:

- Eliminating restrictive legislation on small enterprises;
- Establishing a national training programme aimed at the informal sector;
- Making small loans easily available to informal operations;
- Opening business premises in "white" areas to all and
- Converting the informal trader into a taxpayer in the formal sector.

Free of regulations

He urges the institution of a small enterprise commissioner with sweeping powers to "excise the cancer of vested interest from the body economic of our country."

The commissioner would monitor all laws and regulations for their impact on small enterprises, leaving small businessmen free to regulate their relationships with customers, employees, landlords and others through common law.

Normal business activity in the informal sector would be decriminalised, creating a climate of free enterprise and stability in which crime, social unrest and welfare costs would decline.

"By freeing the informal or unrecorded sector and by allowing business, generally, to operate easily and economically, South Africa will really take off and achieve its promise of becoming an economic giant," says Rudman.

"These proposals could easily form part of the recovery package that would put South Africa on the high road, where productivity and national pride by all race groups, and a striving for real excellence, are the order of the day."

A participative economy



Mike Smuts is GM, development services, of the Small Business Development Corporation.

The structural instability built into our economy by the historical neglect of a growing Third World sector has had the effect of discouraging new investment in productive assets since 1975.

Since then, the cumulative economic growth has been well below the growth in population. If this trend continues, we all face gradual but consistent impoverishment.

I believe we can look to the Far East for ideas on how to promote stability, stimulate investment in productive assets and achieve economic growth rates that will satisfy the needs and expectations of the general population. We all marvel at the economic performance of countries such as Japan, the Republic of China, South Korea, Singapore, Hong Kong and more recently Thailand. At the same time, we conclude that these "economic miracles" cannot be achieved in SA because somehow our human capital is different.

I believe the SA economy has the potential to grow at rates well above 5% per annum. This can be achieved if we create an economic climate that will unleash the enterprising spirit of all of our people. The way to do this is to move rapidly towards a more participative economic model.

Our economic policymakers must abandon their love affair with large-scale capital intensive development projects and concentrate on policies that will encourage "grass-roots" development. As a nation, we can no longer afford a "White Elephant Project" approach to development. We no longer have access to international capital and only a small percentage of the population can participate in such projects. What is needed is an approach which will make the majority the engine of economic growth and not the minority.

A fundamental requirement is a clear cut, no-nonsense policy by government towards the promotion of mini, small and medium enterprises in SA.

Such a policy should aim at strengthening participation in the economy by effective action in the following fields:

- Deregulation: Measures which obstruct the growth of a healthy and vigorous informal sector must be removed. Let us allow the informal sector to boom. We are committing national economic suicide by allowing officials to close down good businesses which do not conform to perfect standards. In the Far East, officials display far more tolerance towards informal business activities;
- Education: We must aim for a 90% literacy rate so that our workers and prospective entrepreneurs can rapidly acquire know-how and skills. This is a basic requirement to upgrade our human capital;
- Training: Large scale training in practical and appropriate technical, business and entrepreneurial skills is preferable to the present approach which gives precedence to academic education;

- Co-operation: We need to promote co-operation between big and small undertakings — measures that will stimulate the growth of whole classes of small sub-contractors and middlemen in the SA economy;
 - International orientation: We must immediately drop our siege mentality. In order to be economically successful, we should instill a spirit of international orientation into our people. For example, during a recent trip to Taiwan I visited several small factories. I was amazed to find that in all cases 90% of production was intended for the export market. In SA the reverse applies. Here the aim is to produce 90% of goods and services for the local market. We must recognise that participation in international markets is a prerequisite for economic success and
 - Sector and regional priorities: The governments of successful East Asian countries have adopted proven strategies to develop their economies. Initial emphasis is placed on developing light industry in selected fields and processing local commodities. At the same time, the little man is encouraged to participate in the development of new industries. This is why in Taiwan there are 5 000 listed manufacturers of computers and computer parts.
- Crucial to a nation's economic success is the development of its human capital. At the same time, it is essential to create structures and a climate that allows ordinary people to participate in the wealth creation process according to their individual means, talents and abilities.
- If we implement the ideas outlined above, we can make swift and steady strides towards prosperity for all our people.

ECONOMIC ADVISORY COUNCIL

Lost opportunity

Though the reappointed Economic Advisory Council (EAC) will help in formulating policy, government has missed an opportunity to make it more representative.

Not only are bodies formally representing commerce, industry, mining and agriculture excluded, but only two people are drawn directly from the trade union movement. And only one is not white — A S Vahed, executive chairman of the A M Moola group.

True, members can express what they believe to be the viewpoint of their industry on a particular point; but this is not the same as formal representation of bodies like the Chamber of Mines, SA Agricultural Union, AHI, Assocom, Nafcoc, or FCI, which have rapid and effective lines of communication to all members.

There is also a need to draw the trade union movement into decision-making, with representation from Cosatu, Nactu and the Confederation of Labour. Consumer interests too could have been represented.

The Directors General of Finance, Trade & Industry and Transport are entitled to representation, as are the State President's Office, Sats and the Reserve Bank. This would still have left room for independent economists and prominent individual businessmen. This restructured EAC would be smaller and, at the same time, ensure organisations were able to communicate with government via the EAC.

Lack of adequate representation of various interest groups detracts from the authority of the EAC. Virtually an *ad hoc* body which meets only four times a year, it is likely to be not much more than a forum for pep talks by, or on behalf of, the State President to the members, the contents of which presumably will then be disseminated informally throughout the economic community. ■

ECONOMIC ADVISORY COUNCIL

CHAIRMAN: Human, C J F (Dr), chairman Federale Volksbeleggings Beperk. **VICE-CHAIRMAN:** Clewlow, W A M, vice-chairman and chief executive Barlow Rand Ltd. **MEMBERS:** Badenhorst, P J, chief executive UBS Holdings Ltd; Botha, R H, chief secretary Mine Surface Officials' Association of South Africa; Bouwer, J J, managing director Credit Guarantee Insurance Corporation of Africa Ltd; Bradley, E (Mrs), managing director Wesco Investments Ltd; Brand, S S (Dr), chairman and chief executive Development Bank of Southern Africa; Brink, D C, chief executive Murray & Roberts Holding Ltd; Cronje, J I J, president OFS Agricultural Union; De Beer, J (Dr), chairman Commission for Administration; De Kock, (Dr), Governor South African Reserve Bank; De Villiers, W J (Dr), director of Companies; De Waal, M T, chairman Industrial Development Corporation of South Africa Ltd; Du Plessis, F J (Dr), chairman Sanlam; Ellis, S P, executive director General Mining Union Corporation Ltd; Fourie, J J, president Natal Agricultural Union, Godsell, B, chairman SACCOLA; Kahn, J M, group managing director The South African Breweries Ltd; Kotzé, N J, vice-president South African Agricultural Union; Le Roux, S M, National Secretary National Union of Furniture and Allied Workers of South Africa; Lubner, R, executive chairman Plate Glass & Shatterproof Industries Ltd; Malan, F J, president Western Cape Agricultural Union; Maree, J B (Dr), chairman Eskom, Marlow, D J, executive chairman Stellenbosch Farmers Winery Ltd; Masson, D, chief executive Tradegro Ltd; McCarthy, D C, chairman McCarthy Group Ltd; McCrystal, L P (Dr), chairman Board of Trade and Industry; Moolman, A T (Dr), general manager South African Transport Services; Naude, S J (Dr), director general Trade and Industry; Norton, R A, executive president The Johannesburg Stock Exchange; Ogilvie Thompson, J, deputy chairman Anglo American Corporation of South Africa Ltd; Plumbridge, R A, chairman Gold Fields of South Africa; Samson, E, president Macsteel (Pty) Ltd; Scholtz, A P (Dr), general manager North West Co-operative Ltd; Searle, P M, managing director Volkswagen (SA) (Pty) Ltd; Stals, C L (Dr), director-general Finance; Stegmann, J A (Dr), chairman Sasol Ltd; Strauss, C B (Dr), group managing director Standard Bank Investment Corporation Ltd; Swartz, P E I, chairman and managing director Peter Swartz Holdings; Tromp, J K, managing director J K Tromp Consulting Services, Vahed, A S, executive chairman A M Moola Group of Companies, Van Zyl, J J M, chairman Court Helicopters (Pty) Ltd; Venter, W P (Dr), chief executive Allied Technologies Ltd; Vosloo, W B (Dr), managing director Small Business Development Corporation Ltd; Wiese, C H, chairman Pepkor Ltd.

Growing uncertainty

That its Business Confidence Index (BCI) continued its decline in July is a reflection "of uncertainty not pessimism," says Assocom. "A note of caution appears to have developed in consumer decision-making, with households less willing to incur debt."

BCI fell 0,8 percentage points last month to 97,3 (base year 1983=100), from 98,1 in June and a 99,3 peak in April and May. However, for the first seven months, the average is 98,3, higher than 95,3 in 1987, 84,3 in 1986 and 79,1 in 1985.

Assocom says the near-term outlook depends on prospects of a political settlement in Angola and a further fall in inflation.

S/S/78 M

For the moment, however, Assocom has cut its economic growth forecast for the year to 2,5%, from 3% predicted last year. "And prospects remain for further increases in interest rates, resulting from excessive growth in the money supply."

Negative influences on BCI included the:

- Decline in the rand/dollar exchange rate;
- Decrease in the dollar price of gold;
- Lower new motor car sales, volume of manufacturing production and building plans passed; and
- Fewer new companies registered.

Creating positive sentiment were:

- The continued decline in CPI;
- The overall JSE index rose in July;
- An increase in merchandise imports, in money terms, of over 57%;
- Slightly better real retail sales; and
- Fewer insolvencies and emigrants. ■

8/8/88 B/Day

SA economy 'ripe for the picking'

49

WASHINGTON — External pressure and domestic mismanagement have made the SA economy ripe for the picking, concludes a Commonwealth study prepared to lay the groundwork for new financial sanctions.

SA's "margin for manoeuvre is very small", says the study, which was presented to the Commonwealth foreign minister's committee on southern Africa in Toronto last week.

It identifies "the fragility of the current-account surplus and the continued weakness of domestic savings and investment" as "the major areas of economic vulnerability".

Consumption, primarily government-generated, rather than exports or gross domestic fixed investment, now accounts for 80% of GDP growth, the study finds.

The collapse in real domestic investment — down by 31% between 1980 and 1987 — has become a "binding constraint ... As the existing capital stock becomes outmoded and run down and as the number of unemployed increases".

Gross domestic savings — needed to offset the drying up of

SIMON BARBER

capital inflows from abroad — have also shrunk dangerously in the face of large budget deficits "to counteract, partially, the economic consequences of political unrest".

In addition, as GDP growth has become more dependent than ever on consumption, "inflation and a growing personal tax burden have meant that consumers could only maintain that consumption at the cost of reducing their savings" — to 1,8% of personal disposable income in the first quarter of this year.

"At the moment when SA has been thrown back on its own savings for investment, its savings performance has deteriorated.

"The economic distortions inherent in apartheid, the impact of sanctions and political unrest have weakened investor confidence.

"Bad economic policies, which have led to negative real interest rates and high inflation have also added to the country's economic difficulties."

The study sees little chance for SA to redress these problems through increased exports and access to foreign credit.

It finds higher gold earnings

unlikely, and the expansion of capacity to produce higher volumes of non-gold exports seriously hampered by poor savings and investment performance.

Also, SA has "limited scope to expand exports of diamonds, strategic minerals and coal without adverse effects on world prices ... Other manufactured and agricultural exports will be more difficult to expand, and in all cases SA would shortly encounter capacity constraints".

SA has become a "high-risk borrower" and access to international capital is now effectively limited to short-term trade credits, which the foreign ministers' committee has recommended banning.

Even without a ban, however, resorting to trade credits "is not a viable instrument through which the country can obtain the sustained net capital inflows it requires to avoid further growth in unemployment".

Though still a member, SA has no access to the IMF or the World Bank, benefitting solely from the latter as a source of procurement for regional development projects.

Efforts are being made to court new capital exporters like Japan and Taiwan.

CHRIS CAIRNCROSS
and GRETA STEYN

49

New economic decision soon

10/30

ECONOMIC policy-makers would decide finally this week on whether to implement a package of additional economic measures to supplement interest rate policy, Finance Director-General Chris Stals said yesterday.

"Government departments have handed us their suggestions and a final decision will be taken this week on what measures, if any, will be implemented," he said.

However, Department of Trade and Industry sources in Pretoria indicated

that preparations were in train for some sort of official announcement to be made soon, possibly on Friday.

Department of Finance sources said the measures would amount to fine tuning with no major policy changes.

Both Finance Minister Barend du Plessis and Reserve Bank Governor Gerhard de Kock have recently indicated that direct import controls were not preferred options.

10/30 B. Day

SA economy could 'astonish the world'

SUN CITY — South Africa would have been a great economic power long ago if there had been no undesirable elements of exploitation, injustice and racial discrimination, delegates to the 24th annual conference of the National African Federated Chambers of Commerce (Nafcoc) were told yesterday.

A senior lecturer at Vista University in Soweto, Dr. J. S. Mohlamme, said there was a great need for discriminatory laws such as the Group Areas Act and the Land Act to be repealed — to enable blacks to participate in the mainstream of the economy.

Speaking on the theme, "Historical Perspective of the Black Struggle for Economic Liberation", Dr. Mohlamme said that if blacks were free to participate in a market economy, there would be an explosion of economic growth within a few years.

He said it must be borne in mind that political reform without full participation by blacks in the economy was meaningless and of no consequence to black aspirations.

"Of what use is equal political partnership in a set-up where one partner is an economic hostage?" he asked. Political reform and economic participation were interdependent.

He added that blacks had been kept in economic bondage for the past 336 years.

He said the history of African resistance to white expansion took different forms in different parts of the country. This was because blacks wanted an equal share in the economy.

Dr. Mohlamme said Nafcoc should play a leading role in bringing about political, economic and social change in South Africa. "This is the challenge facing everybody."

Dickman warns on interest rates

Direct controls will 'not make economy grow'

SA should resist the "siren of calls" for direct controls to solve the country's economic dilemma, Anglo American economic consultant Aubrey Dickman said yesterday.

He told a seminar on growth and employment at the University of the Transkei: "People are under the misapprehension that controls on interest rates, credit supply and imports will buy more growth in some mysteriously costless way".

Controls on interest rates meant higher rates for less-privileged borrowers and inordinate use of capital by those able to obtain it relatively cheaply, Dickman added.

The long-run effect of controls on imports would lead to more inflation and an eventual rise in the import bill. Restrictions on wages would hit productivity and impair industrial relations and interfere with price formation.

Controls had caused cyclical and structural distortions which had

ARI JACOBSON

made rising inflation and persistent balance of payments pressures now a regular feature of the SA economy, he said.

"Sustained demand for SA's exports has to some extent masked the realities of a rigid system that has impeded the wealth-creating forces within the economy."

The solution to the dilemma was a march towards flexibility via an inward-industrial policy that cultivated domestic growth by making the best possible use of resources which included export expansion and, if necessary, import substitution, said Dickman.

Inward industrialisation did not exclude the judicious development of the latent potential of people and regions. National and regional development were complementary but, Dickman added: "No region should be forced to accept more people than its resource base, seen in a comparative national context, justifies".

Farmers told: move forward

GERALD REILLY

PRETORIA — Deputy Minister of Agriculture Kraai van Niekerk yesterday warned farmers against declining into a survival mentality.

Speaking at an SA Institute of Agricultural Engineers symposium he said the industry had to move forward out of the survival phase to help build a healthier agricultural industry.

Van Niekerk said SA was not a country rich in natural resources such as water and agricultural land.

Rainfall was limited and unreliable and there was little scope for further horizontal expansion.

Costs

Stressing the importance of stubble mulching Van Niekerk said compared with uncovered land a stubble mulch of as little as 20% could reduce the loss of topsoil by as much as 50%.

In some areas where stubble mulching was applied on a large scale devastating sand storms were no longer the general phenomenon that they had been 10 years ago.

On production costs Van Niekerk said the financial position of crop producers in the summer rainfall cropping areas had been under severe pressure in the past few years.

The price of production inputs had risen out of all proportion to the price of outputs, he said.

11/8/88 B/Day

49

il
f
s
d
f
it



More curbs on domestic spending to be enforced

Star 12/8/80 By Svea Lunsche

49

The Government is likely to announce a package of fiscal and monetary measures later this afternoon to protect South Africa's balance of payments, which has deteriorated rapidly this year.

An extension of a surcharge on imports and measures to curb individual credit demand is likely. Selective import controls on luxury goods are not likely to be on the agenda this afternoon, but could be added at a later stage if imports continue to rise in spite of the measures.

Soaring domestic expenditure and an increase of about 20 percent in imports on last year's figures, has resulted in South Africa's balance of payments surplus deteriorating dramatically. This threatens the country's ability to meet its \$22 billion (R55 billion) foreign debt commitments.

The announcement of today's package is expected after close of trading on the Johannesburg Stock Exchange at 4 pm.

No choice' but to rescue BoP

More curbs on economy likely today

12/18/88 B/Oley
49

CAPE TOWN — Government is expected to announce later today a package of measures aimed at arresting serious deterioration of the country's current account of the balance of payments (BoP).

Pretoria sources indicated yesterday the situation had reached a low point, where there was no option but to take corrective action.

The authorities remain mum as to the exact nature of the measures. But the consensus is they will resort mainly to fiscal instruments, such as the extension of a surcharge on imports — and that no direct import controls are likely as yet.

Other steps are likely to be directed at further dampening domestic credit demand and would be an extension of the May package of measures.

The package included raising the benchmark Bank rate by one percentage point to 11,5% and tightening Bank policy, introducing Treasury measures to

CHRIS CAIRNCROSS

tighten instalment credit, control leasing transactions, phase out the debtors allowance for GST purposes, and raising motor vehicle valuations for the purposes of fringe benefits.

As a longer term corrective strategy, government is to restructure its export incentive/promotional package to cater for the needs of specific strategic industries and commodities.

These schemes are expected to flow from recommendations made by the Board of Trade and Industries (BTI), whose report was submitted to government earlier this year.

Details of this report have not yet been made public and it is understood the Cabinet plans to release a White Paper response to its recommendations.

One of the BTI's recommendations ap-

● To Page 2 →

Further curbs on economy likely today

parently calls for more emphasis to be given to promoting "counter-purchases" or "trade swaps".

This week SA Foreign Trade Organisation (Safto) CE Wim Holtes proposed the state take urgent steps to provide a positive lead in this process as it would help to ease the pressure on SA's foreign exchange reserves.

In an interview with Business Day, Holtes proposed all major imports by state departments be linked with a provision, where feasible, that the foreign supplier come up with prospective purchasers for products SA could provide — establishing a formal bartering activity.

Import activity should be linked to what could be exported.

It was time for this trading approach to be handled more decisively with the first step taken by government, Holtes argued.

Once the public sector used its collective muscle to show the way, the major private sector groups, such as the mining houses, would follow suit.

In such a way SA industry could easily generate sufficient demand to produce at least 20% more manufactured goods than at present without investing in extra capacity.

Holtes said the process of invigorating counter-trade operations would be simple to set up and regulate.

49 ← From Page 1
12/18/88 B/Oley
GERALD REILLY reports from Pretoria that Davis Borkum and Hare economists believed SA would suffer more foreign exchange losses and renewed inflationary pressures unless additional measures were taken to slow down the level of domestic demand and consequently import growth.

They said some form of fiscal adjustment could not be discounted as a direct tool to protect the BoP, for instance controls on imports or tariff/surcharge on certain types of imports.

All the measures, or the anticipation of such moves, were designed to slow down economic growth and technically at least, the economy had already moved into a downswing.

The slower growth phase could last through 1988 and for much of 1989.

The very poor trade account figures for the first half of the year, and the plunging rand, suggested the economy was growing beyond its means.

Interest rates were another growth-dampening mechanism, but given the inordinate sensitivity of the authorities to raising interest rates, and with the October municipal election coming up, further increases might be resisted.

MM 12/8/88

As gold breached the US\$430/oz resistance level to \$427/oz on Tuesday morning, the outlook for export earnings is discouraging.

All markets showed signs of strain. Tuesday, the rand dropped below US40c (R2,5/\$), BA rate touched 13%; and Eskom 11% went over 16%.

Reserves have been falling since the second quarter of last year, with minor interruptions. The trend continued in July, with gold increasing in volume to 4,378m oz (from 4,285m oz) and in value by R95m (\$41m) to R4,2bn (\$1,7bn). However, this was offset by a R332m (\$171m) decline in foreign assets to R1,4bn (\$600m). Net total assets fell R235m (\$130m) to R5,6bn (\$2,3bn). Osborn calculates that, this year, reserves have declined about 20% in both rand and dollar terms.

RESERVES

Running out

USA

After months of reassuring pronouncements on the effectiveness of May's credit curbs, the authorities are about to take drastic steps — apparently in the form of more direct economic controls. Reason for the sudden haste to control consumer demand can be read in the reserve and trade figures.

Nedbank chief economist Edward Osborn believes statistics released last week by the Reserve Bank on the gold and foreign reserves, "taken in conjunction with published trade figures, indicate a shortfall on the balance of payments."

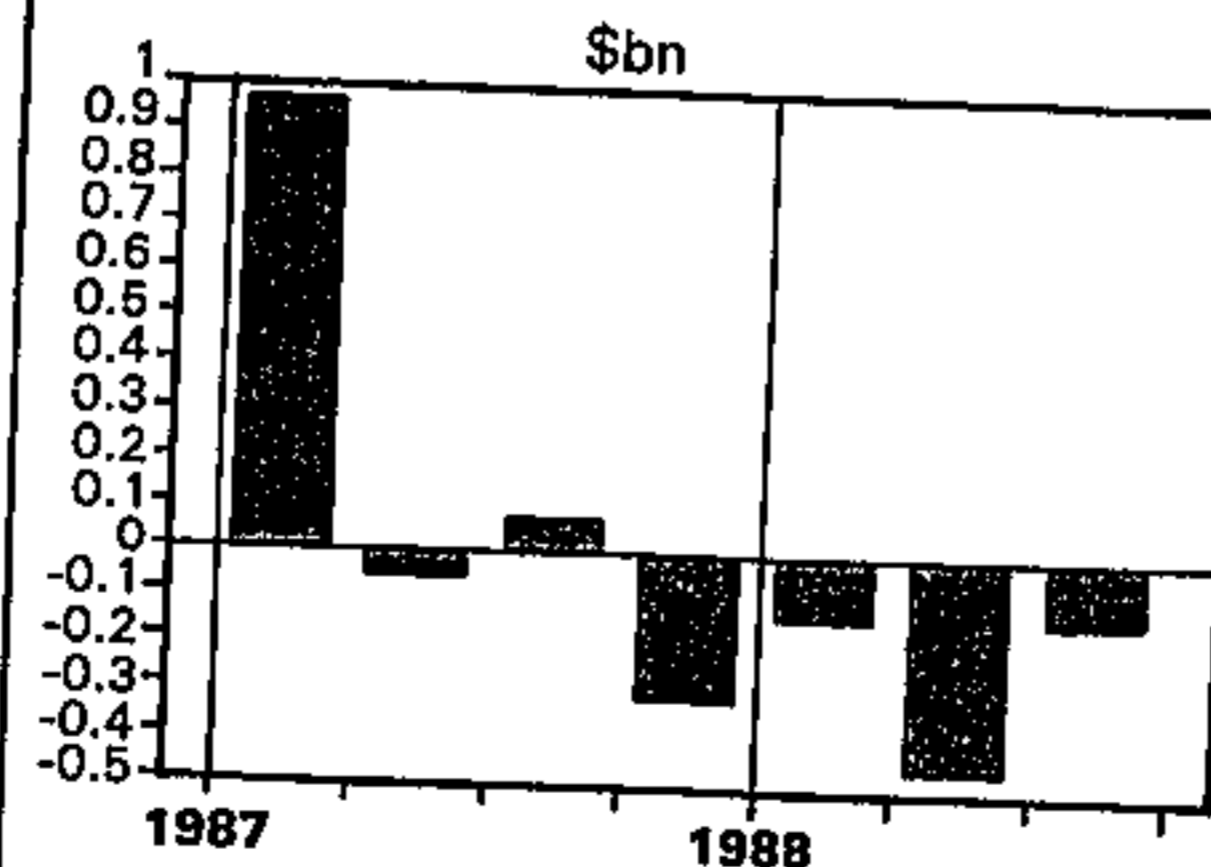
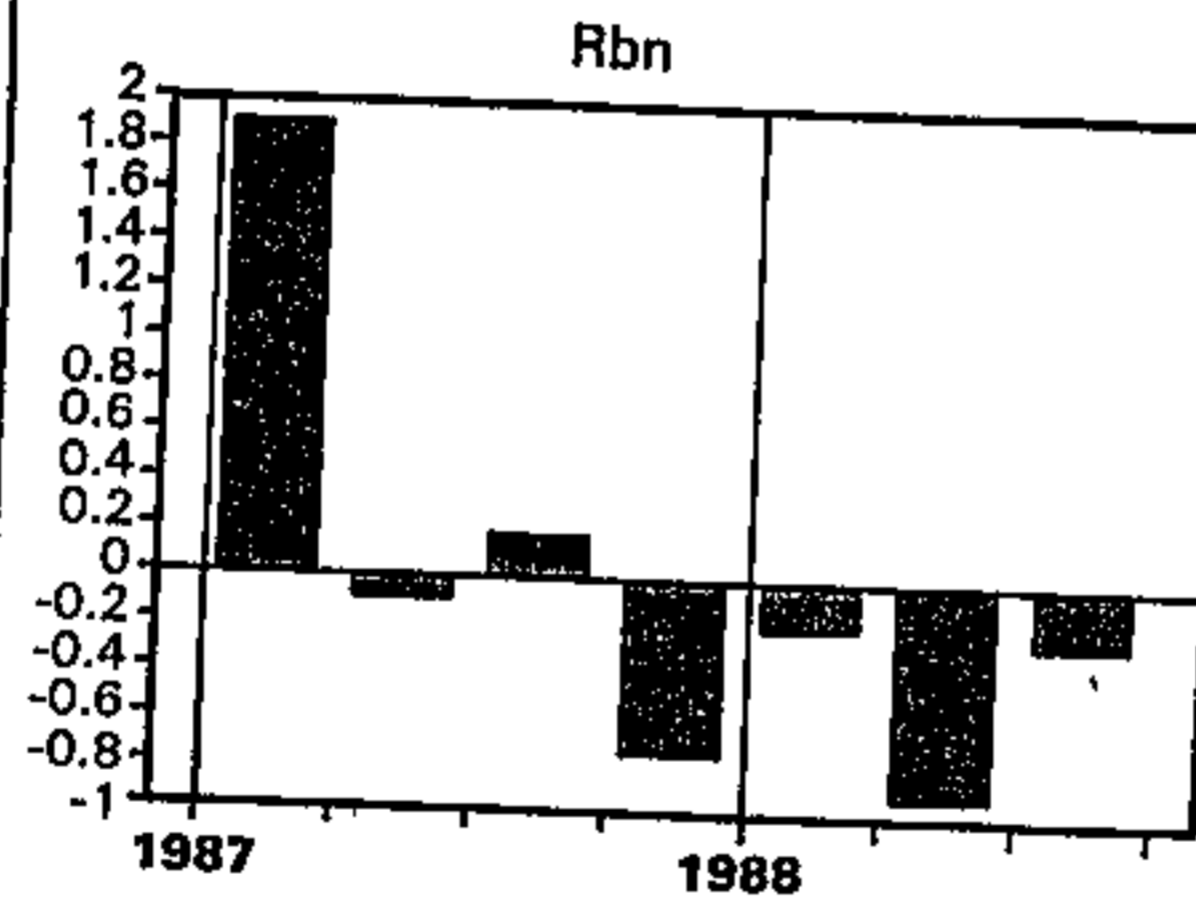
His estimate is based on a possible "substantial deficit of R450m (not adjusted for seasonal variation) on the current account in the second quarter, combined with known capital account payments of R800m. The basic negative balance — somewhat reduced by short-term capital movements of R350m — was nearly R900m in the quarter."

There is little to relieve the gloom.

For a while, short-term capital movements in the shape of trade credits provided a margin of safety. However, increases in off-shore interest rates have absorbed some of these flows, which are unlikely to provide comfort for a while.

Going nowhere

Quarterly change in gross reserves (last bar represents July)



Source Nedbank

Based on change in gold holdings x month's average gold price + change in foreign exchange reserves

Boost from mines

Despite good rains in 1987-1988, agricultural output fell 5,4% in the second quarter on a seasonally adjusted annualised basis, according to Central Statistical Service (CSS). There are two reasons, says SA Agricultural Union chief economist Koos du Toit.

"Firstly, physical deliveries of summer crops are late this year — mainly maize but also crops like groundnuts and sunflower seeds. Normally they are harvested and delivered in May and June but this year the process took much longer. The benefits will come through in the third quarter."

The second reason was "a dramatic decline" in the number of cattle and sheep slaughtered. "Herds are their lowest in many years after forced slaughterings during the drought, with restocking still in progress."

Output in manufacturing and secondary industries also declined — by 5,4% and 4,2% respectively.

Mining growth

Fortunately, growth in mining of 11,9% compensated. CSS attributes much of this to increased gold output. Chamber of Mines chief economist Theo Beukes notes that "substantial contributions" came from other quarters. "The demand for the base metals, copper, lead, zinc and nickel, has increased considerably over the past year. So has demand for ferrous metals — ferrochrome, manganese and chrome ore — while international markets for coal have stabilised."

Overall second-quarter GDP growth was a seasonally adjusted annualised 1,5%. The figures are at constant prices and in effect measure physical volumes. Total growth is based on 1985 prices while the sector breakdown is still measured in 1980 prices. This will be rebased by the time third-quarter figures are published.

The slowdown follows growth of 3,6% (seasonally adjusted and at an annual rate) in the first quarter and 4,8% in the fourth quarter of last year and compares with 0,8% in the second quarter of 1987.

40

May's credit curbs would have had only a marginal impact on these estimates, says CSS head Treurnicht du Toit. ■

449
12 APR 1988

Sweeping measures to stabilize economy

971-715 F
13/8/88
49

PRETORIA. — The government yesterday put the squeeze on credit by tightening hire-purchase agreements. It also tightened exchange controls and increased surcharges on imported goods.

Some of the sweeping measures, meant to stabilize the economy, come into effect today.

The announcement was made jointly by the Minister of Finance, Mr Barend du Plessis, and the acting Minister of Economic Affairs and Technology, Dr Dawie de Villiers.

HP conditions on a range of goods, including electrical and photographic equipment, video systems and commercial vehicles, will be tightened from today.

HP conditions for furniture and motor cars will remain unchanged.

High import content

Details on the HP measures will be announced in an extraordinary Government Gazette today.

The ministers said the raising of deposits and shortening of the repayment period were aimed particularly at reducing sales of goods with a high import content.

The government also decided to raise the import duty on assembled motor cars from 100% to 110% and the import duty on certain motor car components by 3%.

The current surcharge of 10% on a wide range of imported products will be replaced on Monday by a differentiated scale running from 0 to 60%.

Goods to be zero-rated include agricultural imports, certain foods and manufacturing industry inputs.

The surcharge on capital goods will be 20%. The statement said emigrants who still own blocked assets in South Africa may at present freely transfer abroad the full return earned on these assets via the commercial rand system.

To page 3

From page 1

Economy

971-715 F
13/8/88
49

"It has now been decided to limit this to R300 000 per annum.

"Any additional transfers of income must be effected via the financial rand system and only with the approval of the exchange control authorities," the ministers said.

Details would be furnished by the Reserve Bank.

The ministers said if consumers reacted positively to these measures by curtailing their spending, particularly on credit, it would avoid "further and more painful steps".

They also called on banks to scale down their advertising of credit facilities.

The steps had been necessitated by high domestic expenditure, which placed pressure on interest rates and also led to higher imports. — Sapa

BRISBANE

Govt clamps down on spending spree

13/8/88

Star

(19)

MAGNUS HEYSTEK Finance Editor

THERE could be yet more steps to cool down the economy if measures announced last night to curb the current spending spree fail to be effective, Finance Minister Mr Barend du Plessis has warned.

The restrictive economic package to govern consumption expenditure is, however, expected to have far-reaching effects and economists are confident it will have an adverse effect on the inflation rate.

Mr du Plessis has revealed plans to effect a structural change in the South African economy which will make it more self-reliant and less dependent on imports. Details of these plans would be released soon, he said.

Measures announced include a tightening-up of hire purchase conditions, making a wide range of goods less affordable, coupled with a surcharge ranging from 10 to 60 per cent on non-essential imported goods.

(For full details of these measures see page 10.)

Measures shocking
— PFP

DAVID BRAUN

CAPE TOWN — The combination of economic measures announced by the Government yesterday had been a major shock for the economy, the Progressive Federal Party's spokesman on finance, Mr Harry Schwarz, said.

"I think the most important impact is going to be on business confidence. This is going to affect domestic fixed investment, which will in turn affect job creation and lead to increased unem-



Bank robbers kill man

GIEN ELSAS

AN armed guard was fatally shot and R167 920 snatched in a robbery at the Chamdor branch of First National Bank in Krugersdorp yesterday.

Six armed men pulled off the raid in Franses Street about 4.30 pm, fatally wounding Mr Zacharia Jacobus Cordier (23).

Mr Gordier, of Buiten Street, Krugersdorp North, and a colleague, Mr Clements Vermaak (40), were loading a Ford daily Guards truck with banks of money when the gunmen struck.

The gang grabbed two trunks and ran to a waiting car when an off-duty

spree

Star
(49)

MAGNUS HEYSTEK Finance Editor

THERE could be yet more steps to cool down the economy if measures announced last night to curb the current spending spree fail to be effective, Finance Minister Mr Barend du Plessis has warned.

The restrictive economic package to govern consumption expenditure is, however, expected to have far-reaching effects and economists are confident it will have an adverse effect on the inflation rate.

Mr du Plessis has revealed plans to effect a structural change in the South African economy which will make it more self-reliant and less dependent on imports. Details of these plans would be released soon, he said.

Measures announced include a tightening-up of hire purchase conditions, making a wide range of goods less affordable, coupled with a surcharge ranging from 10 to 60 percent on non-essential imported goods.

(For full details of these measures see Page 2.)

Earlier measures in the form of higher interest rates have up to now failed to contain galloping domestic spending which, in the second quarter of this year, rose by more than 9 percent in real terms.

This resulted in the growth in the money supply increasing at a seasonally adjusted annual rate of 25 percent during the same quarter.

High domestic expenditure, which to a great degree was financed by bank credit and which placed pressure on interest rates, also led to higher imports.

The upshot was that merchandise imports in the second quarter of this year increased to the highest level ever, an increase of more than 40 percent compared with a year ago.

Exports during the same time were negatively affected by a declining gold price.

The outcome was that the current account of the balance of payments dropped sharply to record a deficit of R140 million in the first quarter of this year.

This compares with annualised surpluses of

**Measures
shocking
— PFP**

DAVID BRAUN

CAPE TOWN — The combination of economic measures announced by the Government yesterday had been a major shock for the economy, the Progressive Federal Party's spokesman on finance, Mr Harry Schwarz, said.

"I think the most important impact is going to be on business confidence. This is going to affect domestic fixed investment, which will in turn affect job creation and lead to increased unemployment.

"It is also obviously going to increase inflation both directly and, more importantly, indirectly."

Mr Schwarz said there was no reason for the Government to increase the fuel levy tax.

The increase in fuel prices should have been limited to what was necessary to deal with increased costs due to exchange rate fluctuations.

The fact that 58 percent of the petrol price represented cost demonstrated how the Government was using fuel as a mechanism to raise taxes and as a mechanism for user charges, even though these funds were going into general revenue.

Mr Schwarz said he supported hire-purchase restrictions on credit because there had been an excessive amount of credit granted to consumers.

He did not support the import levies which he said would be inflationary.

He said one thing that had been overlooked was that there were many essentials which South Africa would still have to import.

● TO PAGE 2

as
for

ex-
ems
sur-
be

as
be
har-
eal,
ake
oca,
nes,
em-
lop-
las-
res,

Govt puts on brakes

● From Page 1

R5,5 billion and R6,1 billion in the last two quarters of 1987 respectively.

Worsening the situation was the huge outflow of money (R2,7 billion) on the capital account of the balance of payments, due to further repayments of foreign debt.

This resulted in the country's net foreign reserves dropping by some R2,3 billion in the first half of the year, contributing heavily to the corresponding decline in the rand exchange rate against all major currencies.

The authorities have also appealed to South Africa's banks and financial institutions to scale down their advertising of credit facilities.

Last night's measures are primarily aimed at reducing the imports of non-essential goods, which make up about 25 percent of all imports.

Combined with the more restrictive hire purchase measures, this is bound to lead to a decline in the volume of imports.

The major surprise is that HP conditions for passenger vehicles and furniture have been left unchanged, but have been tightened on a wide range of goods including commercial vehicles, electrical appliances, radios, sound recorders, video cassette recorders and players and television sets.

The surcharge of 60 percent on some items, including VCR's, will sharply push up the price of these goods.

The new surcharge only applies to imported goods not yet cleared from the warehouses of the Department of Customs and Excise.

THE latest economic package was a further endorsement of the seriousness of the economic plight caused by SA's growing isolation.

17/8/68 B/Day
(49)
'The high cost of SA's isolation'

ROBERT GENTLE

So said McCarthy motor group joint-MD Dudley Saville in an attack on what he described as the high economic cost of this isolation.

"At the current level of growth, the country is unable to even begin to create the jobs required to meet the needs of a burgeoning population," he said. "If anything, jobs are shrinking."

Saville suggested the balance of payments situation in recent months did not truly reflect economic activity.

The fear of sanctions and apprehension about a weaker rand had resulted in companies building up inventories of imports for strategic reasons.

"Therefore taking recent import figures as a barometer of economic activity may not portray a realistic picture," Saville said.

Saville said the motor industry was relieved the latest measures did not contain further steps to cut down credit for passenger cars.

NEWS FOCUS

Strong medicine in a beautiful bottle

SA'S economic health is failing fast because of the balance of payments constraint. The country needs to run a surplus of at least R2bn on the current account of the BoP to meet obligations on the capital account without depleting reserves. At the beginning of the year economists were forecasting the surplus at about R4bn for 1988. Now optimists say R2bn.

Simply put, the problem is that SA has to generate enough savings to finance domestic spending as well as its foreign debt commitments. The fact that the current account was very close to a deficit in the first half of the year — the surplus was only R430m — indicates that SA is spending more than it can afford.

So, to the rescue comes an economic package consisting of tighter credit controls and a range of surcharges to make imports more expensive.

Economists are relieved that the measures are *semi-direct* and import quotas and credit ceilings were avoided.

Standard Bank's Nico Czypionka said: "It could have been worse."

Three-point rise

Economists agree the package will put brakes on economic activity, finally leading to a recovery in the BoP, but what of other effects?

Much attention has focused on luxury goods, subject to a 60% surcharge, such as video machines and horses, which will hardly fuel inflation, as measured by the consumer price index. But it should not go unnoticed that goods such as computers, office machines and cars are now subject to a 20% surcharge — double the old rate.

At the same time, the import duty on certain components of cars was raised by three percentage points.

While new cars are fast becoming a luxury item, computers and office equipment are hardly the playthings of the idle rich. Companies faced with higher costs on computers or fax machines are sure to pass them on.

The bottom line is that the new surcharge system will probably nudge the inflation rate upwards — in much the same way as a weaker rand does.

Czypionka notes that the psychological effects of the package will

Economic policy is handed out in packages these days, beautifully wrapped and just a little difficult to unravel. Economists are still trying to untie the knots of Finance Minister Barend du Plessis's latest parcel. What will they find — Pandora's box or a miracle cure for an ailing economy? GRETA STEYN reports.

probably be severe. The perception that prices will rise, that credit is harder to come by and that all is not well with the economy will cause consumers to pull in their horns. The bottom line will probably be to crush demand and salvage the BoP, but this will not be obvious for some time.

He says a sudden fall in demand could see retailers and wholesalers facing a build-up of inventories which they need to finance through credit. This means strong growth in the money supply, running at about 25% year-on-year, won't fall back immediately.

The BoP will also not stage a speedy recovery. Czypionka notes that imports are in the pipeline and will appear in the trade figures in

the next three months or so.

Should not SA's economic policy-makers have relied rather on interest rate and exchange rate policy to do the trick?

Trust Bank's Nick Barnardt believes semi-direct measures should never replace the right mixture of fiscal and monetary policy — they should complement the conventional policies. Interest rates, especially, have an important role in addressing specific problems.

Interest rate policy can go a long way towards encouraging much-needed savings, discouraging overspending and easing the strain on the capital account of the BoP.

SA's problem is not so much the current account but the capital account of the BoP, says Barnardt. Higher rates can stem the outflow of capital.

When domestic interest rates are low, compared with overseas rates, it becomes cheaper to finance imports at home instead of using foreign trade credits.

Domestic trade credit is reflected as a short-term capital outflow. Capital outflows, according to Du Plessis, amounted to a massive R2,7bn in the first half of the year.

Moral judgment

"This larger-than-expected capital outflow stemmed in part from the difference between domestic interest rates and those of the country's main trading partners," Du Plessis said.

That was one of the reasons why Bank rate was raised by one percentage point to 12,5% last month.

Barnardt points out that the measures taken last week, while discouraging overspending, do not encourage savings nor ease the strain on the capital account — as a hike in interest rates does.

Czypionka describes the package as a blunt instrument. "The effect of a rise in interest rates of two percentage points in May, instead of only one, would have had a gentler effect," he adds.

He also objects to the what he calls the moral judgment inherent in the new system of surcharges. "The authorities are saying one item is a good import and another is a bad import."

Was the package necessary, since the economic activity was already slowing down?

Economists agree the authorities had to do something. The package drives home the message that the good times are over.



BAREND DU PLESSIS... watching outflows

W Cape's squatters are to get UK boost



Mr Robin Renwick

THE British government is taking a keen interest in attempts to upgrade South African squatter settlements and intends giving financial aid to schemes in the Western Cape.

This was announced by the British Ambassador to South Africa, Mr Robin Renwick, at the annual meeting of the Urban Foundation in Johannesburg yesterday.

Praising the work of the largely private sector-funded body, which he described as epitomising "the acceptable face of capitalism", Mr Renwick urged British companies to pledge financial assistance to the foundation. It had made enormous strides and "a real impact" on South African society.

"This year alone the Urban Foundation will be helping to provide 12 900 developed sites

and 8 800 houses, thereby contributing to housing facilities for over 100 000 people."

However, resources were not available to provide formal housing on a scale that would match the influx into the cities now taking place.

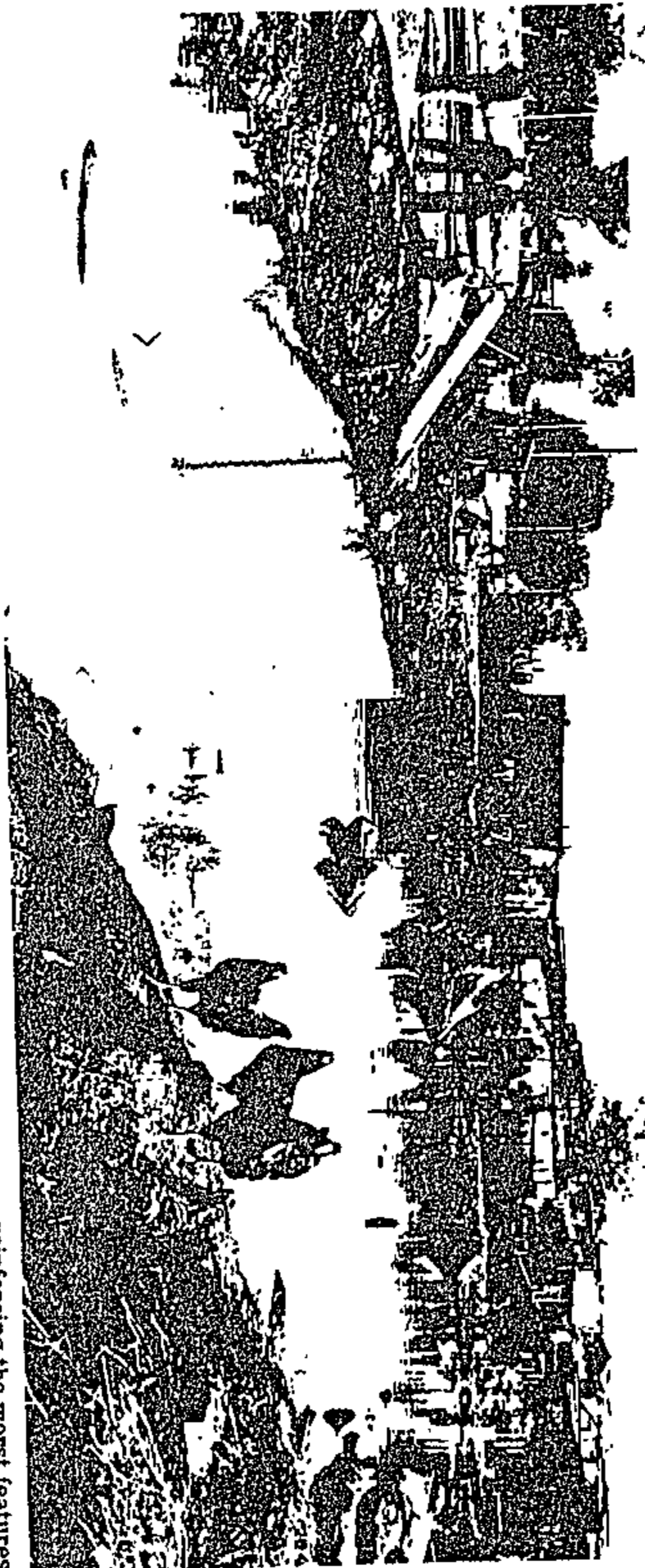
"The response of the foundation has been to devote increasing efforts to informal settlement schemes based on the upgrading of shack and squatter settlements.

"These schemes have already shown remarkable results, and it is in this area of the foundation's activities that the British government is taking a particular interest."

Last October the British government contributed funds to the foundation for low-cost housing in Natal where people had lost their homes in the floods.

"This year we are contributing to further shack up-

Aid for schemes to upgrade settlements



By JEREMY DOWSON, Staff Reporter

grading in that area through the foundation's Innova informal settlement programme. We are looking also at the foundation's plans to provide assistance with informal housing in the Western Cape, and we intend to support that project too."

Turning to the role of British companies in South Africa, Mr Renwick said the British government had never tried to tell companies whether or not to remain in the country.

"But what we certainly are doing is to urge those British companies who wish to stay here to maintain and increase the contribution they make to the health, welfare, pensions, training, education and advancement of their non-white employees.

"And most of them, I am

glad to say, are leaders in this field. British companies devoted well over R140-million to their efforts in these fields in 1986 alone."

One British company had pledged R3-million to the Urban Foundation this year and was believed to be considering a similar contribution next year.

"All those who feel strongly about the situation in South Africa I would urge to show their commitment by matching efforts of this kind."

Speaking on capitalism and apartheid, Mr Renwick said it was a myth that capitalism guided the key decisions of the State in South Africa. "In fact, the principles of free enterprise and racial segregation are totally incompatible."

South Africa had moved

away from apartheid in some important respects.

"But it is no use pretending that apartheid has been abolished, or is about to be. The cornerstone of the apartheid system is the Population Registration Act, and it remains very much in force."

In South Africa there was a continuing belief, on the one hand, in the efficacy of State capitalism and, on the other, in "an extreme form of socialism". Both concepts were "hopelessly outmoded."

"The management of a socialist economy requires a hyper-efficient bureaucracy. And speaking as a bureaucrat, I can assure you that that does not exist anywhere, least of all in Africa — including this part of Africa.

"What is needed here is to preserve the economy while changing the politics — not to destroy the economy while

reinforcing the worst features of the political system."

Change in South Africa was inevitable. "But those who promise short cuts are going to discredit themselves."

"It will be a long, hard road, and what matters most at this stage is to develop self-help structures which increase the confidence and organisational strength of the communities."

If organisations were to have any credibility, they had to prove themselves by delivering practical benefits to those they were seeking to help.

"We in turn try to help them and this year we will be supporting over 100 community projects. This will not bring liberation tomorrow. But it is certainly going to help people today, and also create hope for the future."

18/8/88 (49) B/Day

'Key to long-term economic future'

PRETORIA — Support for locally manufactured goods would in the long term determine the economic future of SA, PFP finance spokesman Harry Schwarz said here yesterday.

Reacting to President P W Botha's "Buy SA" call, he said it made sound economic sense.

"Not only would a successful Buy SA campaign bolster the country's sagging balance of payments but it would create jobs and a climate of stability vital for any programme of progressive reform."

Commenting on Botha's "concern" about the role of the private sector and that it had to plan beyond the short term, Schwarz said business confidence was directly related to political stability.

GERALD REILLY

"Government must demonstrate to the private sector there is a long-term prospect of stability based on a reform policy which would restore internal order and international acceptability before long term planning is possible."

Future planning, Schwarz said, was a joint public-private sector responsibility.

The peace moves in Angola/Namibia would help boost fragile business confidence, but "unfortunately", Parliament would be debating "highly contentious" matters, such as squatter and group areas legislation.

Schwarz said the provocative legislation could result in severe reaction abroad and even more punitive sanctions action against SA.

SINCE South Africa is in a state of arrested development politically, it is hardly surprising that, among some of the protagonists here, economic thinking has not advanced much either.

There still is, on one side, a continuing belief in the efficacy of State capitalism, and on the other an equally naive and utopian belief in an extreme form of socialism.

The fact is that both concepts are hopelessly outmoded.

When Krushchev told the West: "We will bury you," he claimed he meant the economic performance of the socialist countries would so far outstrip that of the West that the Western economies soon would collapse under the weight of capitalism's own contradictions.

Well, what has happened since? What is the reason in the Soviet Union for the policy of perestroika? The main reason, according to the Soviet leaders themselves, is economic stagnation.

The Soviet Union alone, together with some parts of this continent, has contrived to defy the laws of economics as they have applied elsewhere in the world, and actually to worsen its own problems while others have been solving theirs. Hence the reforms now being introduced there, and in some of the countries on this continent which have tried, with an equal lack of success, to follow the same route.

The management of a socialist economy requires a hyper-efficient bureaucracy. And speaking as a bureaucrat, I can assure you that does not exist anywhere, least of all in Africa — including this part of Africa.

One can hardly fail to be struck by the extraordinary blindness displayed about the history of this continent. That, perhaps, is to be expected. The one thing history and experience teaches is that no one learns anything from history or experience. Thus, ignoring what has happened to other African economies, the cry goes up: "Let's make all the same mistakes again."

What is needed here is to preserve the economy while changing the politics — not to destroy the economy while reinforcing the worst features of the political system.

In many parts of the developing world, democracy fails. One-party systems encourage the centralisation of power. When change can take place only by violent means, one undemocratic system succeeds another. Hence the dilemma: "Many societies cannot afford democracy, but even less can they afford not to have it."

Amidst misery there can be no freedom, British Ambassador Robin Renwick (right) said at the annual meeting of the Urban Foundation in Johannesburg yesterday, reaffirming his country's opposition to sanctions and disinvestment. This is an edited extract from his speech



Preserve economy — but change the politics of SA

12/8/88 B/Day (19) (10) (11)

Urban Foundation chairman Jan Steyn added that SA is a prime contender for this contradiction, in terms of its future development. Is there not a danger here, too, of resigning yourselves to living permanently under censorship and states of emergency?

There are problems which would confront this country under any form of government. There are very few cases of actual starvation in SA today, but there are hundreds of thousands of cases of malnutrition. Tuberculosis is rampant in the squatter settlements of the Cape and on the Rand.

Because there is no starvation, there still is a large influx, legal or illegal, of people from the neighbouring countries seeking work here.

Against the background, you will

understand why we are so totally opposed to the absurd and pernicious doctrine that "worse is better". The idea that by meting out more economic punishment we can hope to improve the situation here seems to us a pathetic illusion. Amidst misery, there can be no freedom.

In few societies it is easier to understand the anger and frustration of those struggling for their political rights. But that does not mean we should applaud the intolerance which characterises South African politics and which, unfortunately, is not manifested only on the right

The call for sanctions is born not

of malevolence or a desire to destroy, but of frustration. We should be ill-advised to question the bona fides of those who genuinely believe, albeit against most of the evidence so far, that somehow they might help. By the same token we are entitled ourselves to object to attempts at the "moral necklacing" of those who are just as adamantly opposed to apartheid, but who have the temerity to question whether further economic sanctions will have the miraculous effects which, apparently, are attributed to them.

The question is not an ideological but a practical one. How can we seek best to overthrow apartheid without inflicting even greater misery on the people of SA, to say nothing of the neighbouring states?

The reality is that more general

sanctions might end up reducing the average income of white South Africans by, say, 5%. But they would reduce the income of black South Africans thrown out of work by 100%, and the consequences for their much larger number of dependants do not bear thinking about.

As we try to assist community groups in the townships, so we come across the practical effects of disinvestment I have been told by numerous groups that they used to receive help from companies — usually US companies — that have left. When I visit the liberal universities, I hear of scholarships for black students that also have terminated when companies left.

When a company decides to leave this country, it does not continue to worry about SA. On the contrary, it writes that subject off its agenda. And, after all, we can hardly blame them. They are not asked by the apostles of disinvestment to go on doing anything positive here. All they are asked to do is leave.

These pressures to disengage apply not just to companies but to countries as well. We are urged to cut off all economic contact with SA, to break off diplomatic relations, to engage in a cultural boycott, to maintain the sports boycott, to enforce the academic boycott — in short, to leave and pretend that the place no longer exists.

Of course, we could go on voting for resolutions at the United Nations. It would not be clear what else we could do. And any country that takes that course is going to end up writing SA off its agenda too — except, of course, in the purely rhetorical sense. And if that kind of isolation were achieved how, I wonder, would that possibly help those struggling for change here?

So far as Britain is concerned, we do not believe in disengagement. We do not intend to walk off the pitch. We intend to stay on the pitch — to go on working for peace in Angola, an internationally recognised settlement in Namibia, a return to the Nkomati Accord with Mozambique, the repeal of all racially based legislation, the release of political leaders and negotiations in which all parties can participate on the basis of a cessation of violence on all sides.

We do not expect instant transformations, or success on all fronts at once. But however long it takes, and however hard we have to struggle, we will go on working to attain those objectives. We are determined to help to defeat apartheid. And we intend to demonstrate that we, too, do not lack staying power.

Cash buyers plunder shops

CASH sales of TV sets, video machines and other luxuries are booming as buyers splash out to beat heavy price hikes looming after the imposition of a 60% import surcharge.

Dion MD Hymie Sibul said the boom in cash sales started on Saturday, the day after the economic package was unveiled, with sales 40%-50% higher than projected.

He added major appliances looked like being sold out soon.

Credit buyers have already been discouraged, however, by the bite of the restrictions on HP and credit sales. This

18/8/88
GRETA STEYN

49

raised deposits and reduced the repayment periods.

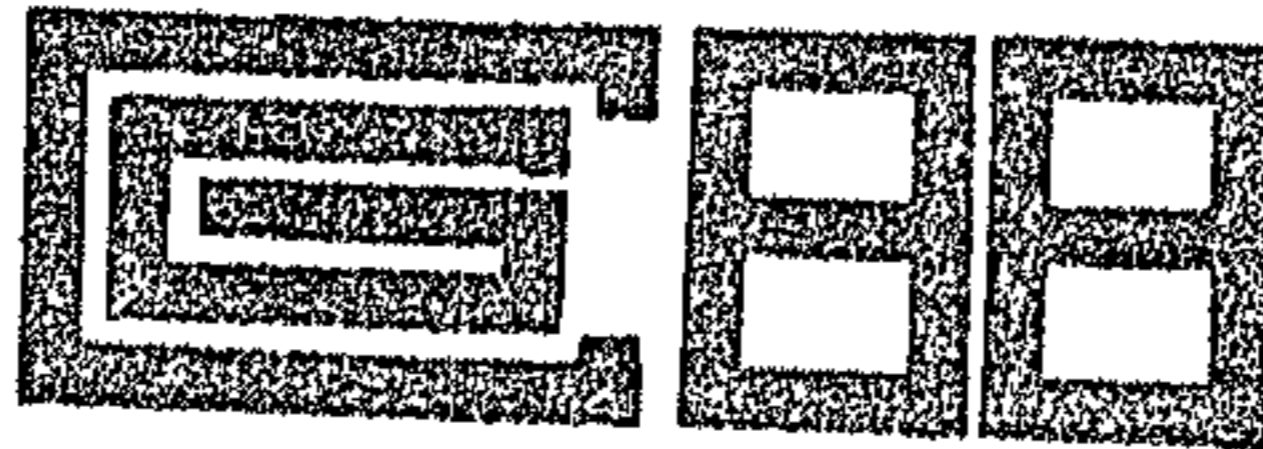
O K Bazaars' marketing director Arthur Solomon said TV sales were buoyant with customers trying to avoid higher prices.

"But the credit curbs are already biting with demand falling off in some sectors," he added.

Morkels said the initial reaction of consumers seemed to be a surge in demand from cash-flush, upper-income buyers.

B. Day

Computer Graphics '88



Incorporating the 8th South African
Computer Aided Design Symposium
(SACAD '88)

Furnfair

CAC Ticks 18/88

earnings up 145%

By AUDREY D'ANGELO
Financial Editor

49

THE fast-growing Furniture Fair (Furnfair) retail chain, which has increased profits steadily since it was listed on the Johannesburg Stock Exchange in 1986, has lifted earnings for the year to June 30 by 145% to 44,8c a share.

This is even more impressive when it is realized that as a result of a rights issue in July last year the number of shares in issue has risen to 10,1m from 7,5m.

Turnover doubled to R26m (R13m) but net income rose by a dramatic 231% to R4,5m (R1,4m). This indicates a substantial widening of profit margins although the directors say increased efficiency and tighter credit control helped to achieve these results.

The final dividend is 6c a share, bringing the total for the year to 11c — an increase of 83% on the 6c paid out the previous year.

The interest bill was only R39 000 and the directors point out that the company is "virtually un-gearred".

But, with the economy cooling and measures being taken to curb credit demand, one questions the decision to continue making no provision for taxation.

Because of its expansion and large proportion of credit sales, which mean it is always owed substantial sums by people buying on hire-purchase, the directors believe Furnfair will incur no tax obligations in the foreseeable future.

They say negotiations are underway for the company to acquire the seven outlets of the former Montays chain, bought out of liquidation by Furnfair MD Ivan Hammerschlag and his brother, Furnfair director Jeff Hammerschlag.

These stores now trade under the name Montana and have been restructured and returned to profitability.

Ivan Hammerschlag does not believe Furnfair will be hit by the measures to curb spending.

"We already require the minimum deposit and maximum repayment periods stipulated under the new rulings and although this excludes hi-fi and video equipment, which are subject to more onerous requirements, these products contribute only about 3% to our profits," he said.

"The effects — if any — on the business will be minimal."



Ivan Hammerschlag

Act used once only

CAPE TOWN — President P W Botha has had little use so far for the extra powers, somewhat hurriedly granted to him by Parliament last year, to cut through or suspend any red tape seen to be imposing restrictions on economic activity and development.

These powers were embodied in the Temporary Removal of Restrictions on Economic Activities Act — legislation which government motivated on the basis that the extra powers could be used in selective circumstances to help speed up the deregulation process.

Thus far, these extra powers have

CHRIS CAIRNCROSS

been used only once, to suspend all those laws and regulations which would have impeded the development of the multi-faceted and informalised industrial park being set up at Kew, outside Johannesburg.

While some criticism continues to be levelled at the slow pace at which government is moving to deregulate the economy, particularly on such issues as trade licensing, spokesmen for organised commerce agree the "red tape legislation" — as it is now called — should only be invoked in very special circumstances.

10/8/88

19

19

Surcharges ^{CMT/MS} not the answer — Du Plessis

By AUDREY D'ANGELO
Financial Editor

IMPORT surcharges which will force up prices, making inflation worse, are the wrong way to tackle SA's balance of payments (BoP) problem says Sanlam chairman Fred du Plessis.

Instead of "dampening the economy to a no-grow situation" the government should have introduced a quota system limiting the expenditure of SA's scarce foreign exchange to essentials, he said last night.

And it should do more to encourage exports, particularly gold. Du Plessis believes the gold mining industry should be offered a more favourable tax deal.

In an outspoken interview, Du Plessis disagreed with economists who say SA is in a Catch 22 situation because it needs more growth to provide jobs for the expanding population but cannot afford it because imports must be limited.

"We should distinguish between what we need to solve our BoP problem and what we need to have more



Fred Du Plessis

growth," he said.

"Our problem is a shortage of foreign exchange. That does not mean we have to dampen our economy to a no-grow situation.

"There are a number of other things we can do. The most logical thing is to improve our foreign exchange earning capacity by encouraging further exports."

Du Plessis said that in spite of the threat of sanctions SA would always be able to export gold.

"It is one of a number of things the world cannot do without. Yet instead of encouraging gold exports we have been discouraging them.

"The gold industry is in the doldrums because of its onerous tax position. If this were eased it would encourage more output and the opening of further mines. We must build on the strengths we have."

Du Plessis said another source of growth would be to build more low-cost housing, increasing demand for building materials and other commodities which were not imported.

"We have increased the price of imports through surcharges instead of acknowledging that we are short of foreign exchange because of abnormal circumstances and not because of the market," he continued.

"We should have looked at the introduction of foreign exchange quotas for essential goods instead of pushing up the prices of imports which will affect other prices.

"We should use our foreign exchange in a very delicate and specific way to buy only the things we need."

Du Plessis said this would not contravene the provisions of the General Agreement on Tariffs and Trade (GATT). That had a special provision to help countries with foreign exchange difficulties.

49 19/8/88
SMM

Growth rate of 2% thought unlikely

By Sven Lünsche

Given the course of the economy in the second quarter and the measures that have since been introduced to curtail domestic expenditure yet further, it seems as if a growth rate of two percent for 1988 will be difficult to achieve.

This is the opinion of Volkskas economist Adam Jacobs, who writes in the bank's latest *Economic Spotlight* that for the first six months of the year, real gross domestic product (GDP) showed an increase of only 1,7 percent on the same period last year.

He bases this figure on recent statistics by Central Statistical Services, which reveal that real GDP showed an increase of 1,5 percent in the second quarter, compared with increases of 4,8 percent in the fourth quarter of 1987 and 3,6 percent in the first quarter this year.

This state of affairs is very bad news. The underlying trend appears to be yet weaker, as the growth rate of non-primary sec-

tors dropped by 0,3 percent in the second quarter. Manufacturing also showed a drop of 5,4 percent," Mr Jacobs says.

"These figures indicate that the business cycle has already reached its peak and that the economy is currently in a cyclical downturn phase.

"It also seems as if some of the important components of expenditure show a weaker trend, while a strong replenishment of stocks took place in the second quarter, a factor, however, that cannot continue indefinitely."

Furthermore, Mr Jacobs says that government expenditure is likely to grow in the coming months because in real terms it had actually dropped in the period from April to June.

"Seen per balance, it seems as if a drop can be expected in real gross domestic expenditure in the coming months, which will be accompanied by a sharp decline in imports and subsequent surpluses on the current account of the bal-

ance of payments.

"With an expected decline in stock levels in the trade and industry, the demand for bank credit should also deteriorate and the growth in the money supply decline.

"In view of this, and provided that the gold price does not drop significantly below \$430 and there is no sharp increase in international interest rates, the chances are good that there will be no further increase this year in the bank rate," Mr Jacobs concludes.

On inflation, Volkskas believes that the increase rate in the consumer price index will be higher in the coming months.

"This can be attributed to higher prices of imported products and the fact the prices of services and the unit cost of labour also tend to accelerate," Mr Jacobs says.

"We therefore uphold our opinion that the inflation rate could increase to about 14 percent by the end of the year."

...decides to nationalise one or two enterprises in the interest of the Namibian people that must be done," he said.
He added there would be adequate compensation.

...to the contrary. This might only be long after Sam Nujoma is long gone."
Nujoma, asked about a possible exodus of white skills and capital with independence, said there was enough room for all.

Nujoma was resolute that the SA enclave of Walvis Bay, whatever the legal position, was an integral part of the Namibian economy and SA would have to evacuate it after independence.

© See Page 9

Curbs bring hassle factor and confidence warning

A TOP British businesswoman warns that restrictive economic measures, announced last week by Finance Minister Barend du Plessis, will seriously hit UK business confidence in SA.

Association of British Chambers of Commerce former director Lynn Howarth said the measures would also increase the hassle factor for UK exporters.

"We want to trade with SA but (the SA) government is making it very difficult for us. Why hit capital goods which SA so desperately needs to modernise plants and machinery?" she added.

Howarth, a management consult-

MANDY JEAN WOODS
ant, said improving manufacturing capacity would eventually pay off with lower imports and higher exports.

When faced with a similar problem several years ago, the British government found that imports comprised a lot of things which industry needed to increase capacity, increase exports and meet local demand.

"The general feeling in British business is that the SA government keeps shooting itself in the foot. We can only hope the restrictions are very temporary," she said.



© HOWARTH

CONSHU HOLDINGS LIMITED

(Registration Number 68/06778/06)

RESULTS FOR THE YEAR ENDED...

W B Day
19/8/88

Venda's

VENDA's Justice Minister Fred Tshivase has re-joined the Cabinet.
Tshivase was sacked...

CO
Ca
Re
Ch
ha
ho
as
re
ab
so
je
wi
sai
ce
im
ne
re
the
the
wh
soc
pos

(49) B/Day 1978 BS

IT IS useful, in current circumstances, to remind ourselves of the similarities between pastoral communities and modern industrial societies. Though there is much that differentiates them, they share macro-economic characteristics.

If a pastoral community is driven to eating its seedcorn because it fails to husband its resources properly or because of severe drought, even if it subsequently rains it will not be able to avoid disaster. A modern industrial society which reverts to the consumption of the physical stock of its capital, particularly if its population continues to grow, also invites disaster.

That is the role into which SA has been cast by its own failures of economic and political management, and by international sanctions. And the situation allows for no complicity. As Aubrey Dickman showed in his recent article on this page, the country is already on the doorstep of severe crisis.

Of course, one cannot eat machinery and equipment. But it amounts to doing so when current output is diverted to the production of consumer goods and not to the replacement of capital and its extension.

Unfortunately, real gross domestic fixed investment has been falling, and in 1987 was more than 30% lower than it had been in 1981. This has taken its toll of the magnitude of the fixed capital stock when measured in constant prices.

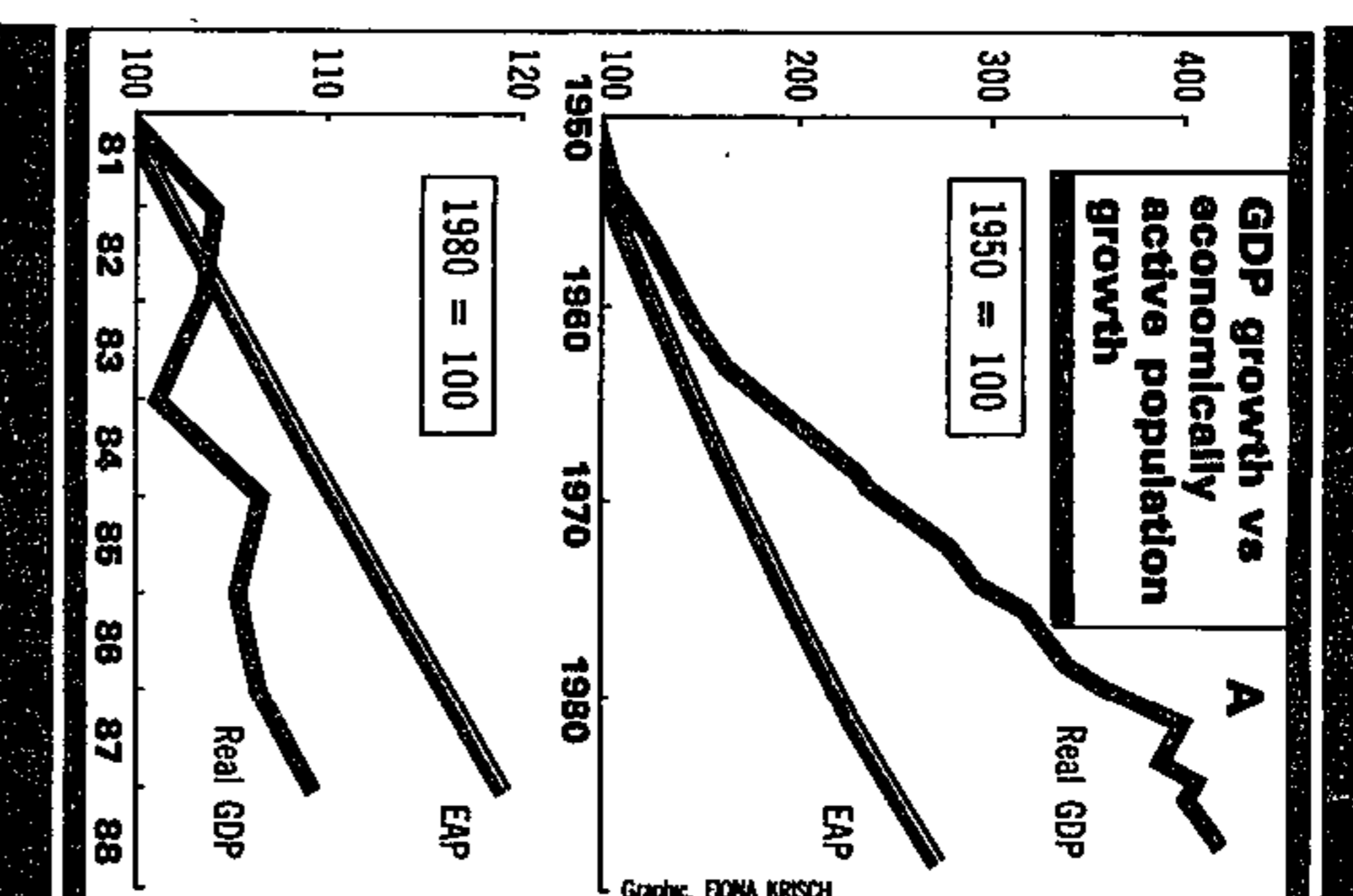
The latest Reserve Bank data show that the real fixed capital stock has continued to grow in absolute terms throughout the Eighties despite the very poor performance of the volume of production, but when adjustment is made for increases in population, we are already in negative territory. In other words, in per capita terms, SA has already become the pastoral society consuming its seedcorn. This cannot be allowed to continue.

The current balance of payments crisis is directly linked to the problem described above. Because of sanctions, financial and economic, SA has been forced to become a capital exporter when its development requirements dictate that it import investment funds from abroad. It simply does not generate enough savings domestically to sustain the kind of growth it both needs and is capable of.

Indeed, an analysis of the data shows that during the past two decades, its need for physical capital has tended to increase for every unit of real GDP generated. Merely to sustain a growth rate of 2.5% per annum would require an expenditure on fixed investment of more than R800bn at constant 1986 prices between now and the end of the century. This is an amount far greater

SA must save more — not consume resources

If investment is to be financed, higher levels of domestic savings are essential. They will be forthcoming only if interest rates rise, writes RONNIE BETHLEHEM, Group Economics Consultant for JCI



than the country's present propensity to save would provide. And clearly, to grow at a faster rate would require even more money.

In this regard, the current low level of SA interest is important. Consider the following table:

| SA | US | Difference |
|---------------------------|-------|------------|
| Nominal interest rate* | 14.20 | 8.33 |
| Less inflation rate | 12.45 | 4.00 |
| Real interest rate* | 1.75 | 4.33 |
| | | +5.87 |
| | | -8.45 |
| | | +2.58 |

* Three month acceptances

The figures offer some explanation as to why the SA BoP capital account has continued to trouble the authorities. On purely commercial grounds, and ignoring completely adverse political and other considerations, funds should be moving out of SA. The other side of low local interest rates is that domestic savings are discouraged at the very time that foreign savings are being denied the country by sanctions.

If investment is to be financed, higher levels of domestic savings are essential and will only be forthcoming if interest rates rise. Higher interest rates are needed also to ensure that financial resources are efficiently used, and not wasted. Easy credit, for SA, and no less for its agricultural sector, could be a "primrose way" it should decline to take.

An historical perspective of what is happening with respect to the real

economy is provided by graph A. This shows, in its upper section, the growth of real GDP against the growth of the economically active population (EAP) since 1950. It is evident that for 30 years the country kept ahead of the game. Small wonder, then, that — despite its political "primrose way" — it was regarded positively by investors.

But since 1980 the situation has changed. Real GDP has lagged EAP, and by a large margin. It can ill afford an extension of the Eighties experience into the remaining 12 years of the century.

GDP must, again, get ahead of EAP, if the country is to stand any chance of holding off a sub-Saharan-type decline in which a great majority of people are trapped in irredeemable hardship and deprivation and only pockets of modernity and privilege remain. Only the steady extension of the benefits of

industrialisation to all its peoples can such a decline be averted.

Finally, it is necessary to remind ourselves of the close connection in SA between the economic cycle and the cycle of social turbulence.

Graph B shows that, in the early Sixties, in the mid-Seventies and also in the Eighties, each surge of socio-political turbulence has actually been preceded by economic deterioration, not the other way around.

Economic performance is measured here by changes in real private consumption expenditure per capita, the ultimate welfare criterion. Once socio-political turbulence has increased it has helped push the economy deeper into the recession, but it was economic deterioration which came first.

All this is reason for concern because the economy, once again, appears to be entering a period of downturn. Because of sanctions and because of economic mismanagement, the authorities are being forced to take determined action to check growth.

And next year could also be difficult for reasons quite beyond government's control. Once the US presidential election is past, a new administration in America will have to address itself to the problems of US and global trade and fiscal imbalance.

A slowdown in the world economy is in prospect — and so, ironically, is a stronger dollar and disappointing gold price. These could be the worst possible circumstances for President P W Botha and his party when entering a general election.

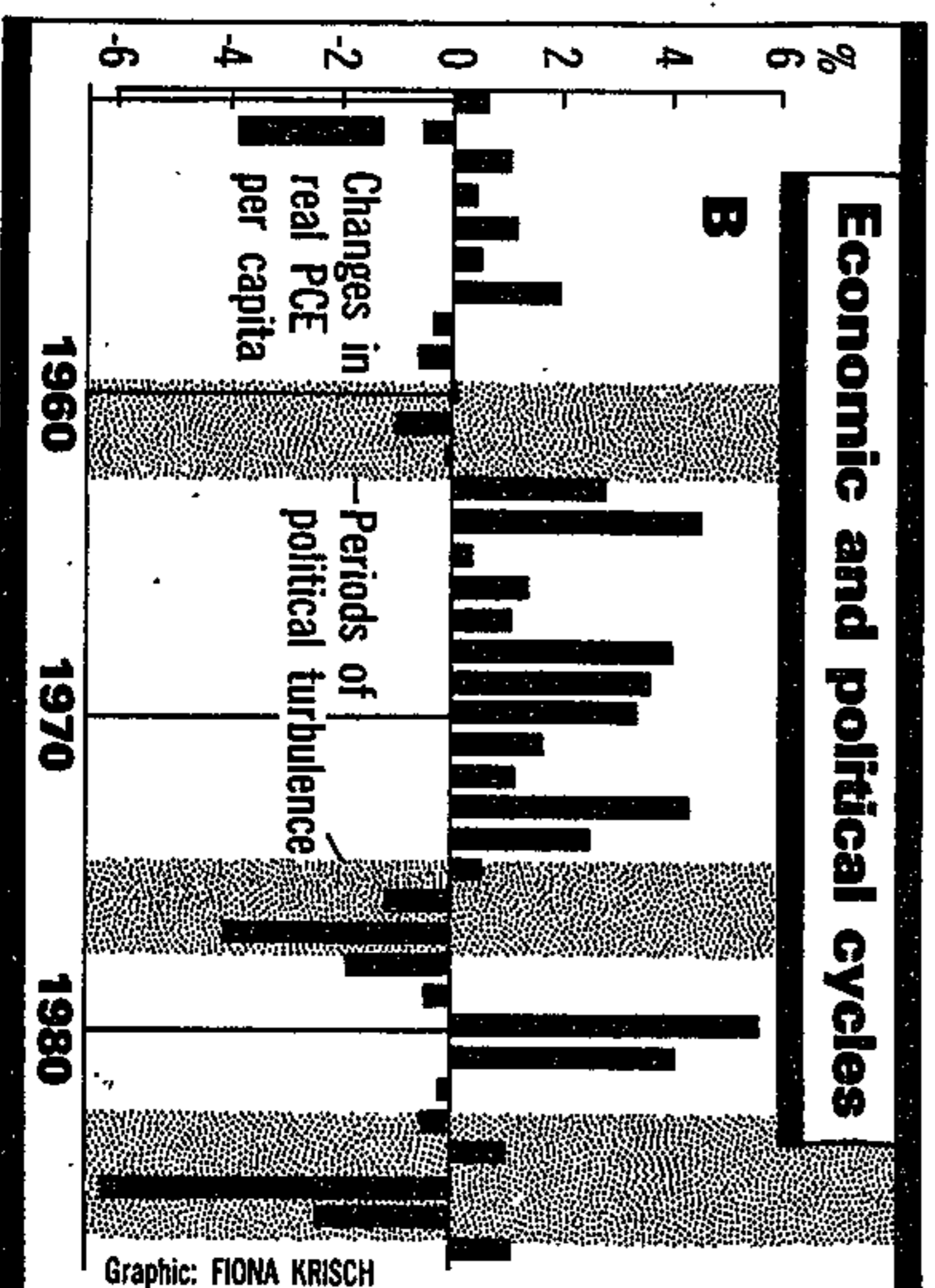
So the BoP crisis is a real one and its gravity and threat need to be understood by all. Events may not turn out as gloomily as predicted if the gold price is helpful and the world economy's performance is better than expected. But we will require more than luck to see us safely through.

We will need a determined administration, prepared to adhere to policies of monetary and fiscal restraint despite their short run party-political disadvantage, and prepared also to do the kind of things constitutionally that promote a genuine national solidarity against the sanctions threat.

At present, and for reasons that it is possible to understand, too many blacks still see sanctions as a weapon aimed at the government, and therefore at oppression.

It is when that perception begins to change that arguments in favour of sanctions will have lost all credibility.

□ RONNIE BETHLEHEM is author of "Economics in a Revolutionary Society: Sanctions and the transformation of South Africa" (AD Donker, 1988).



Graphic: FIONA KRISCH

KERNEELS HUMAN

49 19/8/88 fm

The economic tiller

It has been suggested that SA's economic policy-making is hopelessly adrift. The man who could set it back on course is Dr Kerneels Human, recently re-appointed to the country's top economic post — chairman of the State President's Economic Advisory Council (EAC).

Important though the posting undoubtedly is, Human has no illusions as to the limitations on the EAC's power and influence. Still, he's going to be in the chair for three years — the normal term — and is determined that his efforts will not be dissipated.

He emphasises the council is purely an advisory body with no executive functions. But, as it reports directly to the State President and not the Cabinet, its influence must not be disregarded.

Moreover, he's convinced the EAC continues to exist because the State President wants "genuinely independent advice" from businessmen and public sector representatives. That, alone, puts it in a strong position.

In business lobbies it is generally suspected that Afrikaner businessmen have a better perception of government's difficulties — especially in the area of policy-making.

But Human says no such partisan thinking exists within the EAC. It operates on a "completely non-partisan basis" reflecting the views of SA business as a whole and not narrow sectoral interests.

The composition of the EAC is one of its strengths; it comprises businessmen appointed in their individual capacities, not as formal representatives of organised industry or commerce. As individuals, he feels they are better able to speak their minds and have greater freedom of debate.

Cynics would have it that the EAC is merely an elevated think-tank with a dismal record of achieving anything of substance in the area of policy formulation or the setting of economic objectives.

With this contention Human takes immediate issue. He points, with some pride, to the achievements of the previous council — specifically its report on long-term economic strategy — which has with qualifications been accepted by government and now forms the basis for current policy directions and initiatives.

In other areas it has been effective, too, he argues — especially with regard to the reports it has published on the restructuring of agriculture and on strategies for combating inflation.

In what will probably emerge as its most important task to date, it has been authorised by the State President to monitor the progress of the long-term strategy for dere-

gulation and privatisation. These key issues, he says, can be expected to be "under continuous discussion" in the new council.

And Human warns he will be tough on those who attempt to subvert attempts to privatise. He says the EAC "will not hesitate" to draw the State President's attention to failures or delays in implementation — something which is to be welcomed.

Human's voice on these issues will be heard and almost certainly respected. He is, after all, a highly visible and influential man in the business community as chairman of Federale Volksbeleggings — a post he has held since 1982. Prior to that he was MD.

He could, in fact, be regarded as one of the most distinguished of the older generation of Afrikaner professional business administrators.

Cornelis Johannes Frederik Human was born in 1922 at Tweeling in the OFS, and educated at Reitz High School and the University of Stellenbosch, where he studied commerce.

He joined the Federale group in 1947 as assistant accountant — the start of an illustrious career which coincided with some of the greatest triumphs of Afrikaner business.

Merely to recite Human's major current appointments and past achievements is a formidable task. Apart from his chairmanship of Federale, he is also chairman of Fedfood, First National Development Corporation of SWA, Siemens, a director of Bankor, BMW (SA), Santam Insurance, as well as chairman or director of many other companies.

He was a member of the Margo Commission, and was president (in 1971/1972) of the Afrikaanse Handelsinstituut which honoured him with its MS Louw award in 1983. He is an honorary DCom (University of the OFS) and LL D Rhodes. In addition to all that he has received the Decoration for Meritorious Service (DMS).

He is a member of the Board of Governors of the Urban Foundation, a vice-president and member of the council of the SA Foundation and other similar bodies. He is a member of Die Suid-Afrikaanse Akademie vir Wetenskap en Kuns and a trustee of the development funds both of Unisa and of Stellenbosch University.

He was married in 1949 (to Elsie Stiglingh), and has two sons, one daughter and eight grandchildren. His principal recreations are walking, riding, gardening and golf.

Recent adverse trends on the balance of payments — and the threat of further sanctions — seem to be bringing official thinking back to the old-fashioned concept of direct controls.



Human . . . force for freedom

Human insists the EAC works from "the platform" of free market doctrine. "That is the gospel which we are spreading within the council and in wider circles." But he says circumstances may dictate emergency measures in conflict with free market procedures — the adoption of which he denies would "spell a handing over to a controlled economy." His personal attitude to issues like import controls, in a word, is pragmatic.

Getting consensus on economic issues is not going to be easy — given the often conflicting ideologies and interests involved. Tackling the economic development of southern Africa as one unit, he believes, would be as good a place as any to start. ■

Sinking fast

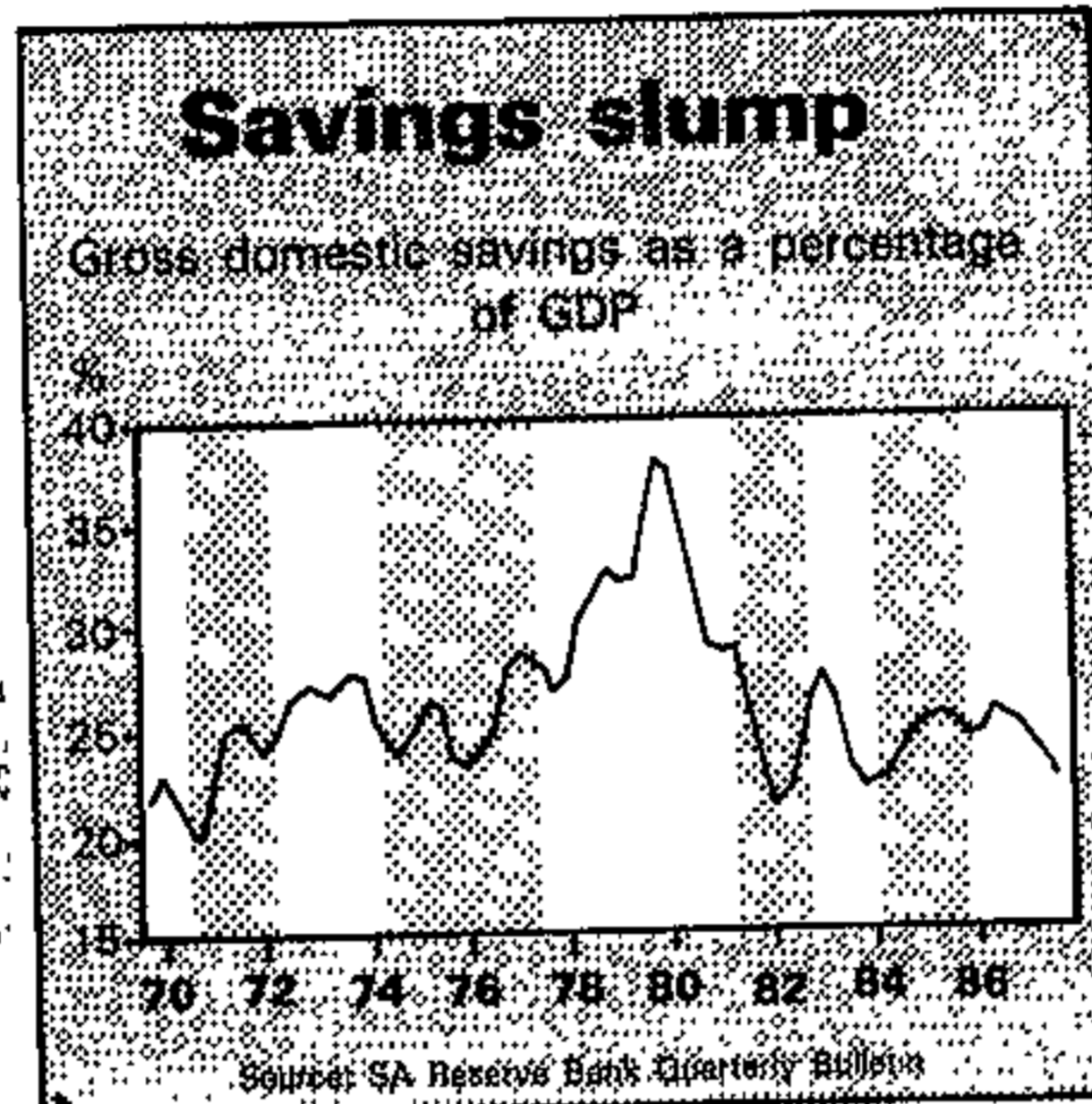
Real savings have declined steadily since 1980, when the ratio of savings to GDP stood at 35%, according to Sanlam's latest *Economic Survey*. It is now only 23%.

Moreover, a growing portion of gross domestic savings is in the shape of provision for depreciation.

"Since this is closely related to maintenance of the capital stock, it would be more logical to take a look at net savings — total saving less depreciation."

This is a low of 6% of GDP.

Also of concern, says Sanlam chief economist Johan Louw, is that "whereas previous



lows in the net savings effort occurred during downswings in the economy, the present one is being experienced during an upswing."

The implications for the future are serious because as the economy declines, the financial position of the man in the street will weaken, further reducing the savings effort.

Moreover, despite low savings in the private sector, savings have exceeded investment "by close on R40bn in the past three years" — reflecting loss of confidence in the business community. Sadly, this lack of investment, rather than a build-up of savings, enabled SA to run recent surpluses on the current account of the balance of payments.

Low personal savings are attributed to sluggish growth in real disposable income, "related to factors like low economic growth,

a greater personal tax burden and high inflation" as well as to increasing credit purchases by consumers. An additional reason is redistribution of income in favour of people with a higher propensity to spend.

Corporate savings have been more promising, rising to nearly 25% of GDP. However, real savings of government, a net dis-saver since 1982, were -R3bn in 1987. ■

Pushing the panic button

What is the truth behind the latest moves to protect the balance of payments (BoP)? Two answers come to mind, given that the measures announced by Finance Minister Barend du Plessis last Friday focus on symptoms — but compound the real problems of inflation and international isolation.

One is rooted in political considerations, which naturally weigh heavily with politicians, particularly Cabinet ministers like Pietie du Plessis (Lydenburg) and Sam de Beer (Geduld), whose constituencies have large pockets of CP support.

The theory is that, after the last increase took Bank rate to 12,5% — three percentage points higher than it was in January — a trade-off was needed. The package was designed to placate those who suffer first when interest rates rise. Farmers, who collectively owe more than R13bn, spring to mind, as do blue-collar workers, who rely heavily on variable-rate HP finance.

Perhaps a 60% surcharge on goods like Perrier water, perfumes and collectors' pieces, truffles and handwoven tapestry, decorative candles and glacé cherries, worked ivory bones and hot air balloons, will satisfy the Puritan ethic and comfort voters now paying interest rates several percentage points higher than at the start of the year.

However little it will help the current account to cut back on such imports (and however serious the damage to sectors that deal in them), one can believe that many politicians would press for them.

But presumably this is not the only reason for resorting to panic measures.

Is there more to the situation than published figures reveal? Friday's announcement fuelled speculation that the BoP is approaching a critical condition. Like a col-

lapsed star, the problem is not visible but its dimensions can be deduced from the behaviour of bodies in the vicinity.

A combination of factors could be causing a dangerous drain on already depleted reserves: the end of a meaningful surplus on current account (and the constant threat of deficit); the failure of trade credits to provide adequate short-term capital flows; and unexpected debt repayments outside the net.

There is some evidence to support this theory, though how much offshore creditors are failing to roll

over loans is difficult to establish. But the state of the current account is a matter of record. And the shortage of trade credits is well known by bankers and was referred to by Barend du Plessis at his Friday press conference. It was the reason, he said, that Bank rate was increased last month ahead of this week's measures.

What is clear is that, having failed to stem demand with market-related interest rate rises earlier in the year, financial policy planners are hitting the panic buttons.

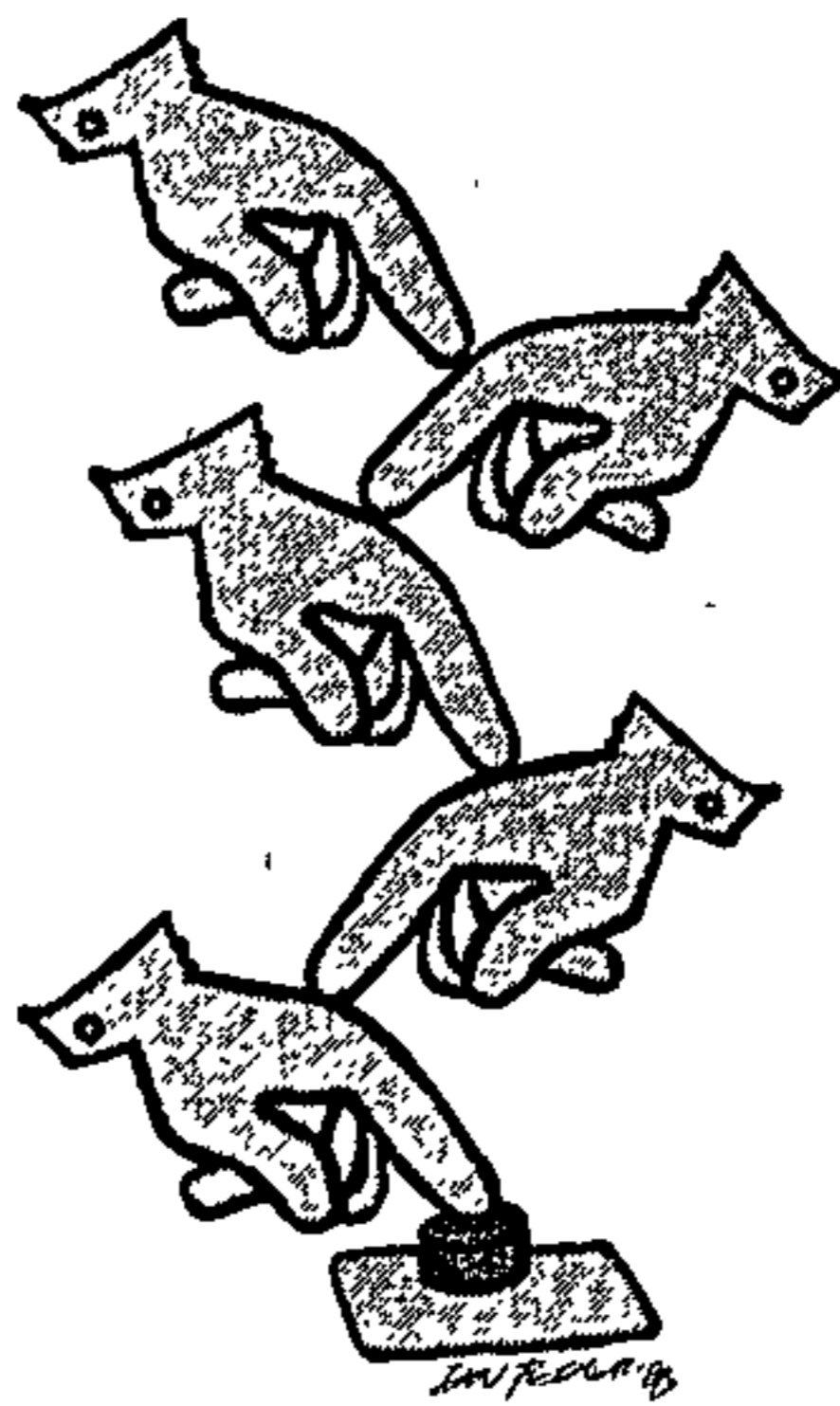
The three-pronged package comprises:

- 10%-60% increases in import surcharges and an increase in import duty on assembled motor cars from 100% to 110%;
- Increased deposits for HP, leasing and rental agreements relating to goods with a high import component and shortened repayment periods; and
- Tighter exchange control regulations, preventing emigrants from freely transferring more than R300 000 earnings on blocked assets a year. More will now go via the finrand and only with permission.

This will have an effect. If nothing else, it will halt huge speculative ordering ahead of the expected measures. Having compounded the problem, the authorities will be able to claim some credit for a quick fix.

However, longer-term effects are uniformly counterproductive — as we pointed out last week. Import curbs distort resource flows, accommodate inefficiencies, restrict supplies and add to inflationary pressures.

Interlinked are credit curbs. Says Standard Bank chief economist Nico Czyptionka: "They are not particularly harsh — furniture and motor cars for instance aren't affected. They're designed to tell individuals the spending spree must come to an end."



An unfortunate byproduct, however, is that some sectors are disproportionately affected and will be needlessly damaged. Gradual interest rate increases since the start of the year would have dealt with the problem more effectively and — in the long run — damaged the economy less.

What is needed is a willingness by politicians to heed early warnings. From the start of the year, there were clear indications that runaway consumption was on course. While the authorities hesitated, it developed momentum. Now they've had to devise a host

of complicated curbs to do what could then have been done simply and effectively.

"The problem," says Assocom head Raymond Parsons, "is that we have little room for manoeuvre. Normally, if the authorities miscalculate, they can fall back on IMF standby credit, gaining time to retrieve the situation. But in these circumstances, we can't afford to be out by a few months. We don't have that kind of time."

• COMMODITIES CARRYING A 60% SURCHARGE

Horses; fish such as trout and salmon; coconuts and other nuts; tinned meat and fish; sugar confectionery; chocolates; pastrycooks products such as cake, biscuits, bread, etc.; preparations of mushrooms and truffles, crystallised fruit, glacé cherries, jams, tinned fruit; ice-cream; mineral waters, cool drinks, beer; cigarettes, cigars, snuff, pipe tobacco; perfumery, cosmetic preparations, hair lacquers, etc, but not toothpaste; decorative candles; statuettes and ornaments of plastic; handbags, suitcases, etc, with outside surface of leather; statuettes and ornaments of wood; decalcomania; woven fabrics of silk; handmade carpets; handwoven tapestries; clothing and handkerchiefs of silk; artificial flowers, fruit and foliage; decorative articles of ceramics; glassware of lead crystal; jewellery and certain articles of precious metal, coins; spoons, forks, plated with precious metals; ornaments, statuettes and picture frames of base metal; tape recorders (excluding dictating machines); video machines (VCRs), radio receiving sets, inter alia hi-fi sets, television sets; hot air balloons, gliders and hang-gliders; lenses and mirrors; watch cases and straps of precious metal; worked ivory and bone, scent sprays; works of art, collectors' pieces and antiques.

Import clamp to cost SA industry millions

49
w/encas 2 of 8/88

From MALCOLM FOTHERGILL
JOHANNESBURG. — South African businesses will lose hundreds of millions of rands as a result of the Government's clamp on imports, say insiders in the electronics appliances industry.

They predict sales will slump — by more than half in the case of video recorders — and many jobs will be at risk as importers either go out of business or are forced to prune staff.

Nor will the effects be limited to electronics-oriented firms or firms that deal only in imports.

Big general retailers who have been importing appliances on their own behalf will also suffer, as will the makers and sellers of locally produced appliances.

Ripple effects

And, as the ripple effects spread, people in unrelated industries such as advertising and sports promotion will also feel the chill winds of declining business.

National Panasonic managing director Mr Terry Millar believes "all the small importers will go to the wall".

Mr Errol Guggenheim, joint managing director of Frank & Hirsch, and Mr Trevor Beech, managing director of Teltron's audio-visual division, agree. They and others describe the Government's imports and credit curbs as a disaster for the industry.

"Because we run our businesses well, we don't have big stocks," says Mr Millar.

"What we do have is goods on the water, ordered months ago and subject all of a sudden to an extra 50

percent surcharge as well as tougher credit conditions. The way things are, it's impossible for a business to plan because the government keeps changing the rules."

Mr Guggenheim says that while "more than half" of the R300-million market for video recorders will disappear, the drop in other sections of the industry such as radios, tape decks and television sets will be between 30 and 40 percent.

"Even if prices weren't going up, the industry would still have been badly affected by the credit clamp. As it is, we have to contend with a 50 percent increase in the surcharge and a 20-percent devaluation of the rand against the dollar in the past six months."

Mr Beech says the effects of the 60 percent surcharge will devastate the sale of big-ticket electronics goods.

"Video recorders at the top end of the market have doubled in price overnight. This move will bring sales virtually to a halt and will cost many people their jobs."

What especially puzzles the industry is that goods made in South Africa are also subject to the tougher credit terms and high duties.

"We don't know yet whether the 60 percent surcharge will apply to the components used in locally produced goods," says Mr Millar.

"Even if it doesn't, excise duties alone account for just under 20 percent of the wholesale price of most goods. Imported componentry, for which duties differ, add another 20 percent. So there's a 40 percent slice for the government if the surcharge doesn't apply, and a 100 percent slice if it does. And this is without GST."

Taxes take the tinkle out of tills

By MAGGIE ROWLEY
Business Staff

TINKLING tills may soon be a thing of the past, says Terence Taylor, importer and distributor of cash registers.

Mr Taylor was reacting to last week's announcement by the Minister of Finance, Mr Barend du Plessis, that a 20 percent import surcharge would be imposed on, among other imports, cash registers.

"Cash registers are an essential part of any retail business and in no way can they be termed a luxury item. The irony is that they are used to calculate revenue for the government in terms of GST and also the import surcharge at the Department of Customs and Excise."

Mr Taylor said when Mr du Plessis was appointed Minister of Finance in June 1984 cash registers had been hit with a 15 percent ad valorem tax. The 20 percent surcharge measure meant the government was now reaping a total levy of 35 percent on cash registers.

"It means the small retailer has to pay R1500 or more for a cash register which should cost him R1000."

"In addition, the 20 percent sur-

charge imposed on spare parts will hit retailers in the event that they have to repair their cash registers."

Mr Taylor said there was no import substitution product available in South Africa.

"Cash registers are hi-tech and we are not in a position to manufacture them ourselves. It will take us another 20 years," he said.

Mr Taylor said he held about 10 percent of market share, annually importing on average between three and four thousand cash registers from Japan. Many of his customers were small and middle-sized black and coloured traders.

"I estimate this latest measure will cut my business by up to 40 percent and I will have to cut costs. I employ six black workers, and who do you suppose is going to suffer?"

"And, as always, it will be the consumer who will foot the added bill. With all the government's inflationary measures — which is exactly what they should be termed — there will not be a need for cash registers. As they push us back into the dark ages of pencil and paper, consumers will have no money to spend," he said.

Reserve Bank sees growth rate of 2,5%

From HAROLD FRIDJHON

JOHANNESBURG. — A marked slowdown in the real growth of the gross domestic product (GDP) in the second quarter of this year could signify the levelling-out of the current upswing, says the Reserve Bank's annual economic report.

The annualized real growth rate was 5% in the fourth quarter of 1987, 3,5% in the first quarter of 1988 and an estimated 1,5% for the second quarter.

Prospects indicate a real growth rate of 2,5% for 1988.

The growth record of the past year was marred by only "a modest revival" in total real gross domestic fixed investment which, in the case of manufacturing industry did not reach the level of depreciation allowances. The result was a further shrinkage in SA's physical capital stock.

Total real domestic investment declined through most of the 1980s by as much as 34%. The ratio of real fixed investment to GDP declined between 1982 and 1987 from 27,5% to 18,5%.

Private sector investment produced a 9% growth — but this was insufficient to reach the depreciation levels. Investment by public corporations, Posts and Telecommunications and SA Transport Services showed a marked decline.

Net fixed investment did not respond to the 1987/88 mini-boom and the negative rate of investment since 1986 denotes "a real net disinvestment and therefore a continued shrinkage of physical production capacity".

Influencing factors include an absence of new foreign investment and

"lingering uncertainties about the impact of socio-political factors on the long-term growth potential of, and prospects for, the South African economy".

The five quarters of inventory rebuilding to June 1988 is the longest since 1981 and contributed significantly to the sharp rise in the volumes of merchandise imports in the first two quarters of 1988. These may have been encouraged by fears of further rand depreciations, increases in import duties or a re-imposition of quantitative controls.

Increased import demand and insufficient merchandise exports, including gold, led to a current account deficit in the first quarter and a small surplus in the second quarter. This resulted in a decline in the foreign exchange reserves and a weakening in the value of the rand.

The need to maintain a current account surplus to finance a continuing net outflow of foreign capital, to repay foreign debts and to protect the reserves resulted in restrictive monetary and fiscal policies.

With the exception of mining, all principal sectors of the economy showed firm rates of increase during the year to June, although a slackening in manufacturing was apparent in the second quarter of this year.

Supported by borrowing, real private consumption expenditure rose at average rates "significantly in excess" of households' real disposable incomes. Government consumption spending matched that of the private sector although it contracted sharply in the first quarter of the fiscal year.

49

CAF TIMES 22/8/88

6

PRICE 80c (71c + 9c tax)

Solving foreign debt problem would bring on recession

THE TIMES MEDIA PUBLICATION

CAPE TOWN — The only way SA can avoid being forced into defaulting on its foreign debt, repayment obligations in three years, time is for government to impose conditions that would lead to an endemic and deep-seated recession.

This is the view of economists spoken to in the past few days. The most confident the most measures announced by Finance Minister Barend du Plessis will be sufficient to avert a balance of payments crisis, says Johan Sanlam's chief economist.

Low believes "SA is not yet in a crisis situation", but in Sanlam's latest monthly Economic Review, he says SA is unlikely to achieve the required surplus on the current account of the balance of payments of between R2bn and R3bn it needs to meet the country's foreign debt repayments.

A considerable depletion of the gold and other foreign exchange reserves, already at alarmingly low levels, consequently appears to be unavoidable.

They could include tighter credit restrictions and direct import controls. PFF finance spokesman Harry Schwarz feels SA will not have too much

CHRIS CARNECROSS adds Mbuwa. The institutional view expressed by various spokesmen in the past week forcefully suggests the authorities will have no option but to impose other more restrictive measures to curb the pressure on the BoP.

'Not too difficult'

difficultly in rescheduling foreign debt commitments even though the current situation suggests it is in a weaker negotiating position than it was three years ago.

He believes government should do all it can to boost export performance, and concentrate on stimulating those aspects of the economy not related to imports, particularly those concerned with food, clothing and housing.

Total outstanding debt is now about \$2bn, of which about half is inside the

stands still per cent. The "net" agreement requires that SA pays \$1.4bn over the next three years, which still seems within the country's capacity.

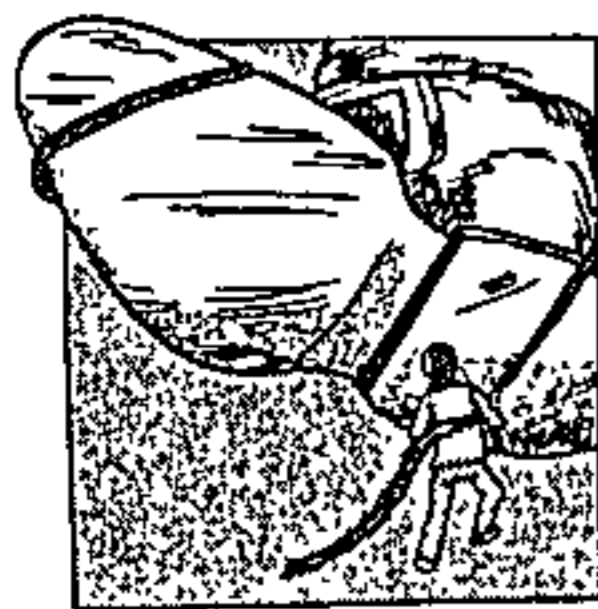
The issue creating some nervousness now, however, relates to more than \$2bn of bearer bonds that also have to be met by the parastatals over a median of about 10 years.

See Page 3

economists

Now for internal sanctions

■ As the BoP deteriorates, dirigiste "solutions" find favour



Have our economic mandarins joined the sanctions lobby? That's one conclusion to be drawn from the announcement last week by Finance Minister Barend du Plessis that he is thinking

— however reluctantly — of extending existing import curbs in ways yet to be specified to protect the seriously deteriorating balance of payments (BoP) position.

That Du Plessis could even *consider* cutting any of our remaining tenuous trade links with the rest of the world — because that is really what import curbs mean, though the minister would hotly contest this — is testimony to the gross failure of the economic and political policies that have brought us to this sorry pass.

It is not that we have lacked directives — only direction. Reserve Bank Governor Gerhard de Kock pointed the way with the findings of his Commission of Inquiry into the Monetary System and Monetary Policy in SA, set up in 1977 and completed in 1985. He has consistently argued that market forces are the most efficient allocators of resources. And foreign exchange is a resource.

However, despite his crucial role as central banker, De Kock has never entirely succeeded in putting across his economic philosophies. Instead he has been an economic Gulliver — strapped down by sectional lobbies and red tape. Most powerful of all these lobbies is that of those who seek controls over everything — an inheritance from the socialist government that came to power in 1948. In a society committed to control in almost every sphere of our political, cultural and economic lives, freedom is perceived as a dangerous concept. So De Kock's achievements in the sphere of monetary policy have been *despite* those powerful men who feel more at home with direct controls.

Now, it seems, their views are gaining ground. De Kock has tightened monetary policy and interest rates have risen to more realistic levels. But, to prevent further pressure on interest rates, other — more ominous — moves are in the pipeline. Is some kind of political equation being proposed, with October in mind? Probably.

After telling us for months that consumer demand is slowing — and further interest rate increases were not necessary — Du Plessis announced last week

that "it may become necessary to extend import controls." He did qualify this by pointing out that any dramatic extension of existing controls would require "a massive bureaucracy." So the move may be more of a gesture to those who have been pressing for measures other than higher rates. But this in itself reveals the political component in our decision-making and highlights the priorities of policy-makers.

And since when has the creation of new "massive bureaucracies" been any obstacle to the Nats?

Du Plessis may avoid politically unpopular measures — with direct curbs on imports and probably also direct curbs on credit — but he will not solve the problem. In fact he will compound it by drawing unwelcome attention to the issue of SA trade.

Critics of higher interest rates point to the cost they impose on the economy in terms of growth. But import curbs also come with a price tag — and it is far higher than many think.

In our siege economy, the most important would be the effect on our remaining trade relationships. Not that we would be in contravention of Gatt — to which we have been signatories since its inception in 1948. According to Assocom foreign trade secretary Bess Robertson: "In terms of article 12 of the agreement, if a country's BoP runs into deficit, it can impose immediate import controls, subject to subsequent approval by the International Monetary Fund."

Nevertheless, with trade links highly sensitive to international public opinion, we *would* be introducing import disincentives, effectively placing a further discount on the value of a trade relationship with SA.

Apart from this potential for eroding our remaining and vulnerable trade links, import curbs have domestic costs — direct and indirect. There would be the cost to government and to the private sector in terms of a complicated administrative procedure which would absorb man-

power and time. There is an existing permit requirement for certain types of goods — so some of the machinery of administration is in place. But there would be a significant cost to the taxpayer in extending and maintaining it. That was what Du Plessis meant when he spoke of "a massive bureaucracy."

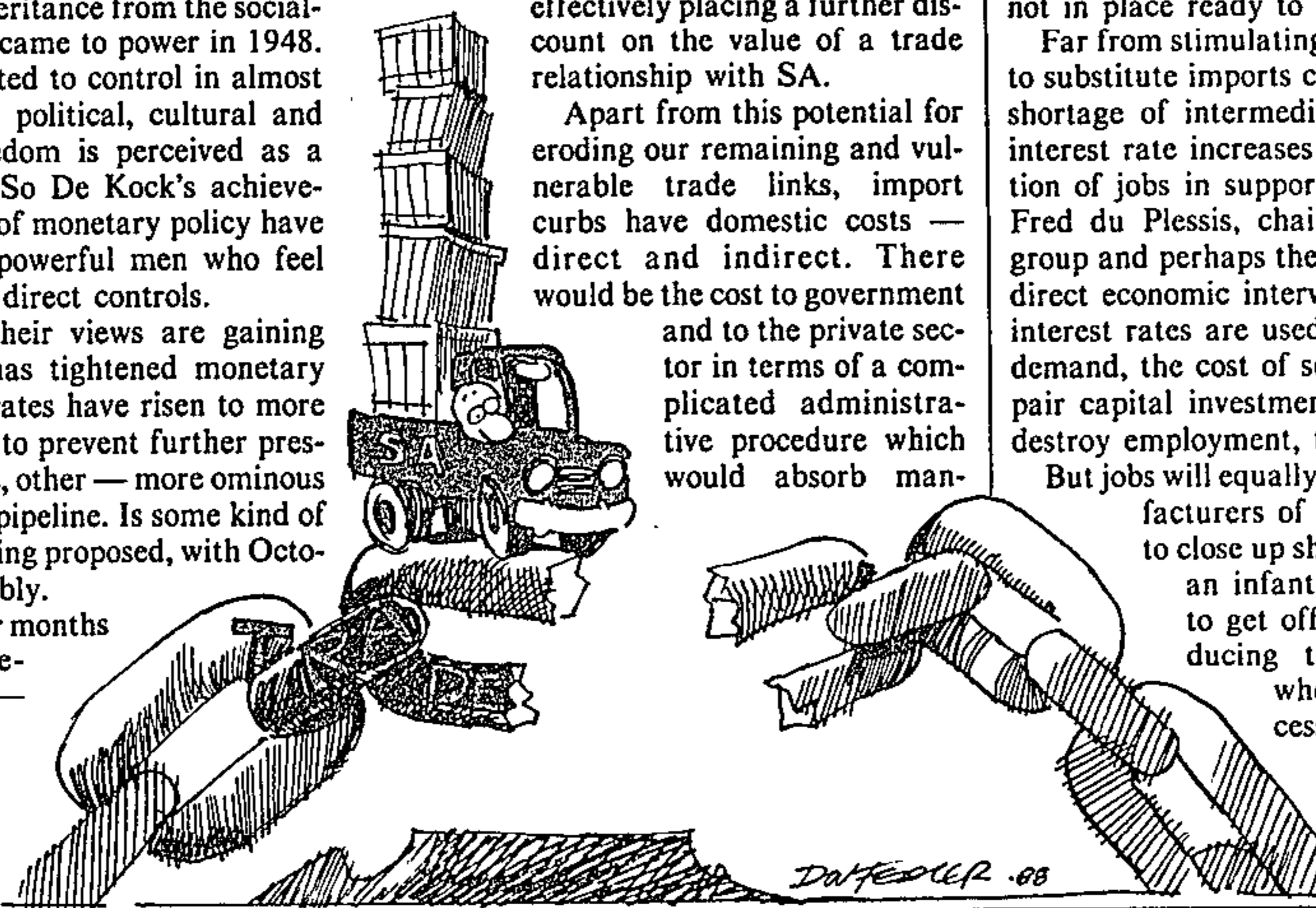
That would not be the end of it. There would be further costs to the community — shortages of consumer and intermediate goods. Much is made of the benefits to business of providing import replacement activity; and no doubt there would be spinoffs. But there is absolutely no guarantee that the net effect would be beneficial. In fact there are those who believe we have already reached the limits of our ability to replace — look around your desk and see what is locally produced.

Harry Zarenda, senior lecturer in economics at Wits, who has researched trends in import substitution between 1920 and 1985, says: "We mustn't forget that the decline in the exchange rate since the early Eighties has in itself provided protection to local manufacturers, and a measure of import substitution has been taking place. Given the structure of our industry, there is not much scope for further immediate substitution. In fact most recent research has shown a reversal during the first five years of the decade in certain categories, among them consumer goods like clothing and footwear. This points to inefficiencies of the industries concerned because of the protective policies of the past."

Even should import substitution eventually be possible on a wide scale, substitutes are not in place ready to fill the gap.

Far from stimulating industry, an attempt to substitute imports could stultify it with a shortage of intermediate goods. Critics of interest rate increases point to the destruction of jobs in support of their arguments. Fred du Plessis, chairman of the Sanlam group and perhaps the foremost advocate of direct economic intervention, insists that if interest rates are used to modify consumer demand, the cost of servicing debt will impair capital investment. This, in turn, will destroy employment, the argument runs.

But jobs will equally be destroyed if manufacturers of consumer goods have to close up shop while they wait for an infant components industry to get off the ground. And reducing the supply of goods when the demand is excessive will lead to higher inflation — and, in turn, higher interest rates. Import controls will increase



(49) FM 12/8/88

not reduce, the need for tight monetary or fiscal policy. The delay will be costly and simply defer the inevitable.

There are other consequences. Says Anglo American economist Jim Buys: "A higher cost structure, with its implications for inflation, will eventually affect the competitiveness of exporters." So what we gain now on the swings, we will ultimately lose on the roundabouts.

What would be the immediate gains?

Much depends on the proportion of our imports which are dispensable. It is commonly estimated that about 20% of imports are consumer goods, while the rest are capital and intermediate goods. However, this does not clarify the situation: not all consumer goods can be dispensed with and many of the intermediate goods are used in manufacturing consumer items.

A more illuminating analysis comes from Nedbank chief economist Edward Osborn. On the basis of research conducted in 1984, he estimates that 21% of imports are totally dispensable and 24% replaceable or substitutable. However, even this analysis leaves open many practical issues.

Buys comments: "There is the problem of identifying accurately exactly what is dispensable and replaceable. If the definition is too wide, we will get significant forex savings at the risk of destroying producers of consumer goods who depend on imported components. If the definition is too narrow, it may be meaningless in terms of our BoP."

What of alternative policies to constrain demand — specifically, higher interest rates,

depreciation of the rand, direct credit restrictions and promotional campaigns to dissuade people from buying imports? How effective would these be?

Considerable depreciation of the rand has already taken place and will in time restore the surplus by pricing imports out of demand. If time is too short to allow for this, then obviously there has been a failure in forward planning.

Credit restrictions are ineffectual because, if demand is strong enough, they simply drive borrowers and lenders into the grey market.

A promotional "buy SA" campaign, an approach favoured by Fred du Plessis, has limitations. The difficulty with an attempt to persuade people to import only what they need is that we actually need so much.

Of the potential solutions, only higher interest rates address the broader problem of inflation. Despite the recent respite which has decelerated the climb in CPI, inflation is the most pressing problem of the Eighties. The latest money supply figures indicate it will continue to be so for some time.

This has come about not because of the failure of De Kock's principles — but because they have not been properly applied. That the policy, announced in March, of allowing Bank rate to move more frequently and freely failed to materialise can only be attributed to the fears of many — in and out of government — that any rise in prime could only end at 25%. Having succeeded in the early Eighties in depoliticising interest rates, De Kock now appears to have difficul-

ty in persuading the Cabinet that responsive official rates make for economic stability and that attempts to constrain market rates cause upward explosions that end who-knows-where.

The result has been a surge in money supply, with M3 growing in June by 24,9%, well over the target of 12%-16% set by the Bank; and a flow of payments for imports which is draining reserves.

In terms of economic policy as a whole, rates must be allowed to adjust the price of credit. This is the most effective way of eliminating anomalies of supply and demand which feed inflation — and it will automatically address the deficit on the current account.

In terms of the peculiar set of circumstances that have created the present BoP "crisis," the only solution is political. Until we have access to offshore credit, we will not return to a state of economic normality. And until we introduce sanity into our political decisions, we will not restore our lines of credit. So any attempt to extend import curbs is pointless at best and destructive at worst.

The issue, of course, is far wider. At stake is the principle of allowing markets and not politicians to allocate resources. It would be a tragedy if the variety of looming curbs proved a watershed in official economic policy. The Italian shoes you may not be allowed to buy tomorrow may well mean, a little way down the line, the loss of a market for what you have laboured to make. The cost of your money is going to be very high in any case. ■

Bank predicts 2,5% real growth

(49) B Day 22/8/88

HAROLD FRIDJHON

A MARKED slowdown in the real growth of the gross domestic product (GDP) in the second quarter of this year could signify the levelling-out of the current upswing, says the Reserve Bank's annual economic report.

The annualised real growth rate was 5% in the fourth quarter of 1987, 3,5% in the first quarter of 1988 and an estimated 1,5% for the second quarter.

Prospects indicate a real growth rate of 2,5% for 1988.

The growth record of the past year was marred by only "a modest revival" in total real gross domestic fixed investment which, in the case of manufacturing industry did not reach the level of depreciation allowances. The result was a further shrinkage in SA's physical capital stock.

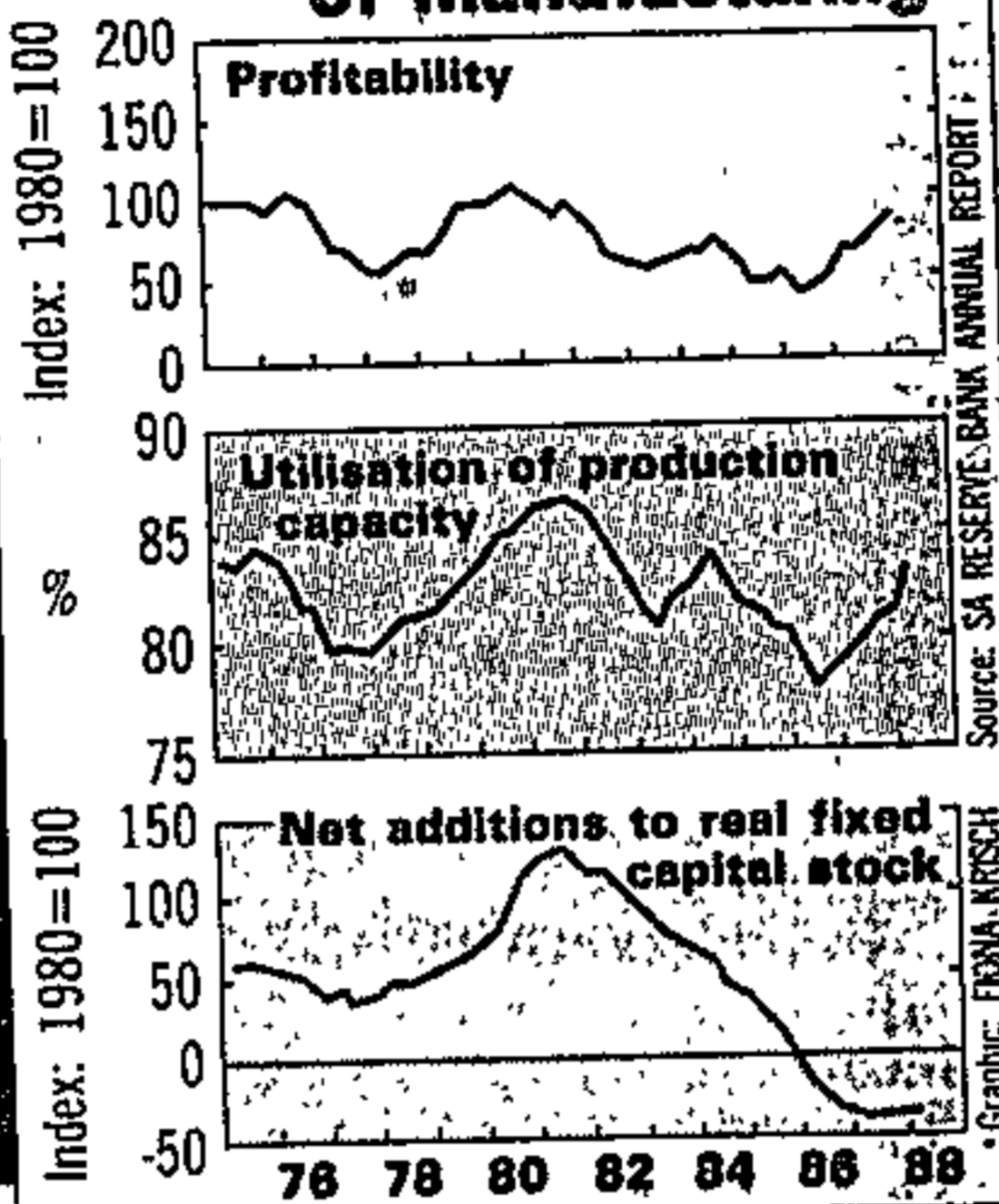
Total real domestic investment declined through most of the 1980s by as much as 34%. The ratio of real fixed investment to GDP declined between 1982 and 1987 from 27,5% to 18,5%.

Private sector investment produced a 9% growth — but this was insufficient to reach the depreciation levels. Investment by public corporations, Posts and Telecommunications and SA Transport Services showed a marked decline.

Net fixed investment did not respond

● To Page 2 →

Profitability, capacity utilisation and change in fixed capital stock of manufacturing



The two upper graphs show the indices for profitability and utilisation of production capacity declined from mid-1981 but recovered from mid-1986. The lower graph shows net fixed investment followed the downward trends in the upper graphs but failed to respond to their turnaround in mid-1986, resulting in a net loss in SA's capital stock and a continued shrinkage of physical production capacity.

Reserve Bank predicts 2,5% growth

to the 1987/88 mini-boom and the negative rate of investment since 1986 denotes "a real net disinvestment and therefore a continued shrinkage of physical production capacity".

Influencing factors include an absence of new foreign investment and "lingering uncertainties about the impact of socio-political factors on the long-term growth potential of, and prospects for, the South African economy".

The five quarters of inventory rebuilding to June 1988 is the longest since 1981 and contributed significantly to the sharp rise in the volumes of merchandise imports in the first two quarters of 1988. These may have been encouraged by fears of further rand depreciations, increases in import duties or a re-imposition of quantitative controls.

Increased import demand and insufficient merchandise exports, including gold, led to a current account deficit in the first quarter and a small surplus in the second quarter. This resulted in a

decline in the foreign exchange reserves and a weakening in the value of the rand. The need to maintain a current account surplus to finance a continuing net outflow of foreign capital, to repay foreign debts and to protect the reserves resulted in restrictive monetary and fiscal policies.

With the exception of mining, all principal sectors of the economy showed firm rates of increase during the year to June, although a slackening in manufacturing was apparent in the second quarter of this year.

Supported by borrowing, real private consumption expenditure rose at average rates "significantly in excess" of households' real disposable incomes. Government consumption spending matched that of the private sector although it contracted sharply in the first quarter of the fiscal year.

(49) ← ● From Page 1

Govt action 'appropriate'

Sanlam says BoP surplus is unlikely

CAPE TOWN — SA was unlikely to attain the surplus of between R2bn and R3bn on the current account of the balance of payments (BoP) it needed to meet its foreign debt repayment commitments, Sanlam chief economist Johan Louw said.

Pointing out there was a surplus of only about R400m in the first half of 1988, he said in Sanlam's latest Economic Review: "A considerable depletion of the gold and other foreign exchange reserves, presently at worryingly low levels, therefore seems unavoidable."

The steps taken by government to curb domestic spending were necessary due to the low level of the reserves and the fact that SA could not rely on an inflow of foreign capital in the foreseeable future.

Louw said it must have been a difficult decision for the authorities, considering the divergent tendencies of indicators in the real and financial sectors of the economy.

These created great uncertainty about the actual state and probable direction of the economy. The latest tendencies in sales of new vehicles and manufacturing pro-

duction indicated it had already entered a slower growth phase.

However, expansion in the money supply (nearly twice as high as the target rate of 12% to 16%) and the sustained strong increase in credit extension by banks indicated the economy was on its way to overheating.

Louw said he considered the economy might well enter a downswing during the last few months of 1988. Upward pressure on interest rates might accordingly lessen.

Statistics indicated that depreciating the rand was not a particularly successful way of protecting the current account of the BoP because the price elasticity of the demand for imports as well as the international demand for SA exports was low.

"Furthermore, weakening of the rand is usually accompanied by a flow of capital out of the country, as at present.

"It is clear the balance of payments is currently a serious bottleneck, creating great problems for the policy-makers. The latest package, which contains specific measures to save scarce foreign exchange, must be regarded as appropriate." — Sapa.

49
22/8/88
B. De V.

49

SA debt default tipped

CAPE TIMES 23/8/88
By CHRIS CAIRNCROSS

IN the current circumstances it is most unlikely South Africa will be able to accumulate sufficient reserves to meet its total foreign debt commitments, director-general of finance Dr Chris Stals conceded yesterday.

These reserves have now declined to a worrisome level, where they are barely enough to cover two months' imports.

Dr Stals said the country could not depend too much on exports to bring them to a more healthy level.

He indicated that he was reasonably confident the recent "conservative" measures which

were taken to protect the balance of payments will be effective, noting there are early signals that imports are slowing.

But he could not discount that further restrictive measures will be necessary to ease the strain on the balance of payments (BoP), and would not be led on what these could be.

Economists now appear to be unanimous that monetary authorities will have no option but to cause interest rates to climb still further.

There is also a possibility the surcharge umbrella will be extended — and ultimately, that some sort of quota system could

be placed on foreign exchange levels granted to importers.

Dr Stals stressed that South Africa remained firmly resolved to honouring its debt obligations included within the standstill net.

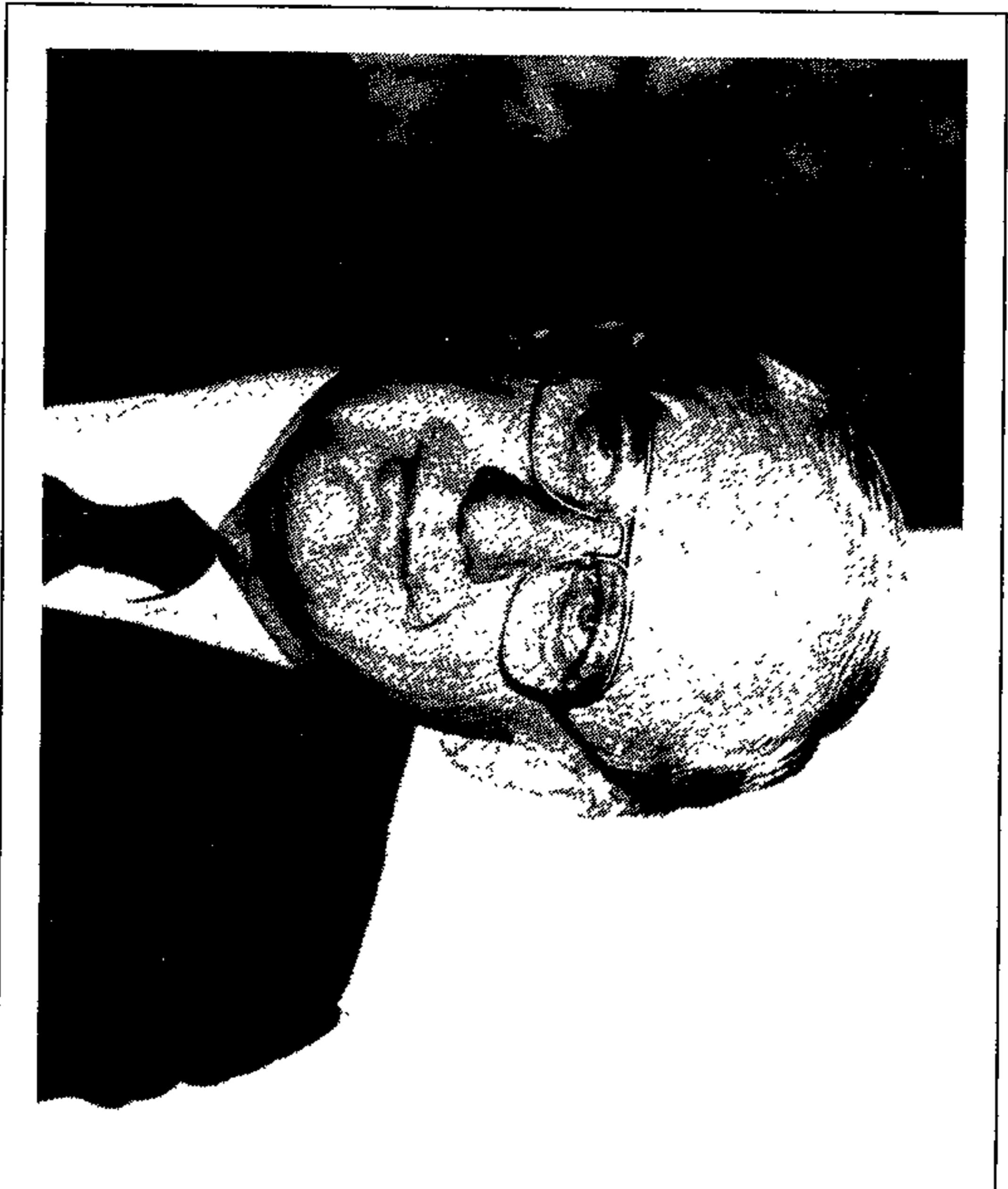
This commitment amounted to six-monthly repayments of about \$150 million (R340 million) through to 1990-1.

There is no question at this stage of seeking to reschedule these payments with the major foreign debtor banks.

Dr Stals said it was also still too early to speculate on how South Africa would deal with its foreign debt problems in two years' time, when the current interim arrangement is terminated.

South African Reserve Bank Governor's address

Address by Dr Gerhard de Kock, Governor of the South African Reserve Bank, at the sixty-eighth ordinary general meeting of stockholders of the Bank on 23 August 1988



Vigorous economic upswing and higher growth rate

The single most important development in the South African economy during the past year was the acceleration in the rate of growth of total spending, output and income. The previously sluggish economic upswing became much more vigorous during the fourth quarter of 1987 and the first quarter of 1988.

The main driving force behind the forward surge was a rise in consumer and investment spending, so steep that it lifted real gross domestic expenditure in the first half of 1988 to about 10 per cent above its level in the first half of 1987.

Compared with 1 per cent in 1986, the rate of growth of real gross domestic product amounted to about 2½ per cent in 1987.

Real gross national product showed an even more impressive increase — largely because of an improvement in the terms of trade and lower interest payments on the declining amount of South Africa's foreign debt. From the second quarter of 1986 to the second quarter of 1988 it increased at an average annual rate of about 5 per cent. Per head of the population this represented an increase of almost 3 per cent per year.

The strong rise in consumer and investment spending during the past year was made

Interrelationship between domestic economic developments and the balance of payments

The analysis presented thus far clearly demonstrates the basic interrelationship between developments in the domestic economy and the balance of payments. It would therefore be wrong to take the view that the economic problem facing South Africa at present is essentially a "balance of payments problem" and little else. The so-called "balance of payments constraint" should not be dragged in as a *deus ex machina* to explain away many of the country's economic problems, and as an argument to introduce direct balance of payments controls as a substitute for proper monetary and fiscal demand management.

The fundamental constraints on growth in any economy, whether "closed" or "open", are the limited amounts of factors of production such as natural resources, capital, labour and entrepreneurship, together with the limitations of technology, productivity, climate, etc. It is possible that these constraints will in certain circumstances, and given certain exchange rate and other policies, manifest themselves in a balance of payments deficit. In such situations, and in this limited sense, the term "balance of payments constraint" has its uses. Semantics apart, however, the fact remains that any open economy — whether rich or poor, developed or developing — can create a "balance of payments constraint" for itself by permitting an excessive increase in money creation and spending, by keeping interest rates too low and/or the exchange value of the currency too high, and/or by applying inadequate fiscal discipline.

In the case of South Africa during the past year, there can be no doubt that the substantial rise in imports and, to a lesser extent, also the disappointing performance of exports, were the direct result of the inordinate increase in total consumption and investment spending, financed in large measure by excessive increases in bank credit and the money supply. These domestic excesses constituted the real problem — the decline in the current account surplus was largely a consequence or symptom of the underlying domestic situation. Indeed, if part of the expansionary steam generated by the rise in aggregate demand had not been allowed to escape through increased imports, the problem would almost certainly have been transferred to the domestic economy in the form of demand inflation.

This in no way detracts from the fact that in South Africa's special circumstances the continued net outflow of capital does constitute an independent "balance of payments constraint", as it is principally the result of the country's strained international relationships and not of domestic economic policies or developments. Given this constraint, however, it is still true that the condition of the rest of the balance of payments remains closely related to domestic economic developments and policies.

Tightening of monetary policy

The strong further upswing during the past year in domestic spending, output and income — accompanied as it was by excessive increases in bank credit and the money supply — clearly called for a tightening of monetary policy.

This was first recognised by the Reserve Bank in early December 1987. At that stage it called in the banks and building societies to inform them that it was adopting a less

The need for interest rates to rise in such circumstances cannot be obviated by placing quantitative credit ceilings on the banks and/or by imposing direct deposit rate control. This will not reduce the demand for credit and will result in "disintermediation", i.e. the replacement of credit formerly extended through the intermediation of a bank or other financial institution by non-intermediated credit extended directly by primary lenders to ultimate borrowers, including off-balance-sheet financing by the banks themselves. Credit ceilings and/or deposit rate control will therefore fail to achieve the objectives of curbing the expansion of total spending and improving the balance of payments.

The State President's economic initiatives and fiscal policy

The progressive tightening of monetary policy during the past six months has dovetailed well with the important new economic initiatives announced by the State President in February 1988 and the fiscal discipline currently applied by the Minister of Finance.

Particularly to be welcomed in the State President's policy package are the decisions to curb the expansion of Government expenditure more effectively, to scale down the share of the public sector in the economy, to reduce the Budget "deficit before borrowing" as a percentage of gross domestic product, to proceed with privatisation and deregulation, and to implement certain important tax reforms proposed by the Margo Commission.

In accordance with these policies, the Minister of Finance provided in his March Budget for an increase in expenditure of only 12,6 per cent in the 1988/89 fiscal year, and a "deficit before borrowing" equal to 4,9 per cent of the anticipated gross domestic product, compared with 5,8 per cent in the previous year. The result is that there is now a better "mix" of monetary and fiscal policies than for many years.

In May 1988, and again in August, these basic monetary and fiscal policies were supplemented by a number of other measures designed to curb total spending and the demand for credit, and in some cases also to discourage imports more selectively. These measures included tighter restrictions on hire-purchase transactions and leasing and rental agreements, a system of differentiated import surcharges, and certain minor tax adjustments. The preference shown in this regard for policies that operate via the price mechanism as opposed to direct quantitative restrictions that require much bureaucratic "red tape", is greatly to be welcomed.

Present situation and prospects

In retrospect it is clear that the year to June 1988 was fundamentally a good one for the South African economy. Business and consumer confidence improved, the upswing gained considerable momentum, the rate of real economic growth accelerated, the rate of inflation declined, and the average standard of living per head of the population increased. In recent months, however, the relatively high rate of domestic economic expansion has combined with the rising US dollar, the falling dollar price of gold and rising interest rates in the world's main financial centres, to bring pressure to bear on both domestic resources and the balance of payments.

seasonal variations in the annual average rate of the broad money supply. M3 advanced from a mere 5.0 per cent in the first quarter of 1987 to 25.0 per cent in the second quarter of 1988. This acceleration largely reflected an increase in credit extended by banks and building societies to the private sector.

The good growth performance of the South African economy during the past year is all the more gratifying because it was accompanied by a marked further decline in the rate of inflation. The twelve-month rate of increase in consumer prices slowed down from its peak of 20.8 per cent in January 1986 to 12.4 per cent in June 1988.

Balance of payments developments

Decline in current account surplus

As expected, the accelerated increase in spending and output during the past year brought about a marked rise in both the value and volume of imports and a decline in the surplus on the current account of the balance of payments. After registering an accumulated surplus of R19.3 billion or 4½ per cent of gross domestic product during the three-year period 1985-87, the current account, at seasonally adjusted annual rates, showed a deficit of R410 million during the first quarter of 1988 and a surplus of R960 million during the second quarter.

Continued outflow of capital

In the present international political climate the capital account remains the Achilles heel of South Africa's balance of payments. The net outflow of non-reserve-related capital in 1985 and 1986 amounted to R15.3 billion in total. It then declined to R3.1 billion during 1987 and to a mere R0.7 billion during the first quarter of 1988.

During the second quarter of 1988, however, the net capital outflow increased to about R2 billion, most of which occurred during the last three weeks of June. While this outflow consisted partly of debt repayments, it also reflected unfavourable leads and lags in foreign payments and receipts, partly due to the resumption of switching of trade financing from foreign to domestic sources of funds. These flows were materially influenced after early June by the sudden appreciation of the US dollar in terms of other major currencies and the accompanying decline in the dollar price of gold, as well as by the tightening of monetary policy and the resultant sharp rises in interest rates in the main industrial countries.

Pressure on the exchange rate and the foreign reserves

In these circumstances downward pressure came to be exerted on the exchange value of the rand. After appreciating from a low point of R2.80 per US dollar on 12 June 1986 to a peak of R1.92 per US dollar on 4 January 1988, the commercial rand depreciated to R2.45 per US dollar on 19 August 1988. Against a weighted "basket" of currencies, including the US dollar, the rand depreciated between these latter two dates by 13.7 per cent. Most of this decline occurred after early June and reflected the marked appreciation of the US dollar referred to earlier. Indeed, between the beginning of June 1988 and 19 August the rand appreciated against the German mark by 0.5 per cent and depreciated against the pound sterling by only 0.7 per cent.

The changed balance of payments position was also reflected in the movements of the Reserve Bank's gold and foreign exchange reserves. After rising from R3.2 billion (US\$1.6 billion) in April 1986 to R7.0 billion (US\$3.4 billion) in August 1987, these reserves declined to R5.6 billion (US\$2.3 billion) at the end of July 1988.

Improved foreign debt position

One positive consequence of these various balance of payments developments was a marked further improvement in South Africa's already sound foreign debt ratios. Present indications are that, in addition to continuing to meet all foreign interest and dividend payments, the South African economy will by the end of 1988 have made net repayments of roughly US\$6.0 billion (about R12.6 billion) of foreign debt, valued at constant US dollar exchange rates, over a period of only four years. As a percentage of exports of goods and services, these net repayments will have amounted to an average of about 6½ per cent per year.

South Africa's ratio of foreign interest payments to exports of goods and services, which amounted to only 10.7 per cent in 1985, compared with an average of 30.2 per cent for Western Hemisphere developing countries, declined to a mere 7.1 per cent in 1987. It is still falling and will probably amount to only about 6½ per cent in 1988.

Similarly, South Africa's ratio of foreign debt to total exports of goods and services declined from a peak level of 171 per cent in 1984 to 93 per cent in 1987. In contrast, the comparable ratio for Western Hemisphere developing countries deteriorated from an average of 273 per cent in 1984 to 332 per cent in 1987.

The next step followed in February 1988 when the Reserve Bank, with the concurrence of the Minister of Finance, set a new target range for the rate of increase of the broad money supply - M3 - of 12 to 16 per cent between the fourth quarter of 1987 and the fourth quarter of 1988. This was 2 percentage points lower than the comparable target range during 1987.

In the ensuing months it became increasingly clear that the economic upswing was stronger than had been expected. Bank credit was rising too rapidly, and the rate of increase of the money supply was accordingly exceeding the target range of 12 to 16 per cent.

It is true that the velocity of circulation (V) of M3 declined during both the first and second quarter of 1988, largely as a result of "re-intermediation". This means that the effective broad money supply or MV, i.e. M3 adjusted for changes in its velocity of circulation, increased by considerably less than M3 during the first half of 1988. Even with this qualification, however, the rate of increase of M3 was still unduly high.

The Reserve Bank therefore from early March onwards progressively tightened its monetary policy. It realised that in the existing circumstances the key to success in this endeavour was effective restraint over its own net domestic credit creation. The Bank therefore proceeded to curb its own accommodation and, as both a logical consequence and an integral part of this more restrictive policy, raised its Bank rate from 9½ to 10½ per cent in March 1988, to 11½ in May and to 12½ in late July. On each occasion these increases were accompanied by increases of 1 percentage point in the prime overdraft rates of commercial banks, which accordingly moved up over this period from 13 to 16 per cent.

From early May onwards the Reserve Bank also ceased to relieve shortages in the money market by means of repurchase agreements or the provision of tender funds from the Corporation for Public Deposits. In addition, it announced that it would in future provide accommodation against the security of non-liquid assets only in exceptional circumstances, and then only at severe penalty rates. This effectively put an end to this kind of accommodation.

The Bank continued, however, to moderate the upward movement in interest rates by expanding its own net domestic credit in two main ways. The first was by rediscounting liquid assets or extending overnight loans against the security of such assets. The second way was by continuing to perform its function of providing forward exchange cover, for the account of the Treasury, to authorised exchange dealers for periods up to twelve months.

In addition to the steps taken to curb its discount window accommodation, the Reserve Bank accelerated its marketing of government stock. Indeed, of the total amount of gross issues of government stock of R6.8 billion provided for in the Budget for 1988/89, the Reserve Bank marketed no less than R5.8 billion in the four and a half months from the end of March to the middle of August 1988.

From this review of monetary policy during the past year it is evident that the Reserve Bank, in an attempt to avoid doing "too little too late", on this occasion began to act relatively early and tightened its policy in an incremental way which minimised disruption and hardship. Even so, in retrospect there can be little doubt that monetary policy should have been tightened earlier and that interest rates should have been allowed to rise sooner. In its attempts to moderate the rise in interest rates in order to promote economic growth and to assist farmers, small businesses and homeowners, the Reserve Bank initially created too much central bank credit and in this way facilitated the excessive increases in bank credit, the money supply, total spending and imports.

On more than one occasion in recent months the Reserve Bank has reproached the banks and building societies for their part in this overspending process and has formally requested them to slow down their credit extension. But it would be wrong to hold them principally responsible for either the excessive increase in the money supply or the rise in interest rates. Of course, bank credit expanded too much. But it did so in response to the strong upswing in economic activity and the accompanying rise in the demand for loanable funds of all kinds. And it was the Reserve Bank that supplied the cash reserves necessary to underpin the increase in credit. In the final analysis the Bank must therefore accept the responsibility for the excessive rise in the money supply.

It needs to be emphasised once again that the rise in interest rates during the past nine months formed an essential ingredient of the policy of curbing the excessive growth of credit and money. The South African economy is a reasonably developed one that relies to a significant extent on private enterprise and effective competition, and has sophisticated financial markets. In any such economy a monetary policy of reducing the rate of increase of money creation and spending at a time when the demand for credit is inordinately high and the foreign reserves are under pressure, inevitably implies at least a temporary rise in short-term interest rates.

authorities, and have led to a progressive tightening of monetary policy and accordingly a rise in interest rates.

In the meantime there have been indications that, although activity is still at a high level, the economy has begun to cool down. The business cycle in South Africa has either already reached an upper turning-point or is about to do so.

Against the background of these natural economic forces and the monetary, fiscal and other stabilisation policies now in place, the broad prospects for the South African economy in the year ahead, as they appear at this stage, may be summarised as follows:

- While continuing to fluctuate from month to month, the rates of increase of bank credit and the money supply may be expected to show a downward tendency. Because of the normal time lags in the transmission of monetary policy, this tendency is unlikely to become pronounced before the latter part of 1988 or early in 1989. It is not anticipated that the M3 figures will return to the 12 to 16 per cent target "tunnel" in the course of 1988; nor is it the intention to force them to do so, as this might cause disruption and have undue contractionary effects on the economy.
- The rate of increase of total spending should gradually decline to a more appropriate and sustainable level.
- In the period immediately ahead the economy is likely to experience a moderate cyclical downturn of limited duration, to be followed in due course by the next upswing in accordance with the usual cyclical pattern.
- Although it will probably continue to show marked fluctuations from quarter to quarter, the rate of growth of real gross domestic product is still expected to approach 2½ per cent in calendar 1988.
- The rate of inflation as measured by the consumer and producer price indices will probably rise in the months ahead, largely as a result of the depreciation of the exchange value of the rand since the end of 1987 and the recently imposed import surcharges. If adequate monetary and fiscal discipline is applied, however, the rise in the inflation rate should be fairly moderate, and should prove to be only a temporary reversal of the downward trend that was evident from the first quarter of 1986 to the first quarter of 1988. It remains a major objective of official policy to bring about a gradual decline in the rate of inflation.
- Unless the price of gold and commodity prices in general were to decline materially, the current account of the balance of payments will probably show a moderately larger surplus during the second half of 1988 than during the first half, followed by a still larger surplus in 1989. This is mainly because real imports, which have already shown a levelling-off tendency since the beginning of the second quarter of 1988, are expected to decline as the rate of increase of total spending slows down.
- If monetary policy in South Africa remains appropriately tight, present indications are that the current account surplus will be adequate to finance the expected debt repayments and any other likely capital outflows.
- Depending upon imponderables such as the behaviour of the US dollar and the price of gold, the effective exchange rate of the commercial rand should show little if any further depreciation during the coming months, and might well appreciate moderately if the US dollar were to depreciate in terms of the other major currencies.
- The recent downward pressure on the gold and foreign exchange reserves should abate during the coming months, and the reserves are likely to resume an upward trend in 1989.
- The year ahead will not be an easy one for the South African economy. Apart from the longer-term structural issues that require further attention, there are problems of internal and external economic stability that have to be dealt with in the short term. Moreover, the "soft" economic policy options open to so many other countries, including easy access to foreign loans and credits, are simply not available to South Africa.
- It is in full acceptance of these realities that the Reserve Bank and the Treasury have responded to the recent national and international economic developments by tightening monetary and fiscal policy and taking other corrective action. The right policies are now in place. There can be little doubt that if they are properly and consistently applied, they will achieve their objectives of curbing overspending and strengthening the balance of payments and the official gold and foreign exchange reserves.

Govt 'must take positive stand'

Prospects bleak for rejuvenating economy — expert

24/8/88
Biday
49

2S

bably

in a
ade

THE outlook for rejuvenating the economy through privatisation seemed bleak, Vista University economics professor Mihkel Truu told a conference on privatisation at RAU yesterday.

He said: "The economy is in such a bad state it needs a more positive stand to be taken by government to clear the great uncertainty being experienced in the public and private sectors."

Truu said government's intentions, apart from the short- to medium-term goal of relieving the pressure on the fiscus, had not yet been made clear.

But he said there were grave misgivings regarding government's attempt to encourage small and informal-sector business which would lay the basis of a rejuvenated economy.

Government itself preferred to buy from big rather than small businesses, let alone informal sector operators.

The crux of uncertainty was, however, to be found in the private sector and its attitudes to competition.

It welcomed the free market poli-

HELOISE HENNING

cy, but its support for competitive markets was conspicuous by its absence.

Truu said the impression left was that private entrepreneurs were more interested in redistributing income to their own advantage by manipulating imperfectly competitive markets.

There were merits, however, in replacing a state monopoly with a private one, because they would be run more efficiently.

Government argued in its White Paper on Privatisation and Deregulation that the replacement of state monopolies by private monopolies needed to be regulated in the public interest to prevent higher prices.

But small businesses needed to be encouraged to allow individual productive capabilities to emerge.

Unless decision-makers allowed ordinary people to bring their talents to fruition, rejuvenation of the economy seemed bleak.

13E

Snap debate on economy in House of Assembly

CHRIS CAIRNCROSS

CAPE TOWN — The House of Assembly is to hold a snap two-hour debate tonight on the serious financial and economic conditions prevailing in SA.

The debate is at the request of the PFP, which believes the situation in the country is a matter of "urgent public importance" and that it is vital Parliament find time during the current short session to discuss the issues at stake.

PFP finance spokesman Harry Schwarz said last night the state of the economy had become a matter of serious concern to the public and several issues needed to be urgently addressed.

There was considerable worry over the exact state of the country's reserves, and the implications for the economy of the latest restrictive package designed to cushion the balance of payments, Schwarz said.

There was also considerable concern within the business community over what other restrictive measures were envisaged by government should the present package prove to be insufficient.

Urgent meeting

Schwarz added that SA could not afford the instability and political implications that would flow from unemployment which would result from bringing economic growth to a complete halt.

He said it was essential to have time to debate the direct implications of government's economic and fiscal policies.

□ A delegation representing the main sectors of organised commerce and industry held urgent talks with Economic Affairs and Technology Minister Danie Steyn in Cape Town yesterday on the recent surcharges and other restrictive measures on imports.

Delegates from Assocom, the FCI and the Afrikaanse Handelsinstituut expressed, among other things, concern at the surcharges.

Neither party would reveal details of the discussions, nor whether anything had been decided.

De Kock: policies in place, but ...

Year ahead not easy for SA economy

24/8/88 (49) B1 Day

THE year ahead would not be easy for the SA economy, Reserve Bank Governor Gerhard de Kock warned at the Bank's agm yesterday.

The problems of internal and external stability had to be addressed in the short term while longer-term structural issues also required attention.

Fiscal and monetary policies had already been tightened in response to recent economic developments and "the right policies are now in place".

De Kock said: "There can be little doubt that if they are properly and consistently applied, they will achieve their objectives of curbing overspending and strengthening the balance of payments and the official gold and foreign exchange reserves."

However, he acknowledged monetary policy should have been tightened earlier and interest rates allowed to rise

GRETA STEYN

sooner. The Reserve Bank, in an effort to moderate the rise in interest rates, had initially created too much central bank credit. This, in turn, had led to excessive increases in bank credit, the money supply, total spending and imports.

"In the final analysis the Bank must ... accept the responsibility for the excessive rise in the money supply."

● See Page 8

The Bank had underestimated the vigour of the upturn, which had been much stronger than anticipated. "We were reluctant to nip the upswing in the bud."

The year to June had been good for the SA economy, with the standard of living improving as economic growth acceler-

● To Page 2 →

Year ahead 'not easy' for SA economy

ated. But the economy was now showing signs of cooling — the business cycle had already reached an upper turning point or was about to do so.

The rate of increase of total spending should gradually decline and the economy would experience a moderate cyclical downturn in the period immediately ahead.

The rates of increase of bank credit and the money supply might be expected to decline. This tendency was unlikely to become pronounced before the latter part of 1988 or early 1989.

"It is not anticipated that the M3 figures will return to the 12% to 16% target 'tunnel' in the course of 1988; nor is it the intention to force them to do so, as this might cause disruption and have undue contractionary effects on the economy."

On the balance of payments, he said the likely behaviour of the capital account was difficult to assess.

"If monetary policy in SA remains

(49) B1 Day 24/8/88
● From Page 8

appropriately tight, however, present indications are that the current account surplus will be adequate to finance the expected debt repayments and any other likely capital outflows," De Kock said.

The current account would probably show a moderately larger surplus during the second half than in the first, unless the price of gold and commodity prices declined materially.

The inflation rate would probably rise in future months, but fairly moderately if adequate discipline was applied.

"If this scenario proves reasonably accurate, the recent downward pressure on the gold and foreign exchange reserves should abate during the coming months, and the reserves are likely to resume an upward trend in 1989."

Commerce confronts Govt (49)

A top-level delegation of organised commerce and industry met the Minister of Economic Affairs and Technology, Mr Danie Steyn, yesterday to express grave concern about the Government's recently announced measures to cool the economy.

Delegates from Assocom, the FCI and the Afrikaanse Handelsinstituut held urgent talks with the Minister in Cape Town.

Although no details of the discussions were released, it is understood the effect of the latest import surcharge, up to 60 percent on some imports, was discussed.

24/8/88 Star

Random C...

Dismal economy 'hits the forces for change'

By DAVID BRAUN, Parliamentary Staff

A BLEAK and depressing picture of the South African economy and its prospects has been painted by Mr Harry Schwarz, Progressive Federal Party spokesman on finance.

Kicking off the snap debate on the economy, Mr Schwarz said last night that had it not been a cause for concern there would have been no need for the fiscal steps the government felt obliged to take recently.

He said South Africa, once proud of its impeccable credit-standing in the international community, now faced a foreign-reserve crisis.

Even more significant was that the economy had become a prisoner of the balance of payments. The foreign-debt crisis had placed a ceiling on growth which hindered the country in its endeavour to solve its socio-economic and political problems.

Mr Schwarz said South Africa was in difficult times, at home and abroad. These were times when sound economic conditions could help to solve some of the problems.

Forces for peaceful change with democratic objectives were severely hampered internally by an increasing population and labour force, unacceptably high unemployment, unacceptably wide wealth and income gaps, a lowering of per capita wages over a long period and by inadequate increases in productivity.

Externally, the forces for peaceful change were hampered by sanctions and boycotts, disinvestment and an inability to obtain new foreign loans.

To seek to apply theoretical fiscal, monetary and other remedies without due cognisance of the realities and peculiarities of the South African situation could lead to disaster.

"The fallacy which still pervades much of our economic thinking is that an economy such as ours can, even in these times, operate in an open-market situation as if such conditions did not exist. The reality is we cannot obtain new capital. We are prisoners of the balance of payments.

"The reality is that if we follow the open orthodox approaches of the past we will continue to run into problems the moment we hit a growth rate of three percent a year, and that such growth rate is inadequate for our economy.

"If these are the realities, then we must accept them — find solutions, grow internally without excessive dependence of imports.

"A dramatic effort in job-creation policies in inward industrialisation is needed.

Mr Schwarz said the total increase in employment over the past five years was about half of one percent. In the same period the increase in the economically active population was about 13 percent.

Schwarz paints bleak picture of economy

By David Braun,
Political Correspondent

A bleak and depressing picture of the South African economy and its prospects was painted by the Progressive Federal Party spokesman on Finance, Mr Harry Schwarz, yesterday.

Kicking off the snap debate on the state of the economy in the House of Assembly, Mr Schwarz said South Africa, a country once proud of its impeccable credit standing in the international community, now faced a foreign reserve crisis.

Even more significantly, the economy had become a prisoner of the balance of payments.

The foreign debt crisis had placed a ceiling on

growth which hindered the country in its bid to solve its problems.

HAMPERED

He said forces for peaceful change with democratic objectives were severely hampered internally by an increasing population and labour force, unacceptably high levels of unemployment, unacceptably wide wealth and income gaps, a lowering of per capita wages over a long period of time, and by inadequate increases in productivity.

Externally, the forces for peaceful change were hampered by sanctions and boycotts, disinvestment and an inability to obtain new foreign loans.

To seek to apply theoretical fiscal, monetary and other remedies without due cognisance of the realities and peculiarities of South African situation could lead to disaster.

"The measures which the authorities have applied are palliatives not cures.

"We go from recession to mild upswing and down again without real long-term solutions."

He said the increase in employment over the past five years amounted to 0,5 percent.

In the same period the increase in the economically active population was about 13 percent.

Mr Schwarz said little action had been taken.

'We must renegotiate' — Barend

Govt has big plan to boost growth rate

25/1/88 Star (49)

By David Braun,
Political Correspondent

Cape Town

The Government was developing a comprehensive programme to generate annual growth of between 4 and 5 percent, Finance Minister Mr Barend du Plessis said today.

He said South Africa had the resources to meet its international debt agreement and he was confident that when it came to renegotiating repayments due in 1990, the country would be able to reach a reasonable agreement with its creditors.

He said in an interview with The Star that the Government had received several fresh reports on export incentives, industrial development, regional development, decentralisation and on other important aspects of the economy.

These were now in the process of being welded together in an economic development programme within the framework of the long-term strategy developed by the State President's economic advisory council.

The essence of the Government's new strategy, according to Mr du Plessis, is to restructure the economy to make it less dependent on imports.

This entails a concentration on import replacement industries, the development of infrastructure and low cost housing, deregulation programme to promote self-employment, privatisation to raise the necessary capital, taking a fresh look at savings to generate capital and a restructuring of the taxation system.

Restructuring

It looks at Government spending and public sector involvement in the economy.

Mr du Plessis said: "All these components comprise a comprehensive approach towards restructuring our economy to overcome internal and external restrictions with a view to increasing growth rate and generating jobs, a better standard of living for South Africans and greater income for the Government to provide essential services and supportive facilities such as education."

In the meantime, short-term bottlenecks in the economy were being addressed by a task group under the chairmanship of Deputy Finance Minister Dr Org Marais.

On the issue of South Africa's international debts, Mr du Plessis said the country's repayments for the duration of the standstill agreement were modest: \$300 million (US) (R735 million) a year in two six-monthly instalments.

"When it comes to 1990, obviously there will have to be a renegotiation of the \$10 billion (R24,5 billion) of foreign debt, the major portion of which is owed by the private sector.

"We will have to renegotiate the standstill agreement with a view to meeting our future obligations in a way which will allow the necessary room for our economy to grow, as we have done in the past.

"While it will not be possible to accumulate sufficient reserves to meet the total amount of \$10 billion, we are confident that a reasonable arrangement will be reached with our international creditors."

Payments dropped by R1bn

GNP boosted by lower interest on foreign debt

25/8/88 B Day 49

SA'S interest payments on its foreign debt dropped by more than R1bn to R3,5bn in 1987 resulting in stronger growth in real gross national product (GNP), the Reserve Bank's latest estimates show.

The drop in interest payments was largely the result of a decline in the capital amount of SA's foreign debt as well as the stronger rand last year.

From the beginning of 1985 to end-1987, R11,5bn of SA's total foreign debt was repaid, excluding valuation

GRETA STEYN

adjustments arising from exchange rate changes.

Included in this amount is R2,3bn of debt caught inside the standstill net.

Reserve Bank governor Gerhard de Kock this week said lower interest payments on SA's foreign debt had contributed to the "impressive increase" in real GNP since 1986.

On the performance of GNP, De Kock said: "From the second quarter of 1986 to the second quarter of 1988 it increased at an average annual rate of about 5%. Per head of the population this represented an increase of almost 3% a year."

GNP is regarded as an indication of a country's welfare, as opposed to gross domestic product, which is a measure of output.

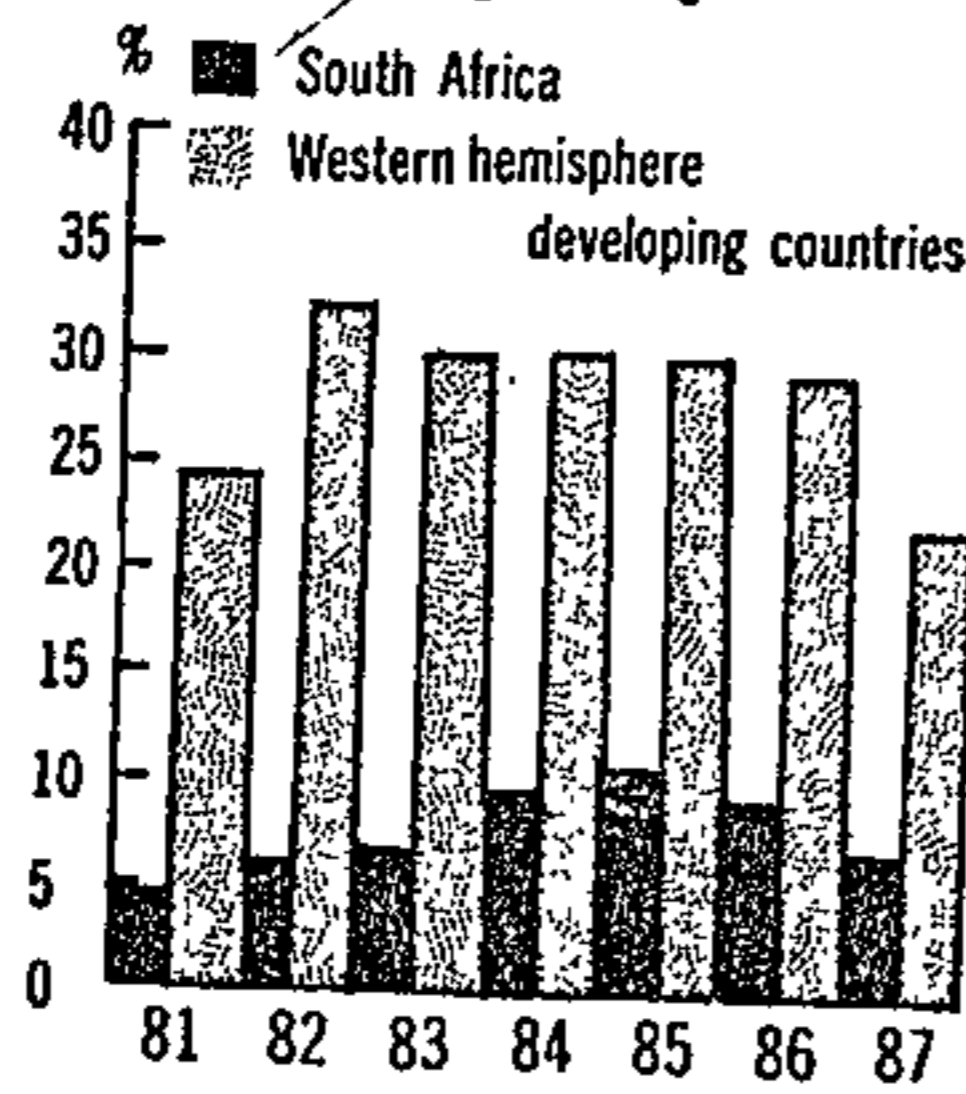
Interest payments represent a drain on the current account of the balance of payments.

Final figures for foreign interest payments will be released only in the Bank's next Quarterly Bulletin.

However, in the Bank's latest Economic Report, it notes that interest payments in relation to export earnings had declined from 10,7% in 1985 to 7,1% in 1987.

"The 1987 counterpart of this ratio in Western hemisphere developing countries amounted to 22%," the Bank said.

Interest payments as a % of total export proceeds



Graphic: LEE EMERTON Source: JSE

ECONOMIC REVIEW

No longer consumer friendly

An indication of the strength of demand came from Reserve Bank Governor Gerhard de Kock on Tuesday, in his annual address to shareholders. The rise in consumer and investment spending was so steep, he said, "that it lifted real GDE in the first half of 1988 to about 10% above its level in the first half of 1987."

It is clear, too, from this week's *Reserve Bank Annual Report* that, in the crucial second quarter, private consumption expenditure barely paused — despite three increases in prime lending rate, from 12,5% in January to 15% in May, and credit restrictions introduced that month. It "rose uninterrupted and relatively steadily for nine consecutive quarters from the second quarter of 1986 through the second quarter of 1988." The average annual rate of increase in that period was 4%.

Only a decline in general government expenditure in the second quarter restrained domestic demand (see P45).

It was this, no doubt, which led to the recent package of interest rate increases, credit restrictions and import surcharges.

Since the release of last year's *Report*, the economic environment has changed considerably. The third quarter of 1987 saw the 11th successive surplus (R5,5bn) on the current account since the start of 1985, an improvement in the capital account with shrinkage in both long- and short-term capital outflows, a peak in foreign reserves (R8,7bn), and moderate expansion under way.

The scene was set for further growth; the problem was to induce it.

The 1987 *Report* described prevailing conditions as "friendly to a renewed and more vigorous acceleration in consumer expenditure and to the eventual translation of such expenditure into fixed investment."

The cycle has since turned full circle. The seeming lack of momentum to the upswing in the third quarter of 1987 was deceptive. So strong was consumer demand in the two succeeding quarters that today the upswing is all but over. According to the 1988 *Report*: "The combination of domestic expenditure and production trends of the past several quarters caused the economy to move into the advanced stages of a fairly typical if only moderately vigorous upswing."

Ironically, the turning point came that August, when signals of growth seemed so

tentative.

"In a set of conditions probably insufficiently appreciated at the time," says the *Report*, "the economy in 1987, up to September, saw a rare combination of rising monetary demand and quickening economic activity, real economic growth if only at moderate rates, large current account surpluses, rising foreign reserves and a strengthening exchange rate, and declining inflation."

However: "Developments in the 10 months to June 1988 ... have brought home that this kind of situation is indeed unusual and unlikely to

persist."

From September, sharp increases in money supply and credit extended by financial institutions coincided with a decline in foreign reserves.

Quarter-to-quarter growth in broadly defined money supply (M3) rose to 26,1% in the fourth quarter of 1987 and continued at 23,5% and 25% in the first and second quarters of 1988.

Growth in M3 exceeded the upper limits of the 1988 target tunnel fractionally — this for the first time in the target's two-and-a-half-year history — at the end of February and by June exceeded the upper limit by R4,1bn.

And M3 has continued to grow at a rate well above the 16% upper limit of the 1988 monetary target (see P48).

At the same time foreign reserves have been shrinking. Since last August, when they stood at R8,7bn (up from a low of R3,9bn at the end of April 1986), they fell to R7,7bn at the end of June — "the equivalent of some 2,5 months' imports of goods." July brought a further decline of R84m.

As early as December, the outflow on the current account and signs of burgeoning money supply had set off alarms.

"The Bank, in one of its periodical meetings with banks and building societies ... made clear it would not necessarily continue to provide cash reserves to the banking system by other means than at the discount window ... to the same extent and with the same readiness as before."

However, no action was taken for several months. The shift to a less accommodative stance started with the raising of Bank rate from 9,5% to 10,5% in March, then to 11,5%



and to 12,5% in May and July as part of "more comprehensive packages of demand restraining fiscal, monetary and credit measures."

These were designed to "slow down the rate of increase in monetary institutions' lending, and in the money supply partly by making cash reserves less amply and readily available to the banking system."

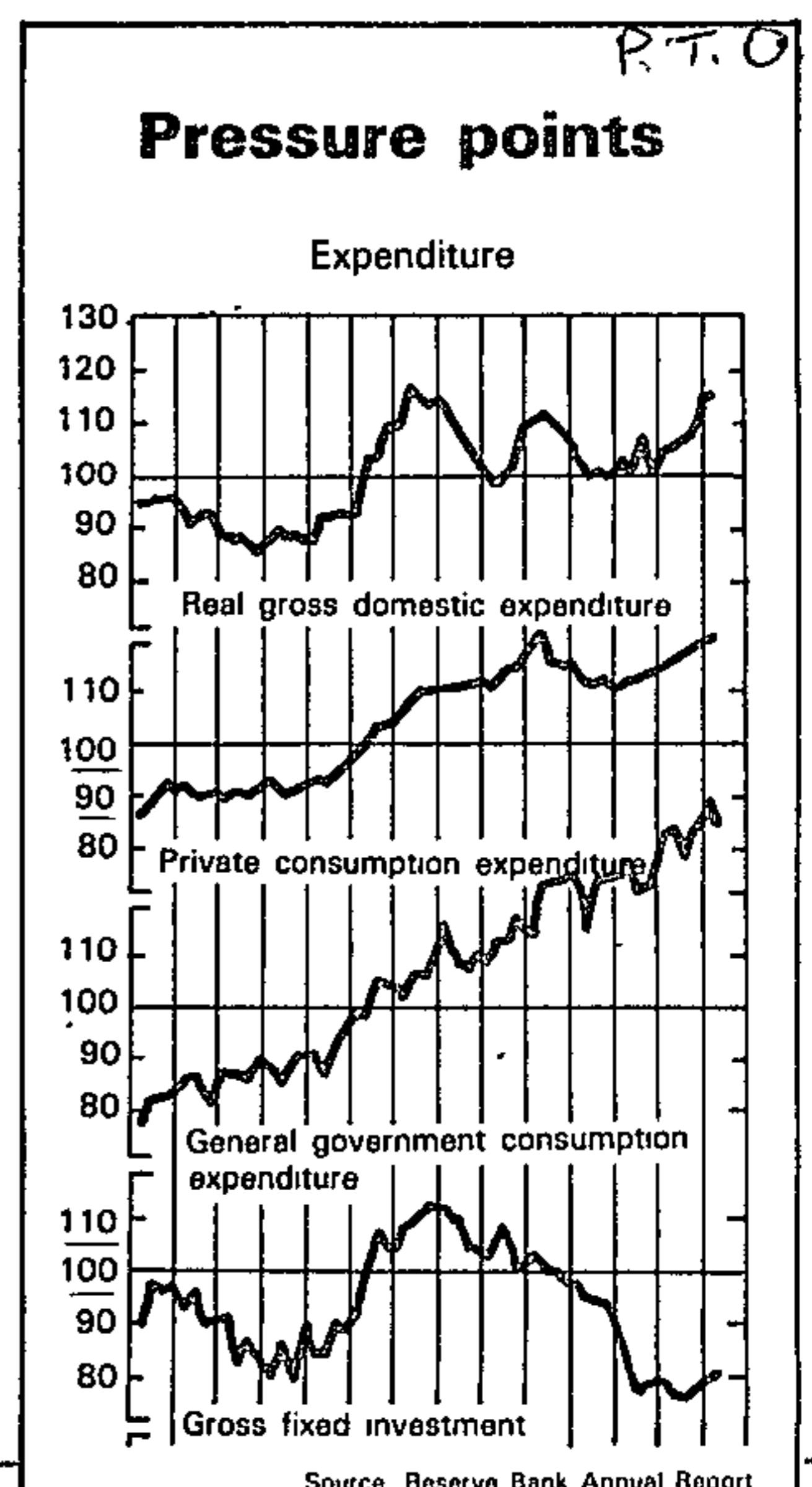
But, while monetary policy became more restrictive, drains on the current account continued.

In the first half of 1988, import volume was up 22% on the preceding two quarters and 36% higher "than at the lower turning point in the importation cycle in the first half of 1986."

Though volumes levelled off in the second quarter, import prices escalated because of the depreciating rand. "The average annualised rate of import price rises in the first half of 1988 amounted to 11,5%."

Merchandise export volumes declined from their 1986 high. The average level in the first half of 1988 was 10% below the average of 1986's third and fourth quarters.

This was fortunately offset by a rise in export prices in the first half of the year. Export earnings, having peaked "on a yearly basis of about R25bn in calendar 1986, continued to fluctuate around this level (at



29/8/88 (49) B/Day

GERALD REILLY

Changing structure of growth

or
er,
in
v-
r
e
d
it
g
r

PRETORIA — The economic performance of the past few years could not be seen as a temporary phenomenon to be dealt with only by short-term stabilisation measures, Development Bank of Southern Africa CE and chairman Simon Brand said in Durban.

He told the Natal Chamber of Industries and Durban Metropolitan Chamber of Commerce last week: "On the contrary it clearly requires some fundamental adjustments in the structure and future growth patterns of the economy in ways that would

make it less vulnerable to external factors.

"The long-term economic strategy recommended by the Economic Advisory Council and adopted by government placed a heavy emphasis on the maintenance of monetary discipline continued restraints on state spending, and adjustments in the pattern of public spending to address disparities on government services."

Brand said emphasis was placed on support for small business develop-

ment and the informal economy and the training and utilisation of human resources.

A gross domestic product growth rate of 2,5% this year was indicated.

This was better than in recent years but was still far short of what was needed.

"The aim of the long-term strategy was a redistribution of opportunities and incomes ... as the main driving force for future economic growth."

● See Page 6

s interim earnings rise by 40%

BRITAIN TAKES A NEW

Star 24/5/88

Economy (49) cannot grow in isolation

South Africa cannot afford international isolation says the giant Barlow Rand group.

In its latest issue of *Barlows* '88 it states: "As a nation we have always had a heavy dependence on both exports and imports and a reduction in either will have a negative effect on all the country's people. Therefore, a 'do your damndest' attitude towards the rest of the world augurs dangerous consequences for the future."

"Currently, South Africa is showing positive signs of economic growth — a growth which it has desperately needed for a number of years.

"Neither the lager mentality nor the pro-sanctions lobby do anything for the development of this growth phase. In fact, if successful, they could well bring about economic depression, social unrest and industrial chaos.

"Isolation would not only cut us off from raw materials and products available in the outside world, but also from ideas and developments that are the lifeblood of progress.

"In contrast, maintaining and strengthening our international links, together with a progressive democratisation of our industrial sector, will lead to a firming of the growth phase, more economic activity and more employment."

— Sapa.

THE rhetoric and slogans surrounding the capitalism versus socialism debate in SA had obscured the key question on the issue — what do you regulate and how far should this regulation go? — Natal University philosophy professor James Moulder said yesterday.

At a human resources seminar in Sandton, he said few people advocated either total regulation, or no regulation at all, in society.

He said constructive economic debate required discussion on two questions about wealth. They were: how is wealth most efficiently generated; and how is it distributed most fairly?

Management, he said, was "frenetically addicted" to the first, while ignoring the second, and labour was equally addicted to considering only the latter. This had created a dilemma where neither was able to understand the concerns of the other and somehow this pattern had to be broken.

The debate needed to look at the real

Rhetoric clouds economic issue

B1 Day 30/8/88

ALAN FINE

questions underlying the two "isms", namely, the best mix between state and individual involvement in, and responsibility for, ownership of the means of production, the exchange of goods and labour and the provision of the nation's social goods and social welfare.

Considerations of both efficiency and fairness had to be taken into account. The face of capitalism had changed a great deal since the days of Adam Smith and Karl Marx, making total freedom from regulation, and total control, impossible.

The differences between supporters of capitalism and socialism was that capitalists wanted maximum growth with minimum regulation, while socialists put the emphasis on more state intervention so as to ensure fairness, he said.

Business confidence down

31/8/88 B/day
49

HELOISE HENNING

ASSOCOM'S business confidence measure in August registered red, dropping one percentage point to 96,3% from the amber signal in July at 97,3%.

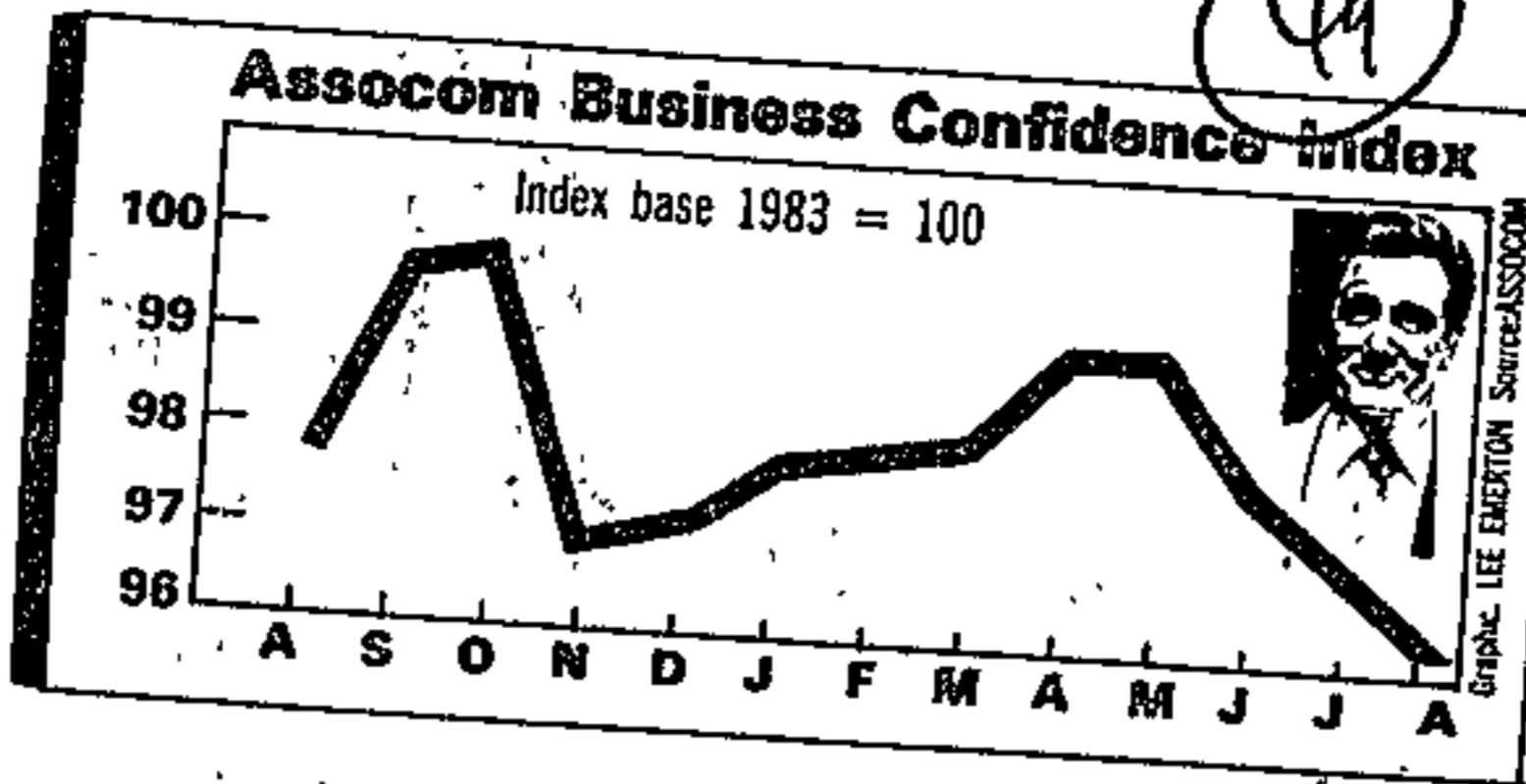
That clearly indicated the downturn in the economy and raised the question whether the landing would be soft, Assocom said yesterday.

The economic signals in the past few months had unmistakably changed from green to amber and now to red.

The current round of restrictive measures should now be given time to take effect. Assocom hoped no further measures would be introduced to "cool down" economic activity.

The only unchanged signal in the 15 sub-indices measured monthly was the Consumer Price Index at 12,4%.

However, the impact of the latest economic



measures would negatively affect both growth and inflation. The improvement on the balance of payments would not match those negative effects.

The negative signals in August came from increases in interest rates, the fuel price and the number of insolvencies. JSE prices fell, as did the dollar price of gold and the rand/dollar exchange rate — from R1,92 to R2,45 from January 4 to August 19. Real merchandise imports declined compared with July.

(A6)

(A7)

That sinking feeling

49

■ The *FM* panel looks at the outlook for the economy

The *FM* Board of Economists discusses the outlook in the light of the August restrictive economic package, and last week's Reserve Bank annual economic report and governor's address. Regular members JCI's Dr Ronnie Bethlehem and Professor Brian Kantor of UCT are joined by a guest, Dr Hans Falkena of the UBS. The chairman, as usual, is Assocom's Raymond Parsons.

Parsons: What is the main message of the governor's address?

Bethlehem: There were two aspects: to spell out the changed economic situation and the need for both internal and balance of payments (BoP) adjustments, and to do what he could to sustain consumer and, more particularly, business confidence.

Falkena: The main message is that he wanted to increase the Bank rate earlier, but for several reasons couldn't.

Kantor: The message is that the Reserve Bank failed, in its primary responsibility, to exercise control over the money supply and by implication bank credit, and that the excessive boom conditions — relative to what we can afford — are his fault. That's honest, but not particularly helpful, because I don't see any suggestion how he'll correct these failures.

Bethlehem: What he doesn't say, of course, is the extent to which political pressure compelled the Bank to compromise.

Parsons: How real is the BoP constraint and do you agree with his assessment of its role in economic performance?

Falkena: A change in the foreign exchange reserves is exactly the same as a change in the cash reserves of a company. It doesn't matter how good a company you are if you run out of cash. We are in exactly the same position. The BoP constraint is a very real problem.

Bethlehem: There are two dimensions to this. First, a great and unusual requirement in that we have a population increasing at about 2,5% a year, a black population increasing at 3%, and an urban black population increasing at 8%. This creates an imperative for growth. The other is the debt repayment obligations we have assumed.

Kantor: There is always a BoP constraint. What comes out of the governor's report is that we ran into difficulties because we had a money-supply boom, not because of any

structural change. In fact, import propensities are no greater than they were; if anything they are less. We have to adjust, and one way is the exchange rate. That has fallen, but unfortunately instead of letting the exchange rate do the work, there has been something of a panic. They have supplemented the effects of the exchange rate and a slow-down in monetary growth with other policy measures that I don't find particularly satisfactory.

Bethlehem: Like other developing countries, we need to import savings because we don't generate enough to finance our investment. What makes SA unusual is that sanctions have been imposed on us which prevent us from doing this.

Parsons: May SA eventually have to default on foreign debt repayments? Should we seek to revise our foreign debt agreement?

Bethlehem: I don't think our authorities even want to think of defaulting.

Falkena: The chance of a default is very real. If we continue to address the population and employment problems and grow by more than 3%, which I think is already too much for us to be able to repay debt, monetary and interest policy will have to remain very strict for a long time to avoid default.

Kantor: In normal circumstances, by which I mean an ability to trade relatively freely, SA would not default. The argument for default is not strong enough politically and the consequences of default would be very serious; but if our trade becomes illegal anyway then there is no cost in default. That is a decision the Rhodesians came to and SA will come to the same decision.

Falkena: Think of the assets that leave our ports: ships, aeroplanes and so on. They will just be seized; that is why we have the standstill arrangement.

Kantor: You mustn't underestimate the ingenuity of South Africans. The ships are on foreign register and the aeroplanes probably are too. The obvious things you can avoid; the great difficulty is trade credit.

Falkena: It is not only aeroplanes and ships. Virtually all the capital assets for Mossel Bay and the Highlands water scheme have to be imported, and we must have export credits — which we will then not get. It's easy to say that imports will drop, but on what growth rate is that based? We have been cutting back on fixed investment for virtually four years and the economic infrastructure is in bad need of being replaced. If

We could probably have avoided the whole August package if Bank rate had increased earlier. — Falkena



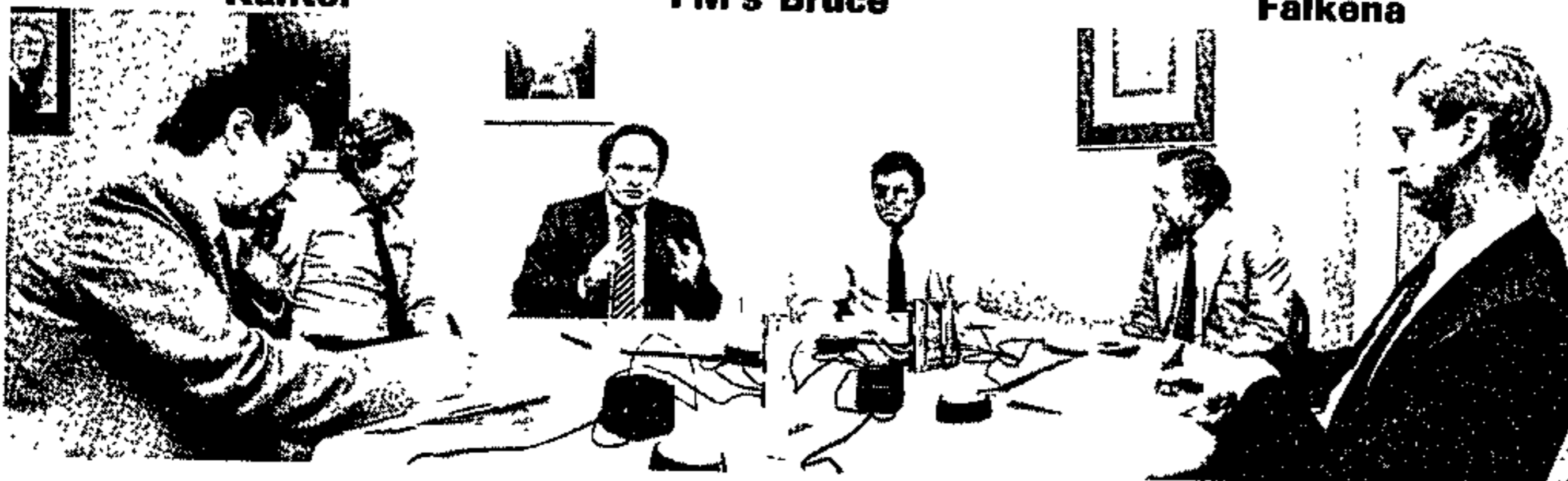
Kantor



FM's Bruce



Falkena



Bethlehem



Parsons



FM's Coulson

you talk about a growth rate in excess of 2% or 3%, imports have to rise — there is no way we can avoid it.

Kantor: We've had the normal cyclical impact on import demand. If the cycle turns down, as it will, import demand will fall away as usual. Investment will probably remain weak and its import content may well fall away.

Bethlehem: Professor Kantor says the consequences of default would be serious, but also very serious would be the consequences of neglecting growth. That is the dilemma government faces, because there is a connection between the socio-political cycle and the economic cycle. Looking back to the early Sixties, economic deterioration has usually preceded socio-political turbulence.

Parsons: Should we give higher preference to growth or to repaying foreign creditors?

Bethlehem: Everything depends on the circumstances in June 1990 when we come to renegotiate the agreement. If we are in a cleft stick then, we'll have no choice but to appeal to the banks' co-operation. The point of the measures that have just been taken is to avoid getting into that situation.

Kantor: Ideally we would pay back as little as possible. The banks want as much as possible. We must tell foreign bankers to be realistic in what they think SA can afford: if you push too hard you won't get anything.

If we don't reach an agreement, we'll have technical bankruptcy. The one experience they have with that is the Iranian assets, which they froze. That proved an absolute nightmare in the US courts. The American authorities seemed to gain very little. The only way out of this dilemma, which I think is sensible and natural and would be market-orientated, is to produce more gold. Gold export volumes are declining in response to a tax system that is totally illogical, set up in a different era when the idea was to extend the lives of mines indefinitely.

The irony is that we run into BoP crises and can't rely on extra gold output, not because of any natural force but because of the tax system. That has to be redressed. I am sure we are going to change the tax system. The industry is in a very strong position to negotiate favourable terms for new gold mining development.

Parsons: Let's move on to the package of August 12, including the fuel price increase. What do you think of those measures, against the background of whether you see the economy as slowing down anyway?

Falkena: The economy was already in a downward phase, which will be accelerated by the package. Every time the economy has cooled off in the Eighties we've used fiscal policy, not monetary policy. Monetary policy

has been far too lax. We could probably have avoided this whole package if Bank rate had increased earlier.

Kantor: I am not certain that the economy was slowing down. There was still a lot of steam in July — because of the failure of indirect methods. But the package is an enormous disappointment. It is the kind of policy one had hoped SA had grown out of, in that it represents a highly arbitrary intervention in the marketplace and introduces a huge element of uncertainty. The only thing you can say for the measures is that they didn't use import permits as much as tariffs.

Will it work? Well, it may: hire purchase controls are arbitrary and affect particular participants much more than others. It'll take them out of the market because they can't substitute other forms of credit.

Bethlehem: The economy was beginning to slow down, but the problem was that a lot of imports in the pipeline were still to come through. What worries me most about this necessary, but belated package, is that it will have a serious psychological impact. Indeed, that is part of its intention.

It was also intended to avoid two things: further sharp increases in interest rates and further downward pressure on the exchange rate. It may not succeed. The initial impact was favourable, but it may just put off the day

when they'll actually have to do something on the interest rate front. It's buying a short-term benefit and ignoring the longer-term consequence. Surcharges address the current account, not the continuing haemorrhage in the capital account caused, among other things, by the seriously adverse real interest rate differential between South Africa and, for example, the US and Britain.

SA must generate savings of its own. It won't do that with adverse real interest rates.

Kantor: You've got it the wrong way round: our savings exceed investment. The problem is that investment demand has been so weak. If investment demand had picked up, real returns would have followed.

Falkena: It is wrong just to compare domestic savings and domestic investment. Domestic savings have to cover three items: total investment, the

49

What politicises interest rates is politicians' knowledge that they can influence interest rates.
— Bethlehem

Budget deficit, and the current account deficit. Even if you don't invest and run a surplus, you still have to finance your Budget deficit.

Kantor: The autonomous capital outflow has probably fallen away. If we can raise the willingness to invest, of course the ability to borrow abroad becomes critical. But real returns to savers are poor because investors don't have confidence to invest money. What does the pack-

age do to remedy that?

Parsons: The governor says the Bank must accept responsibility for the excessive rise in money supply. Do you agree, and would you like to see the Bank acting more independently? Would this improve timing and the quality of decision-making?

Kantor: The trouble with conventional analysis is that it often puts the emphasis on the wrong place because the analysis is wrong. The Bank has had opportunities to construct a system to control money supply effectively.

The De Kock Commission was a marvellous opportunity to renovate and de-politicise the system, but the Bank wished to retain discretion over interest and exchange rates.

It had the chance in 1984 to use that discretion. Having waited too long, it moved too little and too late. It moved interest rates up into the stratosphere. This slowed down demand, but the political and economic consequences were devastating, undermining the ability of the Bank to exercise discretion in the future.

The politicians didn't allow the Bank to raise interest rates earlier this year because they remembered 1984.

Falkena: Some countries have real interest rates of the order of 3% or 4% and huge surpluses on current account; so you ask yourself simply what's going on in SA, where we have enormous BoP trouble and negative real interest rates.

Bethlehem: Though the initial effect obviously was damaging to growth, I don't think that 25% interest rates were a disaster in 1984.

On the contrary, they contributed in an important way to a BoP correction which produced three years of massive surplus on BoP current account. Artificially low interest rates don't impose the necessary discipline on the use of scarce financial resources.

Parsons: Would the Bank get that right if it was seen to be more independent?

Bethlehem: It would be to SA's enormous advantage if the Bank could be more independent and if we could, to a greater extent, de-politi-

The governor was honest, but not particularly helpful, because I don't see any suggestion how he'll correct the Bank's recent failures.
— Kantor

Gold export volumes are declining in response to a tax system that is totally illogical, set up in a different era when the idea was to extend the lives of mines indefinitely.
— Kantor

Neither honour nor success

■ The presidential direction is unerringly towards poverty



The fruits of President P W Botha's constitutional and economic reforms have not been sweet. They have brought him neither honour nor success. What virtue he possessed has been led astray by fanaticism and profligacy.

The constitutional crisis that threatens the short and tragic life of the tricameral parliament is testimony to the profound poverty of his political endeavours. We are, in consequence, facing the possibility of what amounts to the suspension of parliamentary government.

Botha's mismanagement of the economy has set foreign capital to flight and debased the currency. One of the world's most richly endowed countries is now in the ridiculous position of being told that, under its president's guardianship, it cannot afford prosperity. The corollary, equally absurd, is that all it can afford is poverty.

Bureaucratic corruption is rife. There have been at least four inquiries in recent months into official irregularities. The authorities' grip on law and order must be tenuous to say the least; almost weekly, indiscriminate terrorist bombings kill and maim innocent bystanders and "unrest" may well be rekindling in Natal.

If there be some fructification of foreign policy from the negotiations over Angola and Namibia, it would be the improbable crowning glory of 40 years which have progressively alienated our friends, strengthened our enemies and led us to the unerring scorn of ordinary, sensible folk in other lands.

South African society would not be the loser if there were to be a change of leadership now — and almost any change would do. For Botha's volatile, even ambivalent disposition is now the greatest impediment to progress and prosperity. The National Party, which is by no means about to be unseated, should consider very carefully whether it can continue to afford him.

Macaulay once wrote of a capricious Highland chieftain: "His age was venerable; his aspect was majestic; and he possessed in large measure those intellectual qualities which, in rude societies, give men an ascendancy over their fellows." Botha's ascendancy, once the very instrument of reform, has instead become the means of its abrogation.

His autocratic style and imperious mien have alienated the coloured people and the Indians, whose gradual enfranchisement, via the tricameral system, could have kept the threatening Conservative Party in puny parliamentary aspect, especially after the next general election, which could be in May — if not October this year.

We have no doubt that Nat consensus with the elected coloured and Indian representatives over reform was once promising. The price of its continuance, however, was made very clear when both communities agreed — in strictly limited number — to participate in a parliamentary arrangement that excluded blacks. It was that this less-than-perfect parliamentary structure become the means by which racial discrimination — especially as expressed in group areas and squatting laws — be progressively removed.

Indeed, the Reverend Allan Hendrickse is on record as having said that if, within five years, he had not achieved the removal of those laws, he would review his participation. That period expires this year; we assume Hendrickse will keep his word and enhance his integrity.

It is the Nats who have reneged. Now that they cannot get agreement on regressive amendments to group areas and other discriminatory laws that will effectively reintroduce influx control, they are to rely on the autocratic powers vested in the President's Council, which they control — which, indeed, P W controls.

This will win them no brownie points with the CP and probably save them very few of their own members who have been beguiled by Andries Treurnicht's romantic bigotry. But it will alienate opinion abroad and polarise politics at home. It will render the Great Indaba (or National Council) a dead letter

— if it ever was a constitutional option while genuine black leaders are incarcerated.

About the only group of voters left either to replenish the Nationalist ranks or with whom to form an alliance, are the English-speaking ones, who are perfidious, to say the least. Twice in recent years they have supported the Nats in substantial measure: once over the new constitution and again at the last general election.

But they didn't then have a rejuvenating PFP and Denis Worrall's Independents with which to flirt. Nor have they seen their support of the NP repaid by any influence in its affairs, let alone the allocation of any plum jobs, which remain firmly in Afrikaner hands irrespective of — some would say, in spite of — relative competence.

In these circumstances, the temptation for Botha to foresake parliament and rule via the President's Council, or for that matter some thinly veiled military tribunal, could become overwhelming. Regional administrative mechanisms enabling an instant switch to martial law have long been in place.

There remains a strong belief in the National Party — especially in its communications arm, the SABC — that this country's future depends almost entirely on political decisions. What happens to the economy — and the ability of people to provide the basic requirements of life — is considered secondary to the siren call of Afrikaner survival.

That is a view, we fear, based not on insights denied the rest of us, but on ignorance. It is akin to the argument advanced for trade sanctions against us: that an economic wasteland is a price worth paying for an uncertain political goal.

The fact is that P W Botha's economic reforms — fiscal discipline, fairer and more efficient taxes, deregulation and privatisation — like his political ones, lie more in the minds of Nat politicians than in reality. Where steps have been taken in their direction, they have been no more than tentative when, to have any effect, they should have been robust.

Important as they may be, the absence of these reforms in substantial measure is less immediately a restraint on economic growth than other policies which have been manifest failures — but with which the Nats, in their esoteric visions, will persist.

One of these is the refusal to address inflation in a way that will bring lasting price stability and sustainable growth. It has declined in recent months — as a



President Botha ... a Rubicon too far

result of short-term stability in the exchange rate and monetary discipline last year — but there is not an economist who doesn't expect it to be back to about 16% next year.

Just to maintain export performance, the rand will have to depreciate against the main trading currencies by the difference between our inflation rate and that prevailing in the country of the relevant currency. At present, that suggests at least a 10% depreciation on average a year for the foreseeable future, while the economy is overwhelmed by the need to repay foreign debt.

If the capital flight is to find domestic compensation — let alone be reversed — the depreciation will have to be larger and, if the money supply is not under firm control (and it is not), that will aggravate inflation in the immediate future.

Even the celebrated Dellums Bill, in all its sanctimonious ferocity, would have only a cumulative impact on growth here. It would be small beer compared to the blows that the capital flight and boycott are administering daily, and have been for three years.

It is not what is happening to the economy this year or will happen next that is important; the trends over the past 10 or more years tell the depressing story of a mounting economic crisis and progressive slide towards impoverishment. White real wages have been declining for that period. No wonder the CP is in full cry in the industrial heartlands.

Domestic savings became negative over that period too; fixed investment has not kept pace and capital formation is in relative decline. All this has been substantially aggravated since the capital boycott and flight which began in mid-1985.

We're not just eating our seed corn — we're allowing it to blow away to nourish the booming economies of the West who don't need it.

For SA to export the capital it needs so badly to unlock our natural wealth and transport it to world markets is sheer economic folly.

But the folly does not end there. Over the past 10 years, SA's share of world gold production has fallen from 80% to just over 50%. Within another 10 years, it could be substantially lower, as low-cost production in Australia and Canada is rising fast. Costs at these mainly open-cast mines are a fraction of those of our deep-level mines in an economy where inflation is rife. Even if the gold price does not rise — and there is little to suggest that it is building anything like a head of steam — these new mining ventures have ample funds to spend on developing new and more efficient mining and extraction techniques — the exact position which SA mines enjoyed for so long and which kept us ahead of the game.

Without investment capital inflows, the only way our mines can keep abreast of technological development is by generating their own capital. Yet no measures taken since our celebrated tax reform started have significantly encouraged domestic capital

formation or wealth creation. The only reforms so far have been revenue-generating for the Exchequer.

So we sit on an abundance of mineral riches, with available labour, management skills, a developed banking system and a sophisticated capital market and become progressively poorer.

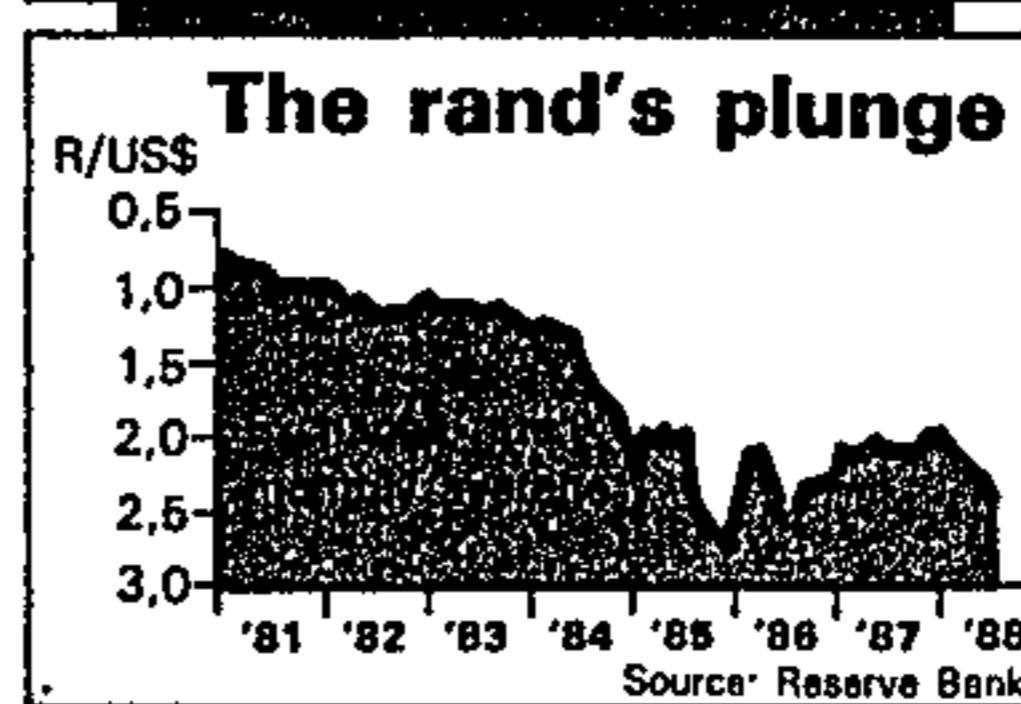
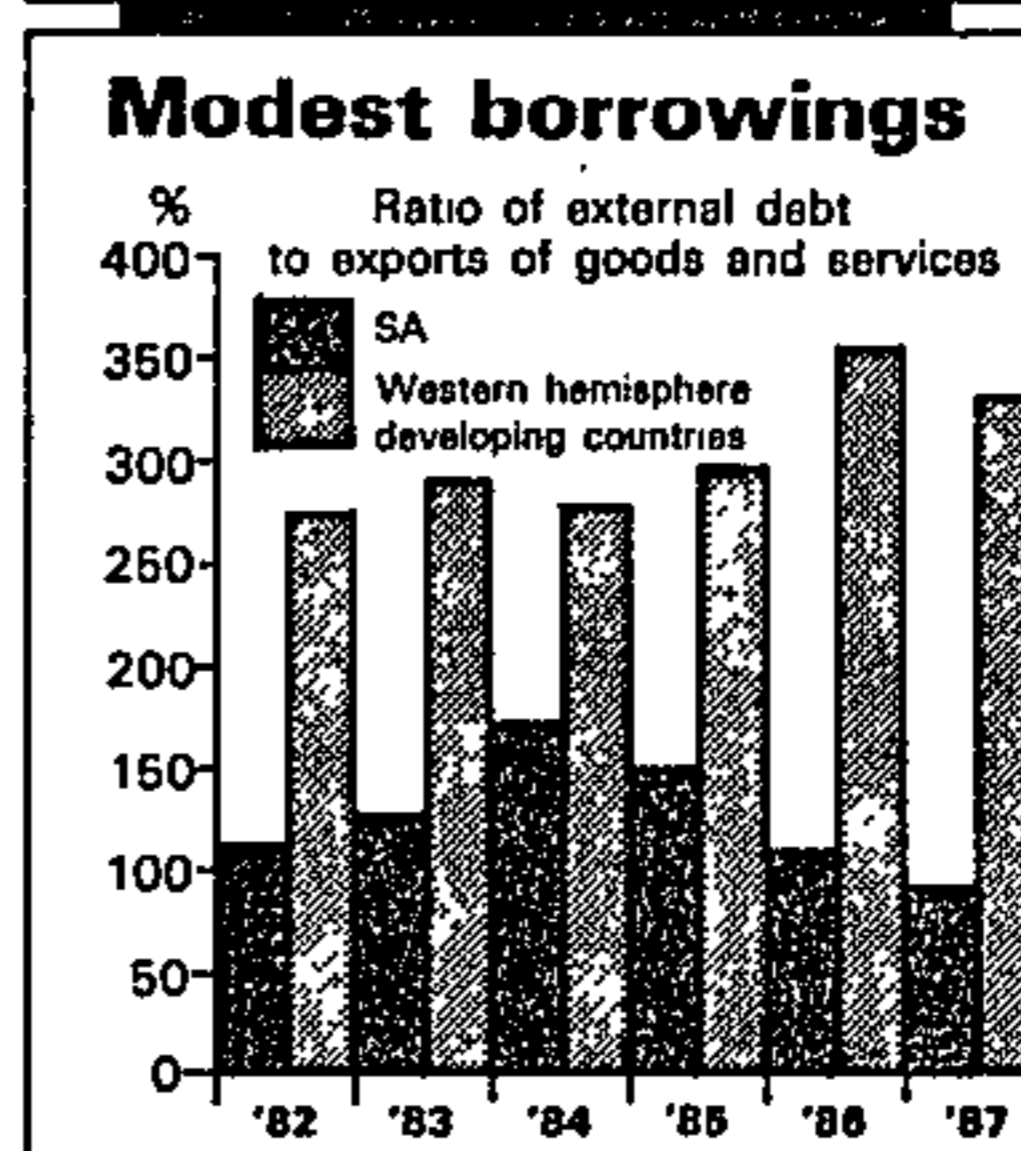
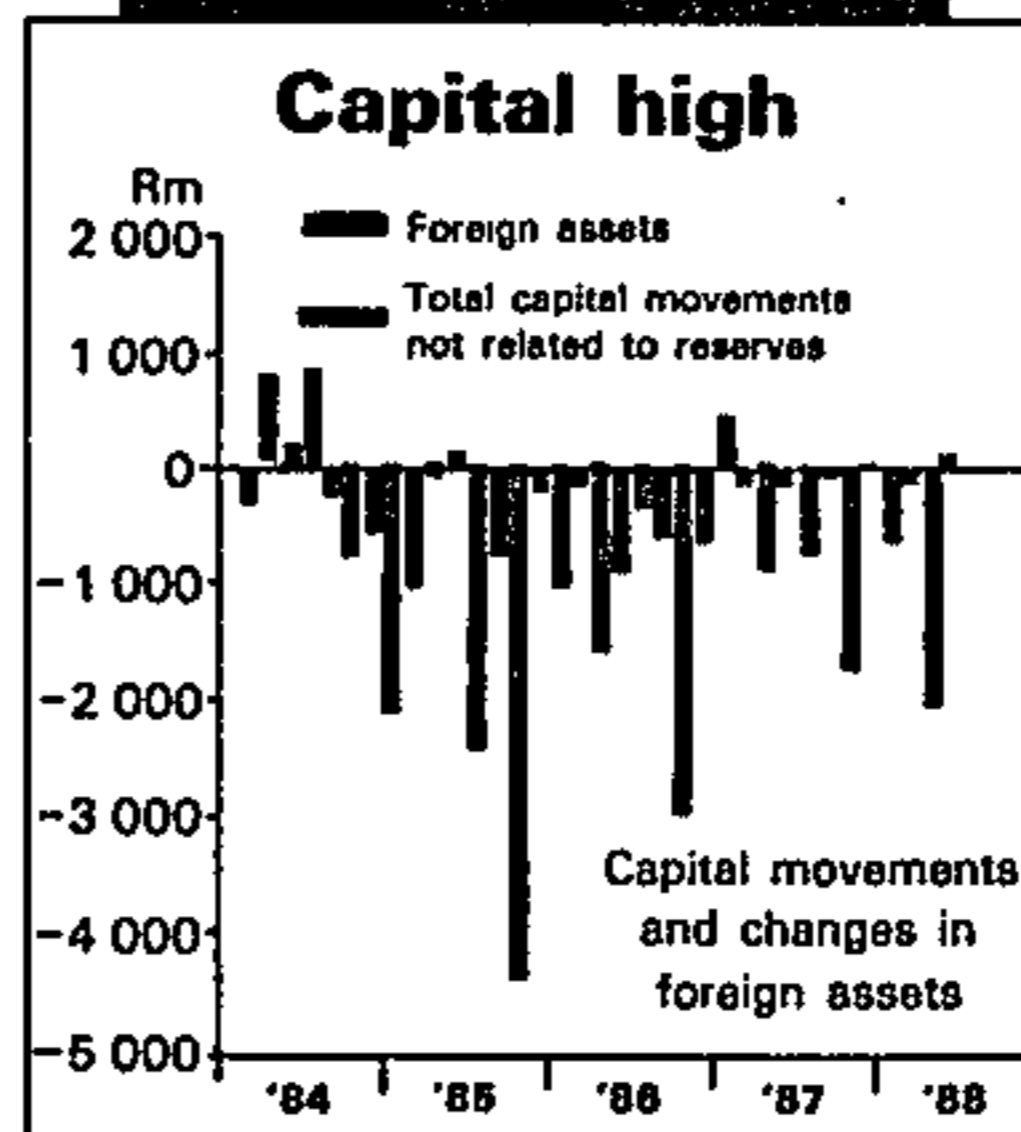
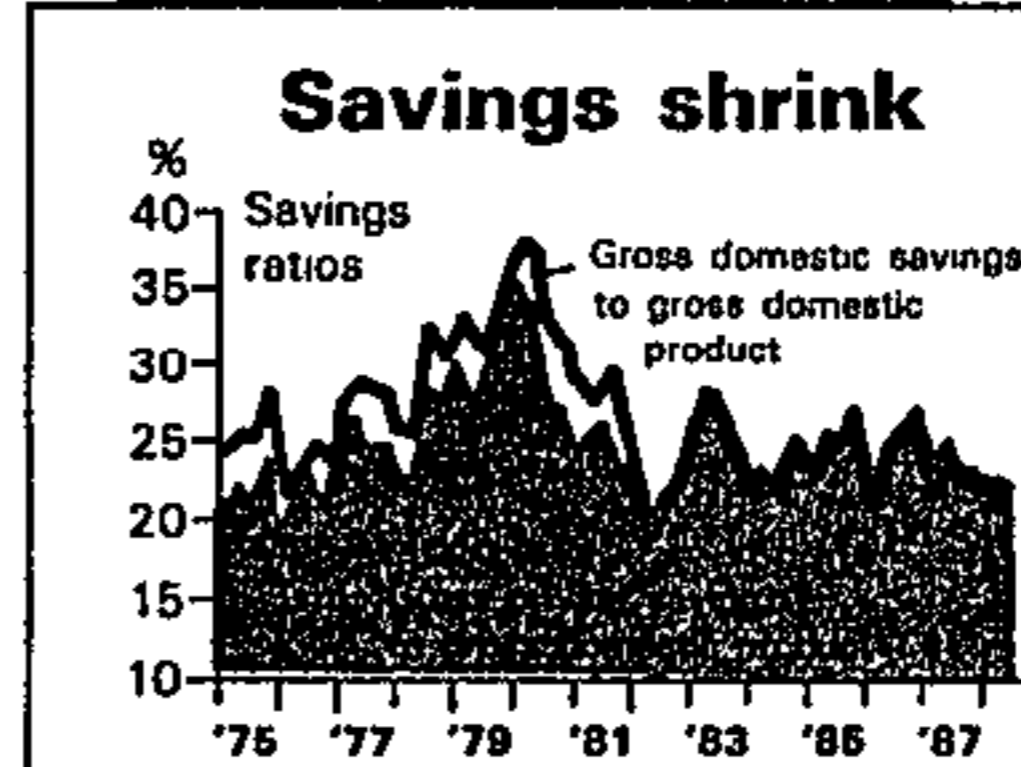
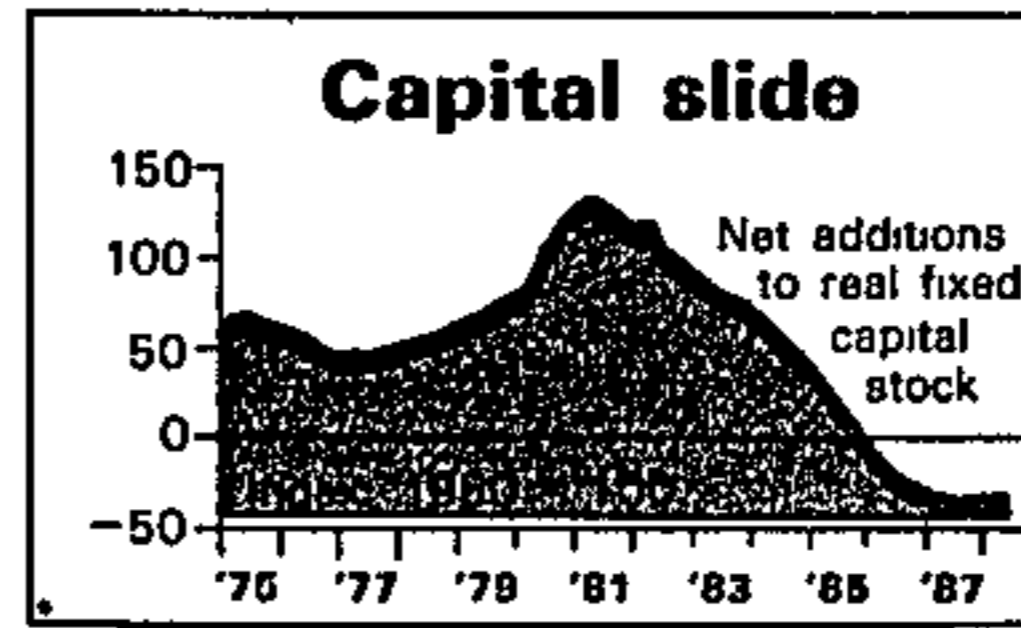
For, government tells us, to pay what by international standards are modest foreign debts, we cannot afford to grow at more than 2% or 3% a year for the foreseeable future — the so-called balance of payments constraint.

And the chances are we won't even meet those modest targets if our dominance as a gold producer is steadily undermined, inflation allowed to keep eroding our foreign trade and we do not continue to save and invest in our resources. And as the urban black population is growing by 8% a year, our progressive impoverishment is bound to create social strains.

The Nats' dilemma, therefore, is whether to restrain domestic growth at the risk of fostering another bout of violence in the townships, or to attempt to reschedule foreign debt repayments. The prospect of the former would, to normal people, make the cost of rescheduling cheap at the price, which we can quantify: a statement of intent on political reform and a timetable for implementation.

But the Nats' reluctance to do so gets to the fulcrum of their fears — the awful spectre of electoral gains for the CP. Our rejoinder is that the way the Nats are going now, it makes little real difference whether they are in power or the CP has that dubious honour. The economic outcome will be the same — poverty.

Still more errors could compound government's economic folly. One, that rather than control money supply and allow interest rates to find market levels, Pretoria will interfere with direct controls to shield the



debt-ridden farmer and thus discourage his defection to the CP, which in the Transvaal could cost some Cabinet members their seats.

Another is that even Reserve Bank Governor Gerhard de Kock's modest forecast of 2,5% growth this year and a surplus on the current account of the balance of payments next year is based on the maintenance of adequate monetary and fiscal discipline. Well, there hasn't been any over the past year and even he admits money supply won't be brought down to targeted growth this year.

For decades, this administration has been characterised by economic policies that applied too little restraint too late. Seldom, if ever, has it been responsible for overkill. That is why, in our view, De Kock's modest real growth prognostications are optimistic.

It is not difficult for Pretoria to pump growth up to 5%, 7% or even 10% next year by simply printing more money and allowing the rand to plunge. But the cost thereafter of that shot in the arm will tear at our already fragile social fabric.

For inflation will, in a haphazard and uncomfortable way, adjust lifestyles to the austerity we cannot avoid.

There is a way out of this mess: tight money, no exchange control, rapid deregulation and privatisation. But those are policies that take political guts and require an understanding of economics. P W Botha manifestly has no stomach for the former and no head for the latter.

His inertia speaks volumes. What he and his party are telling us is that they are prepared to see this economy reduced to a wasteland if that is what maintaining the status quo entails. Is it that much different from the spirit of Tutu's or Dellums' scorched-earth sanctions policy?

The outcome will be the same — impoverishment.

result of short-term stability in the exchange rate and monetary discipline last year — but there is not an economist who doesn't expect it to be back to about 16% next year.

Just to maintain export performance, the rand will have to depreciate against the main trading currencies by the difference between our inflation rate and that prevailing in the country of the relevant currency. At present, that suggests at least a 10% depreciation on average a year for the foreseeable future, while the economy is overwhelmed by the need to repay foreign debt.

If the capital flight is to find domestic compensation — let alone be reversed — the depreciation will have to be larger and, if the money supply is not under firm control (and it is not), that will aggravate inflation in the immediate future.

Even the celebrated Dellums Bill, in all its sanctimonious ferocity, would have only a cumulative impact on growth here. It would be small beer compared to the blows that the capital flight and boycott are administering daily, and have been for three years.

It is not what is happening to the economy this year or will happen next that is important; the trends over the past 10 or more years tell the depressing story of a mounting economic crisis and progressive slide towards impoverishment. White real wages have been declining for that period. No wonder the CP is in full cry in the industrial heartlands.

Domestic savings became negative over that period too; fixed investment has not kept pace and capital formation is in relative decline. All this has been substantially aggravated since the capital boycott and flight which began in mid-1985.

We're not just eating our seed corn — we're allowing it to blow away to nourish the booming economies of the West who don't need it.

For SA to export the capital it needs so badly to unlock our natural wealth and transport it to world markets is sheer economic folly.

But the folly does not end there. Over the past 10 years, SA's share of world gold production has fallen from 80% to just over 50%. Within another 10 years, it could be substantially lower, as low-cost production in Australia and Canada is rising fast. Costs at these mainly open-cast mines are a fraction of those of our deep-level mines in an economy where inflation is rife. Even if the gold price does not rise — and there is little to suggest that it is building anything like a head of steam — these new mining ventures have ample funds to spend on developing new and more efficient mining and extraction techniques — the exact position which SA mines enjoyed for so long and which kept us ahead of the game.

Without investment capital inflows, the only way our mines can keep abreast of technological development is by generating their own capital. Yet no measures taken since our celebrated tax reform started have significantly encouraged domestic capital

formation or wealth creation. The only reforms so far have been revenue-generating for the Exchequer.

So we sit on an abundance of mineral riches, with available labour, management skills, a developed banking system and a sophisticated capital market and become progressively poorer.

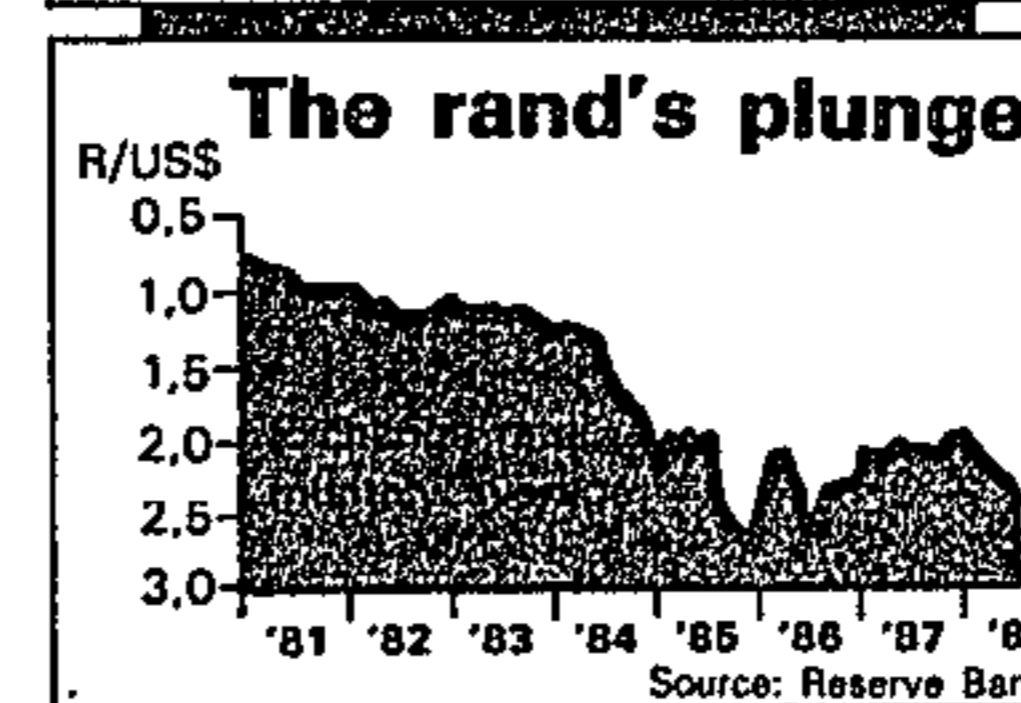
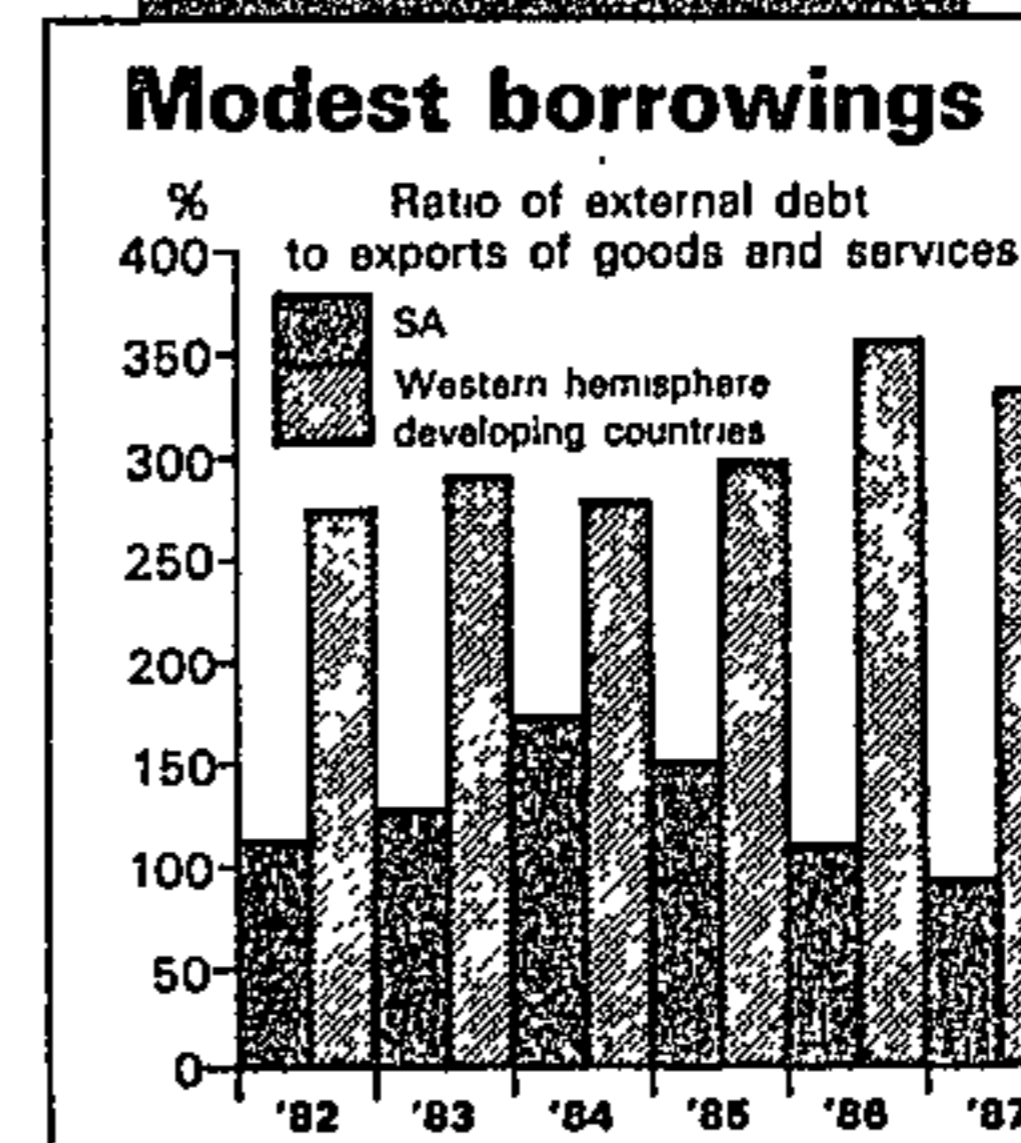
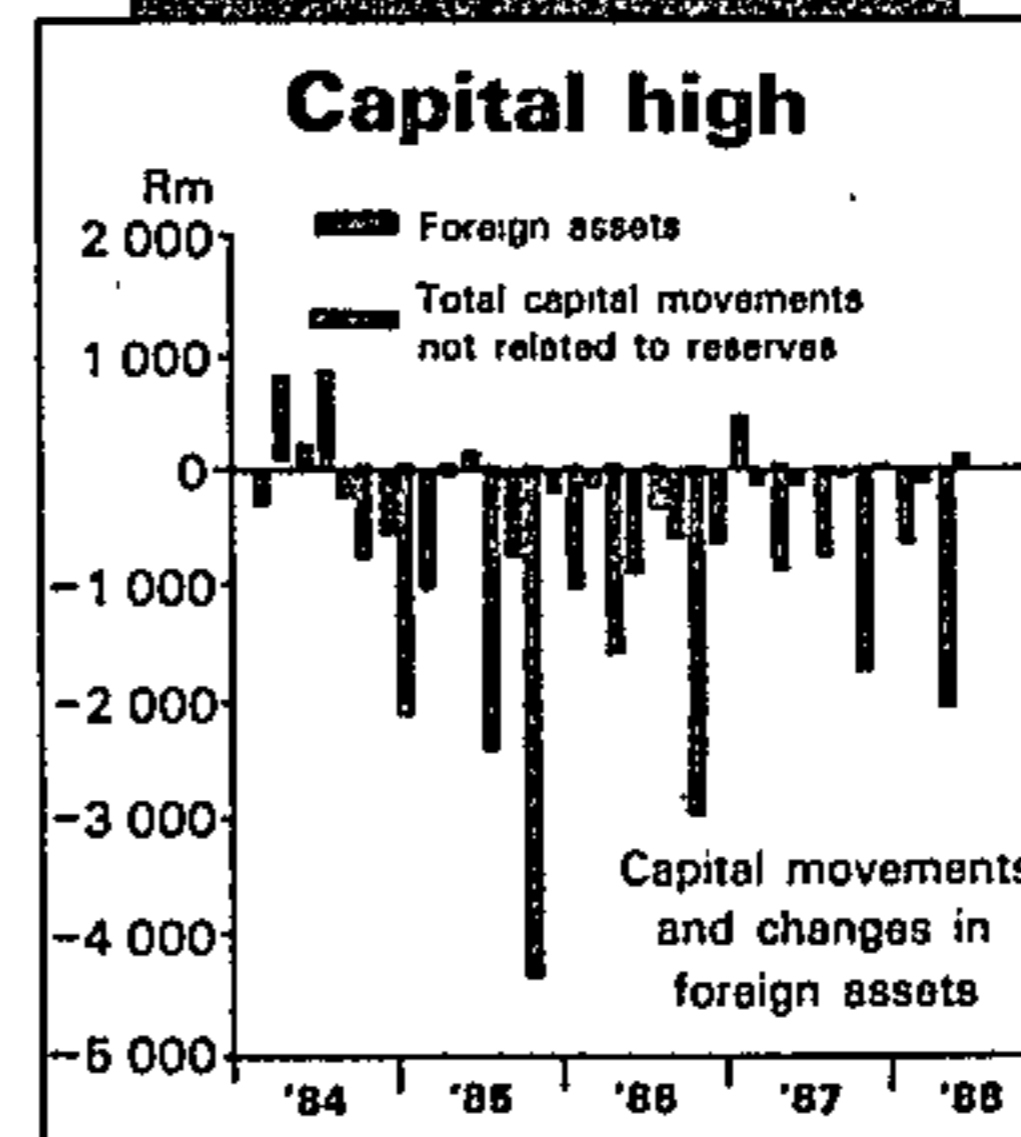
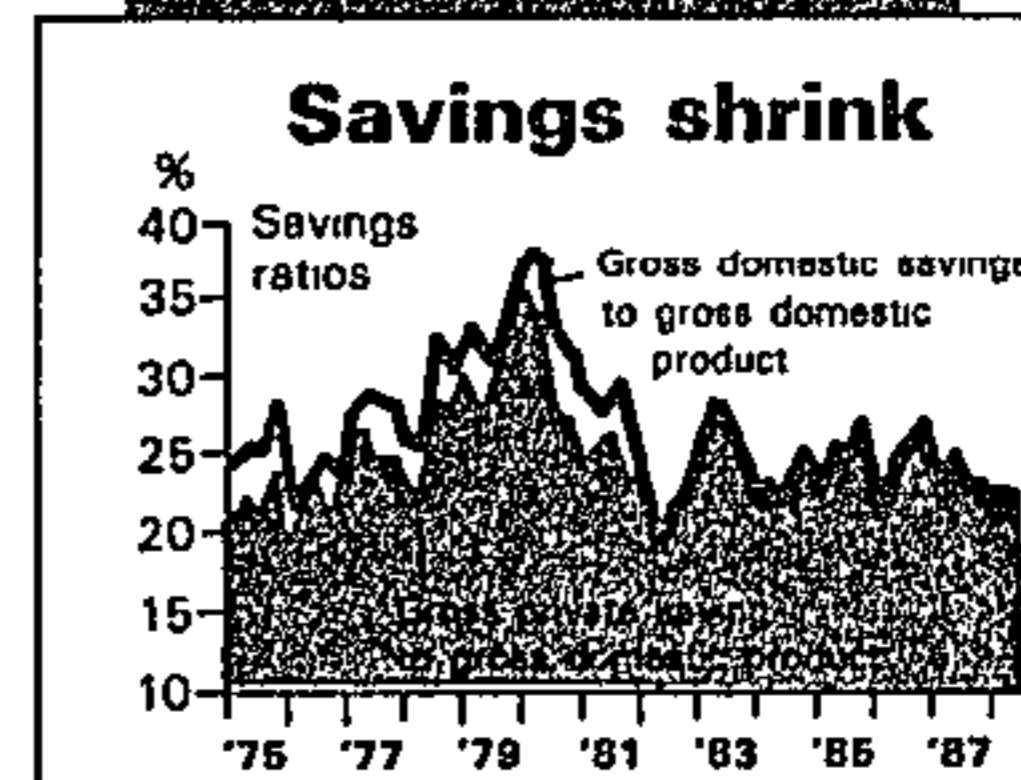
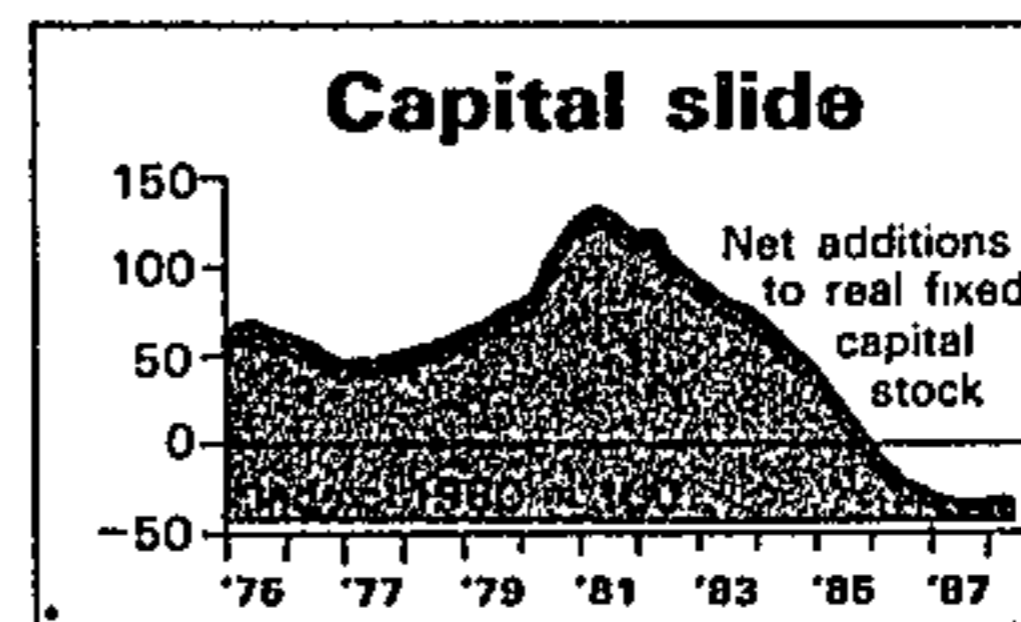
For, government tells us, to pay what by international standards are modest foreign debts, we cannot afford to grow at more than 2% or 3% a year for the foreseeable future — the so-called balance of payments constraint.

And the chances are we won't even meet those modest targets if our dominance as a gold producer is steadily undermined, inflation allowed to keep eroding our foreign trade and we do not continue to save and invest in our resources. And as the urban black population is growing by 8% a year, our progressive impoverishment is bound to create social strains.

The Nats' dilemma, therefore, is whether to restrain domestic growth at the risk of fostering another bout of violence in the townships, or to attempt to reschedule foreign debt repayments. The prospect of the former would, to normal people, make the cost of rescheduling cheap at the price, which we can quantify: a statement of intent on political reform and a timetable for implementation.

But the Nats' reluctance to do so gets to the fulcrum of their fears — the awful spectre of electoral gains for the CP. Our rejoinder is that the way the Nats are going now, it makes little real difference whether they are in power or the CP has that dubious honour. The economic outcome will be the same — poverty.

Still more errors could compound government's economic folly. One, that rather than control money supply and allow interest rates to find market levels, Pretoria will interfere with direct controls to shield the



debt-ridden farmer and thus discourage his defection to the CP, which in the Transvaal could cost some Cabinet members their seats.

Another is that even Reserve Bank Governor Gerhard de Kock's modest forecast of 2,5% growth this year and a surplus on the current account of the balance of payments next year is based on the maintenance of adequate monetary and fiscal discipline. Well, there hasn't been any over the past year and even he admits money supply won't be brought down to targeted growth this year.

For decades, this administration has been characterised by economic policies that applied too little restraint too late. Seldom, if ever, has it been responsible for overkill. That is why, in our view, De Kock's modest real growth prognostications are optimistic.

It is not difficult for Pretoria to pump growth up to 5%, 7% or even 10% next year by simply printing more money and allowing the rand to plunge. But the cost thereafter of that shot in the arm will tear at our already fragile social fabric.

For inflation will, in a haphazard and uncomfortable way, adjust lifestyles to the austerity we cannot avoid.

There is a way out of this mess: tight money, no exchange control, rapid deregulation and privatisation. But those are policies that take political guts and require an understanding of economics. P W Botha manifestly has no stomach for the former and no head for the latter.

His inertia speaks volumes. What he and his party are telling us is that they are prepared to see this economy reduced to a wasteland if that is what maintaining the status quo entails. Is it that much different from the spirit of Tutu's or Dellums' scorched-earth sanctions policy?

The outcome will be the same — impoverishment.

Little chance of tax relief — economists

(49) Blom 2/9/88

Pay hikes 'will strain Budget'

PRETORIA — Finding the funds to finance pay hikes next April for nearly a million government workers would place an enormous strain on the 1989/90 Budget, economists said yesterday.

And they said the public-sector increases would almost certainly rule out any hope of tax relief.

PFM finance spokesman Harry Schwarz said it would be virtually impossible for government to refuse the claims of its workers who would have endured nearly two years of inflation without compensation.

He said: "Particularly in what is likely to be an election year, claims are safe. Politically they are irresistible."

Schwarz said the increases would be a severe strain on state finances at a time when it was vital government spending be held down to a minimum.

Salaries of exchequer personnel were frozen this year and demands for adjustments have become louder and more insistent from staff associations.

Exchequer personnel include state de-

GERALD REILLY

partment and provincial workers, SADF, prisons, police and parastatal personnel, nurses and teachers.

The Commission for Administration said they were paid nearly R15bn last year — or more than a quarter of the national Budget.

Staff associations expect a minimum pay hike of 15% which will cost taxpayers an additional R2.25bn.

Administration and Privatisation Minister Dawie de Villiers opens the Public Servants Association's annual meeting in East London on September 12. The expectation is he will repeat the assurance given earlier this year that government is looking urgently at the pay issue.

The Posts and Telegraphs Association has lodged a claim for a 25% increase from January and the Federal Council of Sats Trade Unions is fighting for a 17% increase.

An arbitrator will settle the issue later this month.

Report election boycotters — Hough

Pe
DU
chi
a l
the
gh
Dr
da
ing
for
B
Ul
an
Be
in
re
hi
of
M
S
E
de
to
ye
G
co
T
D
—
S
ce
vi
N
C
F
v

THIRD WORLD SA . . .

Weekend FOCUS 3

by FRANS ESTERHUYSE
Political Staff

THE pet schemes of South Africa's political planners are going to be swept aside by Third World social and economic forces beyond their control.

It is already happening — and South Africans should brace themselves for an emerging scenario totally different from the future envisaged by most of the whites.

This is the message from an appraisal of current trends by two specialists in the fields of market research and advertising.

Their findings and chair-labbing predictions are set out in a new book, *Third World Destiny*, launched this week by Human and Rousseau Tafelberg.

The authors are Nick Green, managing director of the market research company Markhor, and Reg Lascaris, managing director and co-founder of the advertising agency Hunt Lascaris TBWA.

They studied events and forces in the South African marketplace and found realities altogether different from those usually seen in the political arena.

South Africa, they say, is already in the Third World and will be more so in coming years when vast changes can be expected as a result of rapid population growth, unstoppable urbanisation, grow-

ing illiteracy and other factors beyond the control of legislators and bureaucrats in government.

The authors foresee social and economic catastrophe unless South Africans come to terms with the realities of their new world.

"With our population predicted to top 100-million before 2035, with the ranks of the illiterate and semi-literate swelling by the day, Friday's structures just cannot cope," they write. "We strongly doubt if any rigid structures will stand the strain."

"And therein, ironically, lies our hope for the future — the fact that rigidity is so obviously the wrong feature to depend on in our Third World country. Scrap the rigid structures and you lay the basis for new prosperity."

They believe the Government has recognised this and has begun to dismantle some of its top-heavy, unproductive structures.

"It may mean renouncing 40 years of closet socialism, but it will have to be done. Regulations and controls will not have to be amended — they will have to go altogether."

THE authors cite the Group Areas Act — now at the centre of a major political storm — as a case in point. The Government's move towards "easing the conditions and tipping toward a semi-solution" is not bold enough, they say.

"Bureaucracy will find it self steamrollered by urbanisation at this rate. South Afri-

THE NEW REALITIES FACING THIS COUNTRY



Nick Green and Reg Lascaris

ca's major cities already have their 'grey areas' where racial residential mixing is a fact and where legality and reality are poles apart.

"Urbanisation, even in its early stages, is bending the rules and the structures. So get rid of the regulations now. They are crumbling anyway. "No politician or bureau-

crat willingly forfeits the power of control and patronage. Perhaps not even a crisis suffices to make him see sense — perhaps it takes a catastrophe. We're facing one of those right now . . .

"Pragmatism and common sense will have to take over. Once that happens we will not only see residential regu-

lations go, but with them scores more laws, controls and boards.

"The whole convoluted apparatus which has put an authoritarian straitjacket on our Third World population will have to be dismantled. Then we will see vigour and vigorous economic growth. . . . And South Africa's im-

pending social and economic catastrophe will begin to recede."

ON the issue of urbanisation, the authors say it is doubtful if the political will exists any longer even to attempt to stem the urbanisation flow.

Influx control, the Group Areas Act and the Govern-

by black Cameroon, for example — a country with a continuing commitment to individual enterprise.

Keith Marsden, adviser to the World Bank, puts this black state in a group of four high-growth countries in an analysis of 17 nations and their performance during the period 1962-82. South Africa was not among the 17.

According to Marsden's study, controls check growth while freedom encourages it.

"And smart nations like Cameroon stay successful because they recognise this truth," the authors say.

They note that Taiwan has become one of South Africa's most important trading partners. It is a major economic force — yet a generation ago it was a down-at-heel Third World state.

In Taiwan 38 000 small companies produce three quarters of its exports.

"No wonder we have no fear of black, brown or yellow models. They work. The British and American models, so dear traditionally to white South Africans, may yet be radically amended by the British and Americans themselves."

In their concluding assessment the authors say: "The market is telling us there is more to like than to loathe in the new Third World South Africa. Political ideology can plunge us all into chaos, may be for years. But that can be avoided with flexibility and

ment's decentralisation policy seem to have 'faded totally', to channel black nurturers and job opportunities in the direction favoured by the ideologues.

"New measures would also be hopeless against this Third World flood. Even if a new generation of political die-hards did try to arrest the drift, interventionist policies by government — any Government — would have no chance in the long run of preventing urbanisation."

Not even a 'last white, right-wing thing with a platter-land power base' would succeed in stopping the tide.

According to some estimates more than 8-million people will be without work by the year 2000 — even if the country could keep economic growth above 3 per cent a year.

THIRD World characteristics already evident in South Africa include the "bureaucracy blight", crime, overcrowding, poverty, "manacal" road users and litter jouts.

The authors hasten to add that "Third World does not mean third rate" and that it does not necessarily mean South Africa is heading for "Banana Republic status".

There are other Third World examples which give rise to optimism — such as Brazil and certain countries in Africa.

The authors say "white" South Africa is put to shame foresight."

Economic growth estimates vary

49
B/dow
7/9/88

ECONOMIC growth estimates for 1989 vary between almost 0% to 2% with the possibility of a recession in the second half of the year not excluded.

However, these estimates do not take into account the August package of economic policy measures. Economists are revising their forecasts to take account of the package, which is expected to add impetus to the downswing.

Spending

Mike Brown, of Davis Borkhum Hare, is bearish on the growth prospects for next year and sees a rise of only 0,3% in real gross domestic product (GDP). He says exports will not be the vehicle for growth as volumes are expected to continue declining next year, dropping by 6,8% in 1989.

Brown expects real gross domestic expenditure (GDE) to grow at 2,4% — sharply down from the expected 7% in real terms this year. But he believes the package could make a difference to spending and growth figures and is studying its possible effects at the moment.

GRETA STEYN

However, he expects continued expansion in real fixed investment to have a positive impact on growth, with investment spending forecast to rise a real 4,4% in 1989 after a rise of about 8% this year.

Nedbank's Edward Osborn agrees the vehicle for growth next year is spending on fixed investment, which he forecasts to grow by 5,1%. He sees real GDP growth at 2% next year and is "inclined to stick with my forecast in spite of the latest package".

The last forecast by the Bureau for Economic Research (BER) set real growth at 1,5%. However, the BER is also studying the effects of the package and BER director Ockie Stuart has raised the possibility of recessionary conditions — negative real growth — towards the end of next year.

As economists try to answer these short-term questions, a longer-term view of real growth in GDP shows that SA is becoming poorer every year. GDP a head is lower than it was in 1978. Average real GDP growth rates, which were more than 5% in the 1960s, have dwindled to about 1% between 1982 and 1987.

Direct government spending on black services and facilities declining - SAIRR

VENTS in the first four months of 1988 indicate that the trend towards growing direct government spending on black facilities and services identified in previous issues of *Social and Economic Update*, is slowing down, says the regular review by the South African Institute of Race Relations of social and economic conditions in the country.

The latest edition of the publication says there has been a reduction in bridging finance and community services funds voted for by all provinces in the housing budget of the Department of Development and Planning, in operation budgets for many black hospitals, in money allocated for black housing, and in funds for teacher training.

It concedes that one of the possible constraints on funding is that more spending on black needs means less spending on white needs.

It adds: "The government has apparently retreated from its commitment to racial parity in education spending because it fears the political consequences of much-reduced spending on white schooling.

"The reduced funding of black services and infra-

structure by the provinces and the Department of Development and Planning, whose proposed spending declined by 10 percent in real terms, is in line with the government's intention of lessening its spending generally. In the 1988/89 budget most allocations - particularly those for social services - were reduced in real terms."

SEU points out that the government previously refused to fund urban African townships because it believed doing so would encourage African urbanisation, but it began to fund upgrading in the mid-1980s in response to township unrest.

The government was still committed, however, to upgrading as a means of ensuring township stability. For example, the budget of the Department of Education and Training rose in real terms despite general budget cuts.

However, it was attempting to fund such programmes in ways that do not place a growing burden on central State finances.

"Thus responsibility for township upgrading and service provision is now being shifted to Regional Services Councils. These are taking over responsibility for upgrading townships and in some cases are also aiding African local authorities that previously relied on government bridging finance.

Early indications are that some councils have allocated considerable funds to black upgrading, with small benefit so far for the townships, however, as many of the projects planned by the Central Witwatersrand and East Rand RSCs last year were held over until this year.

"It also remains unlikely that RSCs will be able to make much impact on township backlogs without

much faster economic growth or substantially raising their levies. But this would place a greater burden on regional economies. The Central Witwatersrand RSC has already warned that levies may have to rise in the next financial year," SEU says.

The publication notes that government spokesmen continue to advance the option of using money raised by privatising State assets as a way to fund black development.

It points out that Dr Gerrit Viljoen, Minister of Education and Development Aid, said money for developing the KwaZulu/Natal region will be raised through the proceeds of privatisation and Mr Barend du Plessis and Dr Org Marais, Minister and Deputy Minister of Finance respectively, noted an urgent need for funds from privatisation for use in black upgrading.

"Although privatisation has scarcely begun, the question of the use of these funds is important, especially in view of the suggestion that funds may be used to develop rural areas to slow down urbanisation."

SEU, which will appear every four months in future in order to provide a more comprehensive monitoring service, says that other government strategies include the new "pay as you earn" rent formula, which bases rents on earnings.

This is similar to graded fees in Natal's provincial hospitals, and it appears this principle will be extended to other services and facilities, according to the publication.

"The aim is apparently to reduce the burden on poorer users by increasing charges for those who are able to pay. In black communities, however, an obvious constraint is the very limited number of people who can pay economic rates for services."

Attention is also given to an investigation of the possibility of a new system of medical insurance through health maintenance organisations, which seek to enable the poor to pay for their health care.

Proposals to bring housing within reach of poorer people while reducing government funding are also discussed in the section on housing in the periodical. These proposals are regarded as particularly significant because they would require substantial change in government attitudes towards "squating".

11/19/88

49

CPers



Finance Minister Barend du Plessis

The growth SA needs 'seems out of reach'

13/9/84

GERALD REILLY

(19) 8/10/84

PRETORIA.— SA needed an economic growth rate of 5% to prevent mass unemployment, National Health and Population Development Minister Willie van Niekerk said in Uppington yesterday.

But, he added, it seemed unlikely this figure would be achieved.

He told a seminar SA's population was growing at a rate of 2,3% a year. By 2040 it could reach 138-million.

Economists had stressed the current population growth rate could have a crippling effect on the growth potential of the economy as millions of rands would have to be spent on housing, education, health services and infrastructure.

If the population exceeded 80-million, the country's resources would not be able to sustain it, he said.

64
16/9/88 PM

ECONOMIC POLICY

Too much too late

How long can interest rates be kept at politically acceptable levels? Despite predictions at regular intervals from official sources of a tailing-off in demand, there is little real evidence of this — or that further rises in interest rates can be indefinitely postponed.

Standard Bank economist Nico Czypionka believes the economy has reaccelerated, after a temporary slowdown in the second quarter.

"This is reflected in most recent statistics: retail sales volumes in July jumped significantly, while last month's motor vehicle sales were the highest this year on a seasonally adjusted basis. And car dealers will tell you that they are pushing three or four months' orders ahead of them."

He points also to the continuing rapid increase in money supply and decline in gold and foreign reserves, which confirm that economic policy measures introduced so far this year have not yet been effective.

"If the monetary authorities do not allow interest rates to reflect the continuing rapid rise in demand in the face of obvious pressures in the financial markets and on the balance of payments, they may force measures later in the year which could be labelled too much, too late."

Meanwhile, short-term rates have been kept down over a very tight month-end, with large offerings of repurchase agreements (repos) for the first time since the package of credit restrictions announced in May.

Between August 31-September 9, the Bank put R1,8bn worth of repos into the market. Demand for funds, however, outstripped supply. Offerings of R400m on September 5, for instance, met demand for R900m, with some unsuccessful contenders obliged, instead, to get accommodation against prescribed assets — at penal rates of 17%. Total market shortage reached nearly R3bn on August 31 and still stood as high as R2,3bn on September 12.

Nor was this the total assistance from the Bank. Other funds, not reflected in official figures, were also present — one banker reported an invitation to bid on a large parcel of Central Energy Fund money.

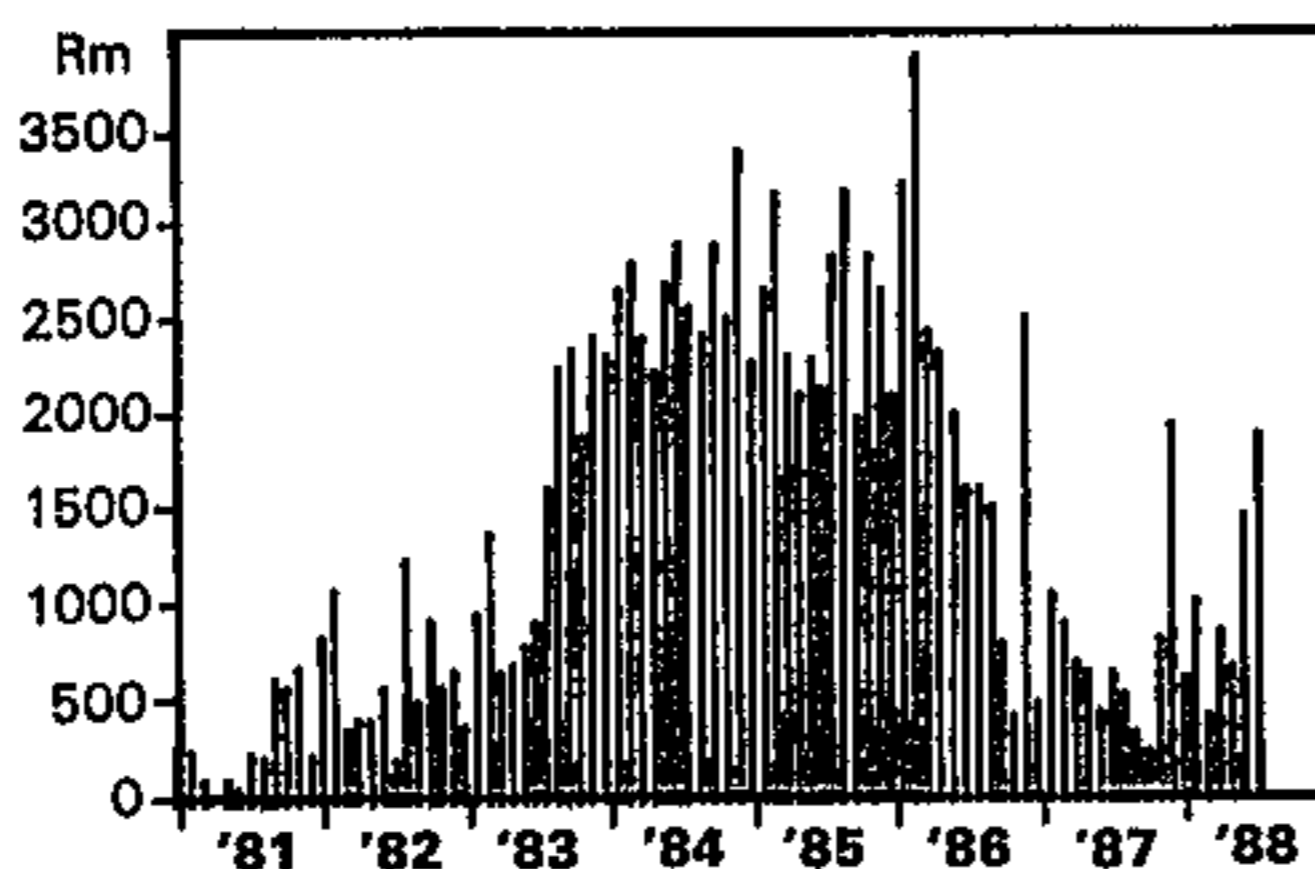
Despite this, month-end pressures lingered. And though government salaries and interest payments on RSA stock should put over R800m into the money market at mid-month, the September month-end is likely to be as bad as or even worse than August's. Rumours that the first *minimum tax on companies* (MTC) payments, due soon, will be well beyond expectations are adding to market fears of further shortages.

Tightness at both month-ends is traditional and expected but the lack of liquidity towards mid-September confirms Czypionka's view that fundamental demand pressures are still powerful.

Failure to act earlier has left a long and stubborn tail of demand. With no prospect of interest rates being allowed to find their own levels until after the October elections at the earliest, the authorities may be repeating step by step the mistakes of 1984-1985 — when prime rate eventually went to 25%. ■

Surging assistance

Total assistance to money market



Source: Standard Bank

Fears of recession mounting

49

STWes
18/9/88.

THE economy has suffered several sharp setbacks in the past two months, raising fears of renewed recession early next year.

- A \$20 fall in the gold price this week knocked \$86-million off the value of SA's gold and foreign currency reserves. If sustained, the drop in price would reduce SA's exports by \$400-million a year.
- Imports continue to rise in spite of higher interest rates and tighter credit control, raising the spectre of direct government controls on imports.
- Exports volumes are stagnating as industrial economies slow down and sanctions take effect.
- The capital account of the balance of payments remains under pressure.
- Deterioration on the current account as well as the capital account has caused SA's gold and foreign currency reserves to fall in three successive months to a low R5,3-billion.
- As a result the rand has continued to fall, placing pressure on inflation and interest rates. More and more commentators are talking of a 20% prime overdraft rate early next year.
- According to the Netherlands-based

Business Times Reporters

Shipping Research Bureau, the sorry balance of payments position came about in spite of drawings on SA's fuel stockpile.

The only good news is that the sanctions lobby in the US has suffered setbacks and the Dellums Bill forcing complete disinvestment looks unlikely to get through soon.

Mothballing

Closures and mothballing affecting 13 Escom power stations this week show that the SA economic machine is working far short of capacity.

Economists say only a higher gold price could reverse these negative trends. Commentators worry about gold because world supplies have increased hugely.

Sentiment is also critical to the economic equation. One reason imports continue to soar and the capital account of the balance of payments remains under pressure is a firm belief that the rand can only go lower. Such sentiment is self-fulfilling — and highly inflationary.

The authorities are believed to have acted with restraint — first, because of next month's municipal elections; and second, because they have tried to avoid overkill.

Standard Bank chief economist Nico Czipionka believes the Reserve Bank's reluctance to respond quickly to the strong pressures evident at the beginning of September may have been due to a belief that the economy had already slowed down.

"The latest readings of the economy suggest that this assessment may not be borne out ... This could force actions later in the year that could be labelled too much, too late," he says.

Reluctance to act swiftly sooner rather than later may also put pressure on the rand exchange rate.

"This enhances the chance that further direct controls over imports will be forthcoming in an attempt to stem the depletion of the country's foreign reserves," says Mr Czipionka.

The economy grew strongly in the first and second quarters of this year. The sudden slowdown was caused by evaporation of the R7-billion current account of the balance of payments

□ To Page 3

199
12/1/85
12/1/85

A CURIOUS feature of the revival of liberalism in the past year or two is the virtual exclusion from the debate of any discussion of liberal principles. These principles can be summed up, in my view, as individual liberty, the rule of law, the democratic method, and the free market. To bring these ideas into humane balance is the perpetual challenge to liberal government.

So far as I can recall, only Charles Simkins, in his seminal lecture series at UCT, has openly confronted the question: what is liberalism? The Institute of Race Relations in Johannesburg is doing outstanding work in identifying mechanisms for change, but it concerns method, not principle.

The institute is not alone in arguing for non-violent, implicitly liberal, incremental strategies, but most of the discussion proceeds negatively from the realisation (well established in the past two years, as it was after Sharpeville) that revolutionary strategies must fail so long as whites command overwhelming firepower.

Speaking for myself, I hardly dare broach the subject of principles. Whenever I have done so I have come under quite withering attack, not from the declared enemies of liberalism, but from people who claim also to be liberals.

It happened when I criticised that outrageous report on the Conner Cruise O'Brien affair at UCT, and the exercise in liberal cowardice which led to it; it happened when I criticised the gagging of Helen Suzman and other liberals, under threat of bully-boy violence, by the liberal universities; it happened when I tried to add my pitiful political voice to the more august and ceremonial efforts of the liberal lawyers to win clemency for at least some of the Sharpeville Six.

Having been attacked so often for speaking too freely, I am wryly amused whenever I read some puffing press statement (copy to the

The creed of the merchant thrashings

KEN OWEN

International Press Institute) that purports to be defending my press freedom.

In fact, I need no protection. I keep a wary eye on the law, but it is riddled with loopholes — it merely takes intellectual energy to find them. I rather wonder why the vocal defenders of press freedom confine themselves to bleating, instead of saying and publishing what they think should be said or published. Obviously, it's easier to bleat than to exercise free speech.

Similarly, I have heard supposedly "liberal" professors of law solemnly intone their admiration for kangaroo courts (known as "people's courts") and mount Marxist attacks on the liberal heritage of law which still distinguishes this country from a lot of others. Worse, they listen in adoring silence to "revolutionary" attacks on liberal judges — Mr Justice Diccott in particular — for supposed "collaboration".

To be a liberal-minded judge has, I think, become almost as dangerous in "liberal" circles as to be a liberal-minded columnist. The difference is that judges can't defend themselves. Of course, I come under impressive attack every time I refer to the virtue of freedom in economic life, without which (as the Marxists con-

stantly argue on behalf of the deprived people they plan to feed and control) no other freedom is meaningful.

Harold Laski defined liberalism, pejoratively, as "the creed of the merchant," and I think that is correct. It is what distinguishes the US from the USSR, and Thatcher's vibrant Britain from the decaying slum of Harold Wilson. South African liberals, in the main, abhor the free market as they abhor eccentricity; diversity, non-conformism and all other untidiness. They are most comfortable doing good works for lesser beings.

As for those occasions when I insist (as I have done since the Progressive Party was fooling around with a qualified franchise) that this country will not come to rest until we accept one man, one vote — it causes the liberals to faint with embarrassment, and to whimper evasively about "negotiation". In fact, a universal franchise is a liberal non-negotiable.

The reasons for this pathological hostility in SA to the basic principles of liberalism is plain. Liberal

thought in this country is all but stone dead, and all sorts of scavengers are clawing for its remains. They want the symbolism, which wins approving recognition in the West, but they have lost faith in the free market, in the rule of law, in parliamentary institutions, in free speech and in the essential decency of the free human spirit.

As it happens, most of these ideas (the exception being Roman Dutch law) were brought to this country by English settlers. They received powerful support, and inspired leadership, from Anglicised European Jewry, but in the main the ideas themselves have not been successfully transplanted to this country.

African liberals, abandoned when the Liberal Party foolishly disband-ed in 1968, have been routed by socialists and revolutionaries, and only a few liberal voices — Aggrey Klaaste and Nomavenda Mathane — have been mentioned in this space — are raised against the totalitarian tide.

Afrikaners, as Professor André du Toit of UCT has pointed out, had a brief flirtation with liberalism between 1850 and 1870, largely in the person of the Anglophile Andries Stockenström. But Stockenström was, as Du Toit notes, isolated from

Afrikaners by his liberal stands, and most Afrikaner liberals since then have suffered the same fate. They are drummed out.

Influence for change within Afrikanerdom is wielded by enlightened conservatives like Stellenbosch's Willie Esterhuysen (author of "Farewell to Apartheid") while the liberals, sooner or later, must seek refuge in English institutions, as UDF members seek refuge in the American consulate.

The refuge is temporary. English liberals, frustrated by their own impotence, have been liquidating themselves by emigration, and by the systematic export of their children. The institutions of English life — church, university, schools, Parliament and press — no longer preserve their liberal character. The refugees take over the ruins.

The Anglican church, for example, has become the principal platform for an attack on the free market, and on the "creed of the merchant". The English universities, no longer places of free discourse, shelter black revolutionaries from contamination by liberal ideas, and shelter Afrikaners who have lost influence on their own people, and now sit like poor relations, carping at the quality of their intellectual accommodation.

As for the parliamentary tradition, the liberal PFP has almost been destroyed by its foolish policy of using outcast Afrikaners to mask its unacceptable Anglo-Saxon face.

Amid this wreckage, the pseudo-liberals huddle for warmth, valuing above all conformity, and peer approval — "solidarity". For them, liberalism is neither the politics of liberty under law, nor even a workable and efficient economic system, but a means to display superior moral virtue.

They are bright and dazzling, and serve much the same purpose as peacocks served in the decaying courts of imperial China. That is why so many black people hold liberals in such contempt.



● DU PLESSIS

EAC looks at interventionist economic plan

(49) 8/day 20/9/88.

THE Economic Advisory Council (EAC) is studying proposals for direct controls on the economy put forward by Sanlam chairman Fred du Plessis, a government source close to the EAC confirmed yesterday.

Du Plessis unveiled his plan to solve SA's economic ills at an EAC meeting on September 9. No decision was reached on the 15-point plan, believed to include quantitative import controls and foreign-currency rationing.

The source said the issue had been referred to the Economic Strategy Committee for in-depth analysis. Only after the Economic Strategy Committee had reported back would the EAC take a decision on accepting or rejecting Du Plessis's proposals, he said.

Government sources are reluctant to divulge details of Du Plessis's strategy, other than to say it represents a combi-

GRETA STEYN

nation of both interventionist and market-related policies.

Earlier this year, Du Plessis criticised the "ignorance and naivete" of pursuing a pure free-market ideology. He openly attacked Reserve Bank governor Gerhard de Kock's market-oriented policies at Sanlam's AGM earlier this year.

De Kock, an important opponent of direct controls, was not present at this month's EAC meeting because of illness.

Du Plessis recently advocated the imposition of a quota system for imports, to "limit expenditure of scarce foreign exchange to essentials". He is known to favour "some formal prices and incomes policy" to fight inflation.

He believed these policy measures should be complemented by stimulating exports.

'Mozambican security improving'

Downturn puts more firms into red

OWN CORRESPONDENT 21/9/88 49

PRETORIA. — Economists say the downward swing in the economy is clearly reflected in the latest company liquidation figures.

Central Statistical Services figures show that in the three months to the end of August, liquidations increased by 38,3%

compared with the previous three months.

And according to Volkskas economist Mr Adam Joobs, the liquidation toll taken by the manipulated slow-down in the economy will continue and accelerate in the months ahead.

High interest rates and other pressures, including a shrinking in consumer spend-

ing, have had an impact on businesses, he said.

The depressed gold price and the likely consequence of a further increase in interest rates would threaten other financially stressed companies.

The number of liquidations increased to 459 in the June to August quarter.

SEEN IN perspective, the economic measures taken by government since July 1988 represent a retreat towards "ad hocery". They deal too much with symptoms rather than with causes, and they neglect the essential inseparability of:

- The problems of the current account and the capital account of the balance of payments (BoP);
- BoP problems and the problem of inflation; and
- Monetary and fiscal policy.

These are serious defects, and their combined effect would be to compound the failure of economic policy were circumstances over which government has no control (for example, those relating to the gold price, foreign exchange rate fluctuations and global cyclical developments) to continue to deteriorate.

Now more than ever, SA needs a coherent medium-term financial strategy (MTFS), like the Thatcher government in Britain adopted in coming to office nearly 10 years ago, but designed to meet the particular requirements of this country, faced as it is with sanctions.

It will be useful to consider each of the defects before discussing what an MTFS here should contain, or what immediately needs to be done to guide the economy away from the dangers it presently faces and in the direction of higher, sustainable, growth.

The inseparability of the current account and the capital account of the BoP is being well demonstrated in prevailing circumstances.

Import surcharges were imposed to meet the immediate problem of a decline in the visible trade surplus and, of course, they will in time work to check import demand.

But this ignores entirely why imports were growing too strongly in the first place, and it ignores also the psychology that is activated when underlying causes are neglected by the authorities because dealing with them has become politically inconvenient or inappropriate.

Behind the surge in the demand for imports has been a surge of domestic expenditure generally, and this has sought an outlet one way or another. Blocking one channel has only

SA needs a clear economic policy which faces facts

RONNIE BETHLEHEM

increased the pressure on others when the cause of the surge has not been adequately dealt with.

Indeed, the problem is more serious than that, and is being complicated by political deterioration changing the motives behind a sustained increase in the demand for credit. As long as it is clear to all that money can be obtained cheaply in SA compared with other countries, and as long as the belief continues that the direction of the rand is downwards, economic agents — driven by their evaluation of competing opportunities — must act to frustrate policy objectives.

The trade account of the BoP may be helped by import surcharges, but they leave unaffected payments for invisibles and do nothing to check the leads and lags of the capital account. On the contrary, low relative credit costs ensure that the leads and lags problem is aggravated and speculation against the rand is increased.

For SA, the bottom line is what happens to the net reserves — and these are still falling.

It would be nice for government to be able to deal with the BoP separately from the problem of inflation, but it cannot. The two problems are inextricably linked and affect each other symbiotically.

For example, borrowing off-shore to relieve a loss of gold and foreign

exchange reserves makes inflation worse, not better, because the cause of BoP deterioration is usually excessive domestic demand growth.

Nothing better demonstrated this than the mini-boom experience of 1983/4. It is no coincidence that in the aftermath of that boom, inflation in SA rose above 20%.

It can be argued that the only effective way to get the BoP problem under control is to give proper attention to the matter of inflation first, however tempting it might be to do the opposite. The lags in adjustment can be considerable, and dealing with inflation first may mean having to accept negative economic growth and increased unemployment in the short to medium run.

The consequences of the worsening of the BoP this year will almost certainly mean higher inflation in 1989 because of exchange rate/cost push effects, but if the problem of impending inflation is not faced now the BoP situation will only get worse.

In the 1983/84 period, the trouble with economic policy was an imbalance between its monetary and fiscal elements. The major emphasis of government was on monetary policy, while the fiscal situation ran out of control, driven by large increases in official spending.

That error was recognised in 1985, and in the immediately following period a serious effort was made to bring monetary and fiscal policy back into harmony. The result was

three years of BoP current account surplus and an eventual reduction in inflation to below 12.5%.

But the policy balance has begun to change again, this time in the opposite direction. While government has kept to its budget pledge to keep the growth of departmental spending below the inflation rate so far in 1988, spending in the private sector has been encouraged to increase by a policy of easy credit. Just as monetary policy could not do the job when fiscal policy was contradictory, so fiscal policy will not do the job if monetary policy is subversive.

The matter of the level of interest rates is made the more critical by the imposition of sanctions on SA. As a developing country, it needs greater savings for the financing of investment than it can generate domestically, but now the importation of savings is being stopped. This must mean that domestic savings have to be increased for even a lower rate of growth to be achieved.

Growth without capital formation is not possible, and if the erosion of the stock of fixed capital is to be checked, a higher level of domestic saving is essential. But this will only be possible if interest rates are allowed to rise.

There is a troubling conundrum in all this. Even if higher domestic sav-

ings are necessary, and will only be forthcoming if interest rates are increased, increased interest rates will discourage investment. This will be true, but only in the short run to achieve the BoP surplus required. In the long run, the position will be different, as both consumers and investors adjust to more realistic credit costs.

Positive real interest rates have not been an obstacle to improved economic performance in the US or Britain, or in other countries, and there is no reason why they should be an obstacle to such performance in SA, given its unique export and internal growth potential.

The link between monetary and fiscal policy provides the basis for the MTFS referred to above. Indeed, an MTFS is essentially a device for ensuring that monetary and fiscal policy are kept reinforcing and consistent with clearly specified official policy objectives.

In SA, the trouble has been that government has not made its objectives sufficiently clear (often it has chopped and changed, causing public confusion), and its management of policy has been wanting.

Particularly disappointing has been the whole approach to monetary targeting. M3 has been allowed to undershoot or overshoot a target range for extended periods of time without the monetary authorities taking action, or an *ex post* outcome has been justified in terms of criteria which have had no connection with the objectives specified in the first place. This has undermined credibility and reduced confidence.

While one may understand the desire of the National Party to keep the economy as favourable as possible for as long as possible for its own electoral purposes, the trade-off between the short term and the medium term in terms of national interest is more critical.

By June 1990, the BoP position — and that means the net reserves — must be fully restored. That is when the debt rescheduling agreement with the country's foreign banking creditors comes up for renegotiation. There can be no question of SA entering such an important moment of financial confrontation in a position of weakness.

□ **RONNIE BETHLEHEM** is group economic consultant at JCI.

M3 money supply 27,5% up

CMC-TIME
22/9/88
49

By AUDREY D'ANGELO
Financial Editor

THE broad M3 money supply was 27,56% higher at the end of August than at the same time a year ago — well above the Reserve Bank's target figure of between 12% and 15%, preliminary figures show.

And the gold price continued to fall yesterday, hovering around the \$400 an ounce mark.

But a statement issued last night by Japie Jacobs, senior deputy governor of the SA Reserve Bank, said there was no need for another hike in interest rates and further restrictive measures at this stage.

Disclosing that preliminary figures show an improvement in the balance of payments (BoP) in July and August, Jacobs said the steep rise in the M3 supply figures reflected the last of the consumer spending spree.

The economy was already cooling down and at this stage further restrictive measures were not justified.

The director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, said he thought the Reserve Bank had made the correct decision. "It is not necessary to cool the economy down any further."

Trust Bank economist Nick Barnardt, in a forecast issued just before the M3 figures were announced, said he expected them to have peaked in August and thought the balance of payments (BoP) would show a significant improvement from October onwards.

Provided the gold price did not fall sharply he thought the sharp decline in credit expansion together with an improving BoP would enable the authorities to relax slightly by the end of the year. "A slight reduction in lending rates is possible in December."

Jacobs' statement said that in spite of the higher M3 figure for August — up from 24,55% in July — there was no

evidence of a renewed unsustainable upswing in the economy.

The slowdown in private consumption expenditure had probably been temporarily interrupted by accelerated expenditure arising from expected price increases including those caused by import surcharges.

Preliminary figures indicated BoP surpluses in July and August. "From this it may be concluded that the other components of gross domestic expenditure (GDE) have continued to slow down in July and August as in the second quarter.

"The decline in the Republic's total gold and foreign exchange reserves was a result, especially during June, of a net outflow of capital, partly in fulfilment of SA's debt repayment obligations both within and outside the net.

"Preliminary estimates also indicate that the extent of the outflow on the capital account is decreasing. The object nevertheless remains to curtail total domestic expenditure with a view to realizing a larger surplus on the current account for the easier handling of the capital account and exchange rate.

"The recent decline in the dollar price of gold, on the one hand, and the increase in private consumption expenditure on the other hand, may complicate and prolong the period of adjustment but at this stage this does not justify any further restrictive measures."

Jacobs pointed out that owing to the decline in the rate of inflation during the past year and the rising trend of short-term interest rates since the beginning of the year "interest rates in real terms have increased appreciably".

He said, however, that the authorities were watching developments closely "and will not hesitate to make adjustments to their policies should circumstances demand this."

ECONOMIC POLICY

Shooting ourselves

Calls for direct controls in response to sanctions are mounting. The rallying cry from the circling wagons: the world has intervened in SA's economy, Pretoria must follow.

The latest Volkskas *Economic Spotlight* says: "As the rules of the economic game were largely broken by other countries through boycott actions . . . SA will be unable to achieve the optimum ability of its economy by following the normal rules of the economic game." Sanctions must be "evaluated and, where possible, neutralised."

The bank says Pretoria should restrict or ban certain imports, especially luxury goods.

Volkskas says import substitution would allow the economy to grow faster than 3%, without "aggravating problems on the balance of payments." (BoP)

Finance Minister Barend du Plessis says much the same in the latest *Leadership*. A dearth of foreign capital places a "ceiling of 2%-3% on growth in the short term — if we do nothing to change the structure of our economy . . . The challenge will be to reduce our propensity to import during the growth phase through measures which make a higher growth rate possible without straining the current account."

But the case for more controls and planning in response to sanctions is unconvincing: □ "The major obstacle is the BoP, at least for (some) years," Volkskas says.

It's time to stop blaming outsiders — "the

BoP" — for our woes. Trade sanctions, financial sanctions and disinvestment hurt. But our major obstacle to growth is Pretoria, along with meddling local authorities.

We're stuck with low growth from: licensing laws that stop blacks from freely entering all trades; zoning codes that curb industrial and retail development; local restrictions on backyard and home businesses; limits on black property ownership; nationalised housing, education, land, iron and steel, post, telephones, electricity and transport; import tariffs; punitive marginal tax rates and ever increasing (and ever changing) taxes; agricultural control boards; runaway money supply growth and boom-bust interest rate cycles; and an overstaffed bureaucracy;

□ "The country must also contend with a compulsory capital outflow which, likewise, has little to do with economic factors," Volkskas says.

If you had US\$1m, would you invest it here? If not, don't blame others for making the same rational decision. There's nothing like the scent of profits to draw capitalists; □ "The most appropriate step appears to be the curbing of imported luxury commodities," says Volkskas.

This is the creeping nationalisation of wealth. Should government decide how we spend? Will local luxuries be next: chocolates, wine, sports cars, magazines? Is this a way to combat sanctions, or amplify them?; and

□ If the BoP is protected through traditional interest rate, exchange rate and fiscal policies, Volkskas says, "it goes without saying that a large enough current account surplus can only be obtained through a considerable deterioration of the growth rate." And Du Plessis says of the debt standstill: "We foresaw that if we were to experience growth rates of 2%-3%, we would not have the ability to make heavy debt repayments."

SA does not have to run a current account surplus to repay debt, nor do the authorities have to "protect" the BoP. The Reserve Bank can always buy forex in the marketplace — just as individuals could if there was no exchange control. The issue isn't whether we can buy forex to repay debt, but whether we can afford it. And the main reason that forex is so expensive is because the rand is being destroyed (see P45).

FINANCIAL MAIL SEPTEMBER 23 1988

The argument that it's difficult to repay foreign debt if we're growing fast, is absurd. The more wealth, the less of a burden debt is. ■

23/9/88 PM 49

ECONOMIC OUTLOOK

More gloom

Plan to get poorer in 1989. And in 1990. And in 1991. If Frankel Kruger economist Gill Raine is right, growth will grind almost to a halt next year, while consumer prices will soar and the rand aims for US30c.

In her latest *Capital Market Fundamentals*, she predicts:

- GDP will grow by 2,5% this year, 0,5% in 1989, 2% in 1990 and 2,5% in 1991 — all lower than population growth, so the average South African gets poorer;
- Consumer prices will increase by 14,7% in the year to December, then 16,9% in 1989, 17% in 1990 and 17% in 1991 — meaning prices will nearly double in four years; and
- The rand will end this year at US38c and at 36c, 34c and 31c in each of the next three years.

Why the dismal projections? Raine says the Reserve Bank won't be able to stimulate growth by cutting interest rates and increasing money supply or we'll just repeat early 1988: soaring imports, falling reserves, a collapsing rand — yet not much growth.

She has little faith that government will take timely action on deregulation and privatisation. "Deregulation will probably continue to remove some small constraints, but I don't see any major changes. And privatisation is very much a long-term development."

For now, Raine believes the interest rate cycle is peaking and the economy will slow. She sees a final surge in credit demand in August-September as consumers rush to buy big-ticket items before the import surcharge and rand depreciation kick in.

"Thereafter, private credit demand is expected to slacken as consumers anticipate

falling real incomes and respond to the tighter restrictions on HP and leasing."

Corporate credit demand might persist longer to finance involuntary inventory accumulation, "particularly among importers who had goods on the water when the surcharges were raised in August."

Raine predicts Bank rate and prime will end the year at 12,5% and 16%, as today.

But she says one factor could push Bank rate higher: higher world rates. The rising cost of overseas import finance would switch trade credit back on shore, resulting in a capital outflow. The authorities may try to stem this with higher local rates. ■

UP Stines 25/9/88

BUSINESS TIMES SURVEYS THE INSTITUTE OF PERSONNEL MANAGEMENT

Economic growth lagging behind a rising population

CAPITAL investment in SA has often been used to replace labour, resulting in unemployment, increased social unrest and an inability to compete internationally, says an IPM report.

Taking much of its information and statistics from a report by J P Spangenberg of the Bureau of Economic Research at the University of Stellenbosch, IPM looks at the human productivity in SA. Its conclusions are not encouraging.

The report shows that real gross domestic product (GDP) grew from R15 501-million in 1950 to R61 169-million in 1985 — an average increase of more than 4%. But when broken down into periods, a different picture emerges.

Population

Between 1950 and 1960, for example, real GDP showed an average annual growth rate of 4,5% as opposed to only 1,1% between 1980 and 1985.

"Such a decline in growth rate, when viewed against dramatically increasing population figures, disinvestment and declining growth in employment, points to an urgent requirement for action," it says.

SA's population growth rate is about 2,3% a year — higher than Western standards. But since 1950 there has been a serious deterioration in the annual growth rate of employment.

Between 1950 and 1960 total employment rose by 2,1%, whereas between 1980 and 1985 it increased by a mere 0,4%.

"The deterioration is obvious, as is the growing gap between the population growth and employment growth.

"These figures represent real cause for concern, and demonstrate the cause for

| | AVERAGE PERCENTAGE CHANGE A YEAR | | | | | |
|--------------------------------------|----------------------------------|---------|---------|---------|-------------|---------|
| | AGRICULTURE | | MINING | | NON-PRIMARY | |
| | 1960-74 | 1974-85 | 1960-74 | 1974-85 | 1960-74 | 1974-85 |
| GDP | 4,4 | 1,3 | 1,9 | 0,3 | 7,6 | 2,7 |
| Gross domestic fixed investment..... | 3,8 | -3,5 | 1,6 | 6,4 | 9,3 | 0,9 |
| Employment..... | -0,3 | -1,2 | 0,9 | 1,3 | 3,9 | 1,2 |
| Capital per unit of labour | 3,3 | 2,3 | 1,5 | 5,8 | 2,8 | 3,4 |
| Product per unit labour..... | 4,9 | 2,5 | 1,0 | -0,8 | 3,6 | 1,5 |
| Multi-factor productivity..... | 3,0 | 0,9 | 0,9 | -4,5 | 2,8 | 0,2 |

the very real problems of increasing unemployment, due to the perceived correlation of unemployment with unrest and social instability.

"This is compounded by the high costs to the country and its citizens of providing food, clothing and shelter for ever-increasing numbers of people unable to provide for themselves," says the report.

Investment plays a large part in job creation and productivity. The disinvestment and sanctions campaigns against SA have resulted in the withdrawal of several foreign companies.

Negative

Although nearly all of the withdrawals have led to SA takeovers instead of closures, the real detrimental effect is a dramatic slowdown in new investments from abroad.

"This factor, taken together with a decrease in domestic investment, can lead to a further deterioration in employment creation."

SA's productivity from 1960 to 1985 deteriorated, and the rate of increase between 1981 and 1985 was negative.

The report illustrates this by way of a multi-factor productivity index, which is real GDP divided by a combination of weighted capital and employment inputs.

Between 1960 and 1970, the aggregate economy showed an average annual increase of 1,8%, from 1970 to 1980 it rose by 0,03% and from 1980 to 1985 it fell by 0,7%.

The chart from JP Spangenberg's report, Trends in employment, investment and productivity, shows that 1974 was the "watershed year between the golden era of economic growth and the era of stagnation", says the IPM.

"The performance as depicted in the graph is disturbing, and points to an inevitable and drastic increase in unemployment, with resultant potential for increased social unrest and pressure, not to mention a disturbing trend away from being able to compete internationally."

Capital investment can create more job opportunities, and conversely may be used to replace labour.

The report says labour replacement has been dominant since 1984, and outlines the reasons why:

- The price of labour relative to the price of capital — labour costs have risen because of strong growth in unionisation and wage increases. Hand in hand with this has gone the philosophy of the social responsibility of employers.
- Militant action by labour and trade unions has led management to invest capital to replace labour.
- The work ethic is missing. Where the work ethic dominates, loyalty to the employer, a cohesive society and co-operation between capital (management) and labour appear to result. Industrial relations in SA appear thus far to have been based on conflict, and management

and labour do not seem to have established common goals.

The report notes that there has been a significant downwards adjustment in productive capacity. Internal buying power has been reduced by high inflation, low levels of employment and high taxation.

There have been several years of reduced exports and SA has been hit by the brain drain. The number of black matriculants has increased greatly without a concurrent rise in the number of blacks assuming skilled and managerial positions.

Solution

The report suggests possible solutions.

"It is essential that deregulation and promotion of the informal sector proceed rapidly. Political stability is a vital component as is a decrease in the present high taxation.

"It is also important to ensure that inflation is controlled and real capital investment is essential. SA's success in attracting outside capital rests heavily on its ability to achieve political stability and perceived political equity for all its citizens."

Apart from these macro solutions there are micro solutions. The businessman and personnel practitioner must invest energy.

"A workforce must be in-

**KANTOOR VAN DIE KOMMISSIE VIR
ADMINISTRASIE**

**KANTOOR VIR PRIVATISERING EN
DEREGULERING**

**MINISTERIE VIR ADMINISTRASIE EN
PRIVATISERING**

No. 1995

30 September 1988

**WET OP DIE TYDELIKE OPHEFFING VAN BEPER-
KINGS OP EKONOMIESE BEDRYWIGHEDA, 1986**

Kragtens artikel 1 (5) van die Wet op die Tydelike Opheffing van Beperkings op Ekonomiese Bedrywighede, 1986 (Wet 87 van 1986), maak ek, Dawid Jacobus de Villiers, hierby vir algemene inligting bekend dat die Staatspresident van voorneme is om 'n proklamasie kragtens artikel 1 (1) van die voormelde Wet uit te vaardig soos in die bygaande Addendum uiteengesit.

'n Beroep word op alle belanghebbende persone gedoen om enige besware en verhoë binne 'n tydperk van 21 dae vanaf die datum van publikasie van hierdie kennisgewing skriftelik by die Sekretaris van die Parlement, Posbus 15, Kaapstad, 8000, in te dien vir voorlegging aan 'n Staande Komitee van die Parlement soos in artikel 1 (2) van die voormelde Wet bedoel.

D. J. DE VILLIERS,
Minister vir Administrasie en Privatisering.

**ADDENDUM
PROKLAMASIE**

van die

*Staatspresident van die Republiek van
Suid-Afrika*

No. , 1988

**OPHEFFING VAN BEPERKINGS OP EKONOMIESE
BEDRYWIGHEDA VAN SEKERE PERSONE IN BE-
PAALDE OMSTANDIGHEDA IN SEKERE NYWER-
HEIDSPARKE EN OPLEIDINGSENTRUMS WAT
DEUR DIE KLEINSAKE-ONTWIKKELINGSKOR-
PORASIE, BEPERK, GESTIG IS**

Aangesien ek van oordeel is dat daar omstandighede bestaan waarin die toepassing van sekere wette, en die nakoming van sekere voorwaardes, beperkings en verpligtings kragtens daardie wette, ekonomiese vooruitgang of die skepping van werkgeleenthede in sekere gebiede onbehoorlik strem, skort ek hierby kragtens die bevoegdheid my verleen by artikel 1 van die Wet op die Tydelike Opheffing van Beperkings op Ekonomiese Bedrywighede, 1986 (Wet 87 van 1986), vanaf die datum van publikasie van hierdie proklamasie, ten opsigte van die persone of klasse persone in Bylae 1 genoem en op die voorwaardes uiteengesit in die regulasies vervat in Bylae 2, die wette, voorwaardes, beperkings en verpligtinge op wat vermeld word in—

- (a) Deel 1 van Bylae 3 en Deel 1 van Bylae 4, ten opsigte van die gebiede in Bylae 5 genoem;
- (b) Deel 2 van Bylae 3, ten opsigte van die gebiede in Deel 1 van Bylae 5 genoem;
- (c) Deel 3 van Bylae 3, ten opsigte van die gebiede in Deel 2 van Bylae 5 genoem;
- (d) Deel 4 van Bylae 3, ten opsigte van die gebiede in Deel 3 van Bylae 5 genoem;

**OFFICE OF THE COMMISSION FOR
ADMINISTRATION**

**OFFICE FOR PRIVATISATION AND
DEREGULATION**

**MINISTRY FOR ADMINISTRATION AND
PRIVATISATION**

No. 1995

30 September 1988

**TEMPORARY REMOVAL OF RESTRICTIONS ON
ECONOMIC ACTIVITIES ACT, 1986**

In terms of section 1 (5) of the Temporary Removal of Restrictions on Economic Activities Act, 1986 (Act 87 of 1986), I, Dawid Jacobus de Villiers, hereby give notice for general information that the State President intends to issue a proclamation in terms of section 1 (1) of the aforesaid Act as set out in the accompanying Addendum.

All interested persons are called upon to lodge any objections and representations in writing within a period of 21 days from the date of publication of this notice with the Secretary to Parliament, P.O. Box 15, Cape Town, 8000, for submission to a Standing Committee of Parliament as contemplated in section 1 (2) of the aforesaid Act.

D. J. DE VILLIERS,
Minister of Administration and Privatisation.

**ADDENDUM
PROCLAMATION**

by the

State President of the Republic of South Africa

No. , 1988

**REMOVAL OF RESTRICTIONS ON ECONOMIC
ACTIVITIES OF CERTAIN PERSONS IN SPECIFIC
CIRCUMSTANCES IN CERTAIN INDUSTRIAL PARKS
AND TRAINING CENTRES ESTABLISHED BY THE
SMALL BUSINESS DEVELOPMENT CORPORATION,
LIMITED**

Whereas I am of the opinion that circumstances exist under which the application of certain laws, and compliance with certain conditions, limitations and obligations under those laws, unduly impede economic development or the creation of job opportunities in certain areas, I hereby, by virtue of section 1 of the Temporary Removal of Restrictions on Economic Activities Act, 1986 (Act 87 of 1986), from the date of publication of this proclamation, with regard to the persons or classes of persons mentioned in Schedule 1 and on the conditions set out in the regulations contained in Schedule 2, suspend the laws, conditions, limitations and obligations mentioned in—

- (a) Part 1 of Schedule 3 and Part 1 of Schedule 4, with regard to the areas mentioned in Schedule 5;
- (b) Part 2 of Schedule 3, with regard to the areas mentioned in Part 1 of Schedule 5;
- (c) Part 3 of Schedule 3, with regard to the areas mentioned in Part 2 of Schedule 5;
- (d) Part 4 of Schedule 3, with regard to the areas mentioned in Part 3 of Schedule 5;

49
Library

**KANTOOR VAN DIE KOMMISSIE VIR
ADMINISTRASIE**

**KANTOOR VIR PRIVATISERING EN
DEREGULERING**

**MINISTERIE VIR ADMINISTRASIE EN
PRIVATISERING**

No. 1995

30 September 1988

**WET OP DIE TYDELIKE OPHEFFING VAN BEPER-
KINGS OP EKONOMIESE BEDRYWIGHEDE, 1986**

Kragtens artikel 1 (5) van die Wet op die Tydelike Opheffing van Beperkings op Ekonomiese Bedrywighede, 1986 (Wet 87 van 1986), maak ek, Dawid Jacobus de Villiers, hierby vir algemene inligting bekend dat die Staatspresident van voorneme is om 'n proklamasie kragtens artikel 1 (1) van die voormelde Wet uit te vaardig soos in die bygaande Addendum uiteengesit.

'n Beroep word op alle belanghebbende persone gedoen om enige besware en vertoë binne 'n tydperk van 21 dae vanaf die datum van publikasie van hierdie kennisgewing skriftelik by die Sekretaris van die Parlement, Posbus 15, Kaapstad, 8000, in te dien vir voorlegging aan 'n Staande Komitee van die Parlement soos in artikel 1 (2) van die voormelde Wet bedoel.

D. J. DE VILLIERS,
Minister vir Administrasie en Privatisering.

**ADDENDUM
PROKLAMASIE**

van die

*Staatspresident van die Republiek van
Suid-Afrika*

No. , 1988

**OPHEFFING VAN BEPERKINGS OP EKONOMIESE
BEDRYWIGHEDE VAN SEKERE PERSONE IN BE-
PAALDE OMSTANDIGHEDEN IN SEKERE NYWER-
HEIDSPARKE EN OPLEIDINGSENTRUMS WAT
DEUR DIE KLEINSAKE-ONTWIKKELINGSKOR-
PORASIE, BEPERK, GESTIG IS**

Aangesien ek van oordeel is dat daar omstandighede bestaan waarin die toepassing van sekere wette, en die nakoming van sekere voorwaardes, beperkings en verpligtings kragtens daardie wette, ekonomiese vooruitgang of die skepping van werkgeleenthede in sekere gebiede onbehoorlik strem, skort ek hierby kragtens die bevoegdheid my verleen by artikel 1 van die Wet op die Tydelike Opheffing van Beperkings op Ekonomiese Bedrywighede, 1986 (Wet 87 van 1986), vanaf die datum van publikasie van hierdie proklamasie, ten opsigte van die persone of klasse persone in Bylae 1 genoem en op die voorwaardes uiteengesit in die regulasies vervat in Bylae 2, die wette, voorwaardes, beperkings en verpligtinge op wat vermeld word in—

- (a) Deel 1 van Bylae 3 en Deel 1 van Bylae 4, ten opsigte van die gebiede in Bylae 5 genoem;
- (b) Deel 2 van Bylae 3, ten opsigte van die gebiede in Deel 1 van Bylae 5 genoem;
- (c) Deel 3 van Bylae 3, ten opsigte van die gebiede in Deel 2 van Bylae 5 genoem;
- (d) Deel 4 van Bylae 3, ten opsigte van die gebiede in Deel 3 van Bylae 5 genoem;

**OFFICE OF THE COMMISSION FOR
ADMINISTRATION**

**OFFICE FOR PRIVATISATION AND
DEREGULATION**

**MINISTRY FOR ADMINISTRATION AND
PRIVATISATION**

No. 1995

30 September 1988

**TEMPORARY REMOVAL OF RESTRICTIONS ON
ECONOMIC ACTIVITIES ACT, 1986**

In terms of section 1 (5) of the Temporary Removal of Restrictions on Economic Activities Act, 1986 (Act 87 of 1986), I, Dawid Jacobus de Villiers, hereby give notice for general information that the State President intends to issue a proclamation in terms of section 1 (1) of the aforesaid Act as set out in the accompanying Addendum.

All interested persons are called upon to lodge any objections and representations in writing within a period of 21 days from the date of publication of this notice with the Secretary to Parliament, P.O. Box 15, Cape Town, 8000, for submission to a Standing Committee of Parliament as contemplated in section 1 (2) of the aforesaid Act.

D. J. DE VILLIERS,
Minister of Administration and Privatisation.

**ADDENDUM
PROCLAMATION**

by the

State President of the Republic of South Africa

No. , 1988

**REMOVAL OF RESTRICTIONS ON ECONOMIC
ACTIVITIES OF CERTAIN PERSONS IN SPECIFIC
CIRCUMSTANCES IN CERTAIN INDUSTRIAL PARKS
AND TRAINING CENTRES ESTABLISHED BY THE
SMALL BUSINESS DEVELOPMENT CORPORATION,
LIMITED**

Whereas I am of the opinion that circumstances exist under which the application of certain laws, and compliance with certain conditions, limitations and obligations under those laws, unduly impede economic development or the creation of job opportunities in certain areas, I hereby, by virtue of section 1 of the Temporary Removal of Restrictions on Economic Activities Act, 1986 (Act 87 of 1986), from the date of publication of this proclamation, with regard to the persons or classes of persons mentioned in Schedule 1 and on the conditions set out in the regulations contained in Schedule 2, suspend the laws, conditions, limitations and obligations mentioned in—

- (a) Part 1 of Schedule 3 and Part 1 of Schedule 4, with regard to the areas mentioned in Schedule 5;
- (b) Part 2 of Schedule 3, with regard to the areas mentioned in Part 1 of Schedule 5;
- (c) Part 3 of Schedule 3, with regard to the areas mentioned in Part 2 of Schedule 5;
- (d) Part 4 of Schedule 3, with regard to the areas mentioned in Part 3 of Schedule 5;

49
Kilroy