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CURRENCIES AND INTEREST RATES

Global markets spread growth

■ It is not demand that is lacking, but savings

The great mystery of the international financial system is the seemingly irrational movement of some currencies — notably the strength of the US dollar in the light of that country's trade deficit — in markets that have access to much more information than in the past and are subject to far fewer restrictions. In theory, this should mean keener prices and greater predictability.

But for the fact that there is a numerical preponderance of deadbeat members of the International Monetary Fund (IMF) these days, it is a subject that logically would have preoccupied minds and dominated discussions at last week's annual meeting in Washington DC. In the event, the self-inflicted plight of the indigent was given the most vocal airing.

But there were some interesting insights in the remarks of Britain's Chancellor Nigel Lawson and considerable corroboration in the IMF's own *World Economic Outlook.* These are on the importance of balance of payments imbalances and trends in interest rates, that could have widespread implications for economic policy formation in the industrial West in general, but also for developing countries, such as SA.

Indeed, the implications here may be greater, because of the perceived need to run a balance of payments surplus so that international debt can be repaid, regardless of the consequences for growth.

There are implications, too, because of the capital boycott, which cuts us off from meaningful inflows of investment capital and forces us back on to our own savings resources, which, as elsewhere in the West, are dwindling, though for different reasons.

That in turn will place the spotlight on a government that has enriched itself at the cost of discouraging savings by allowing inflation to remain in double digits for 20 years, penalises savers by circumscribing one of their few hedges against inflation (buying equity-linked life assurance) by increasing the taxes life assurers pay and is inhibiting corporate savings by generally raising the tax rates of companies by removing allowances and other concessions.

The implications for interest rates, especially in a country in which they are so politically sensitive and misunderstood, are substantial. Simply, they indicate that the interest rate trend will be generally upwards for the foreseeable future (though there will be fluctuations). Any other view would have to seek justification in the belief that Pretoria plans to apply AWB economic policies.

There are, of course, several known reasons for the dollar's strength, despite the US balance of payments deficit, which has its roots in too much fiscal stimulus. One is that inflation differentials between the US and its main trading partners have narrowed. Another is that political uncertainty in some regions tends to make the US appear a safe haven for investment.

But Lawson, who of course has an interest in playing down balance of payments deficits as an indicator of a currency's value, highlighted another factor — greater financial freedom and a global market for savings, which are in short supply worldwide.

He suggests that in markets that have been deregulated and internationalised by technological advances, savings flow quickly in a global market to find the best returns, regardless of national borders. One result is that economic behaviour has become much less predictable, whereas expectations were that in more perfect markets it would be more so. What is important, however, is not predictability *per se,* but improved economic performance, which has been the case in the industrial countries.

UK Chancellor Lawson . . . don't discourage savings

Another outcome of the global market for savings has been the impact on the balance of savings and investment between countries, especially where there are growing signs of a shortage of private savings.

He said: "It is now apparent, too, that private-sector saving in the major industrial countries has been declining as a share of GDP during the Eighties . . ."

He believes the strongest evidence of the savings shortfall is the historically high real interest rate levels which have persisted for some time and will remain in the foreseeable future. This, Lawson believes, underlines the need to eliminate budget deficits in countries that have them. Britain, of course, does not.

In these circumstances, he argues, it is wrong for governments to expropriate private savings to finance their expenditures. It is also wrong to do anything which discourages savings, even in surplus countries.

Lawson's barbed remarks were no doubt aimed at the US; they apply even more to SA. At least the Americans have got inflation under control. Pretoria hasn't even managed that, let alone the simple task of constraining money supply growth.

Lawson's interpretation is that governments should be preoccupied with an incipient shortage of capital (rather than of demand) and that global markets are redistributing savings from countries where they exceed investment (Germany and Japan) and where the inevitable counterpart is a current account surplus, to those where the reverse is true (the UK and US).

This represents a major change of behaviour from the Sixties and Seventies when, with the prevalence of exchange controls, governments had little option but to respond to current account deficits by tightening fiscal and monetary policy to offset the difference between savings and investment.

Global capital markets are now distributing private-sector savings to the countries with the best opportunities, so that investment in no one country (except SA) is constrained by its own domestic savings.

He pointed out that the *raison d'être* of the IMF, through the provision of bridging finance, was to assist this process. Hence, as private capital markets increasingly take over this role, there is bound to be a change in emphasis in the Fund's activities.

Lawson concludes that current account imbalances do not necessarily carry any implications for exchange rates and that it would be a mistake to attempt to use the exchange rate to resolve this type of capital shortage. His answer is to revert to the principle of a balanced budget rather than attempt to compensate for private-sector savings and investment shortfalls by increasing public sector savings and investment.

In their *World Economic Outlook,* IMF economists support Lawson's view:

☐ "The current strength of the dollar might reflect continued portfolio shifts towards dollar-denominated assets by foreign investors, possibly reflecting long-term adjustments in response to the increasing liberalisation and integration of world capital markets;

☐ ". . . it should be recognised that external deficits and surpluses reflect in part the international implications of fundamental differences among countries in the balance between private savings and investment . . .; and

☐ ". . . (when) changes in government debt are not fully offset by changes in private savings, external positions also tend to reflect fiscal imbalances. The current account can be seen as an indicator of inappropriate fiscal policies. Inasmuch as they reflect private saving and investment decisions, external balances should be seen as efficient and self-correcting and policy should be limited to the removal of distortions . . ."

The fund does warn, however, that, in the long run, persistent imbalances will result in lower living standards in countries with rapidly ageing populations. Nor should it be forgotten that Lawson's arguments and those of the IMF do not take into consideration that current account balances may also reflect domestic inflationary pressures.

If real interest rates in SA's main trading partners remain high, which it appears they will, then, to keep our balance of payments sweet and continue to import foreign trade credits, domestic interest rates will have to be kept relatively firm.

But that is not the end of the story. Being cut off from international capital and in view of our policy to discourage savings, investment will probably be in protracted decline unless real interest rates are kept rising.

There may be an intellectually respectable argument for the Group of 7 to use substantial market intervention to encourage a more realistic value of sterling and the dollar, until the international market cottons on to the views expressed here of the current account deficits in the countries concerned.

But that logic doesn't apply to the exchange rate of the rand. It may be undervalued in terms of a dwindling current account surplus, but not so far as inflation is concerned or the economic penalty the rest of the world makes us pay for apartheid. Were Pretoria to use our few precious reserves to mount a rand stabilisation drive in the market, the economy will quickly be plunged into serious and probably lengthy depression.

Moreover, what Lawson and the IMF have to say about the extensive shortage of capital suggests that even were the capital boycott lifted, we would still need to do a great deal to boost domestic savings if we are to keep investment growing sufficiently to meet the needs of a rapidly urbanising population. That means eliminating inflation at whatever cost and maintaining positive real interest rates. While the capital boycott remains, that requirement is even more critical. *Nigel Bruce, writing from Washington*

Imports knock optimism but . . .

Merchandise exports at all-time high

(49)

B/Day 2/10/89.

BARRY SERGEANT

MERCHANDISE exports from SA — seasonally adjusted and annualised for the second quarter — increased dramatically to a record R44,3bn. But the Reserve Bank has cautioned against the "seemingly comfortable situation" in the economy.

In its latest quarterly bulletin, the Bank singles out the good performance of merchandise exports, noting the dampening effect of "unexpectedly high imports" in the second quarter. And net service and transfer payments to foreigners rose to a new high in the second quarter.

The Bank says the extent to which the surplus on the current account of the BoP can be improved depends mainly on whether the "present strength of private-sector fixed investment expenditure. and imports occasioned by such expenditure, are going to be maintained".

Overall, the Bank says there is further evidence of the economy's "cyclical cooling down and of its having moved into the early stages of a consolidation phase".

Government deposits with the Bank continued to increase, in line with the intention of mopping up liquidity.

The Bank says the limited size of the deficit before borrowing in the first four months of the fiscal year to end-July suggests the deficit for the whole year could "well be" less than was envisaged. A budgetary surplus was recorded for the first time in 15 years for the month of July.

The Bank notes the inflation rate "accelerated markedly and disturbingly on a

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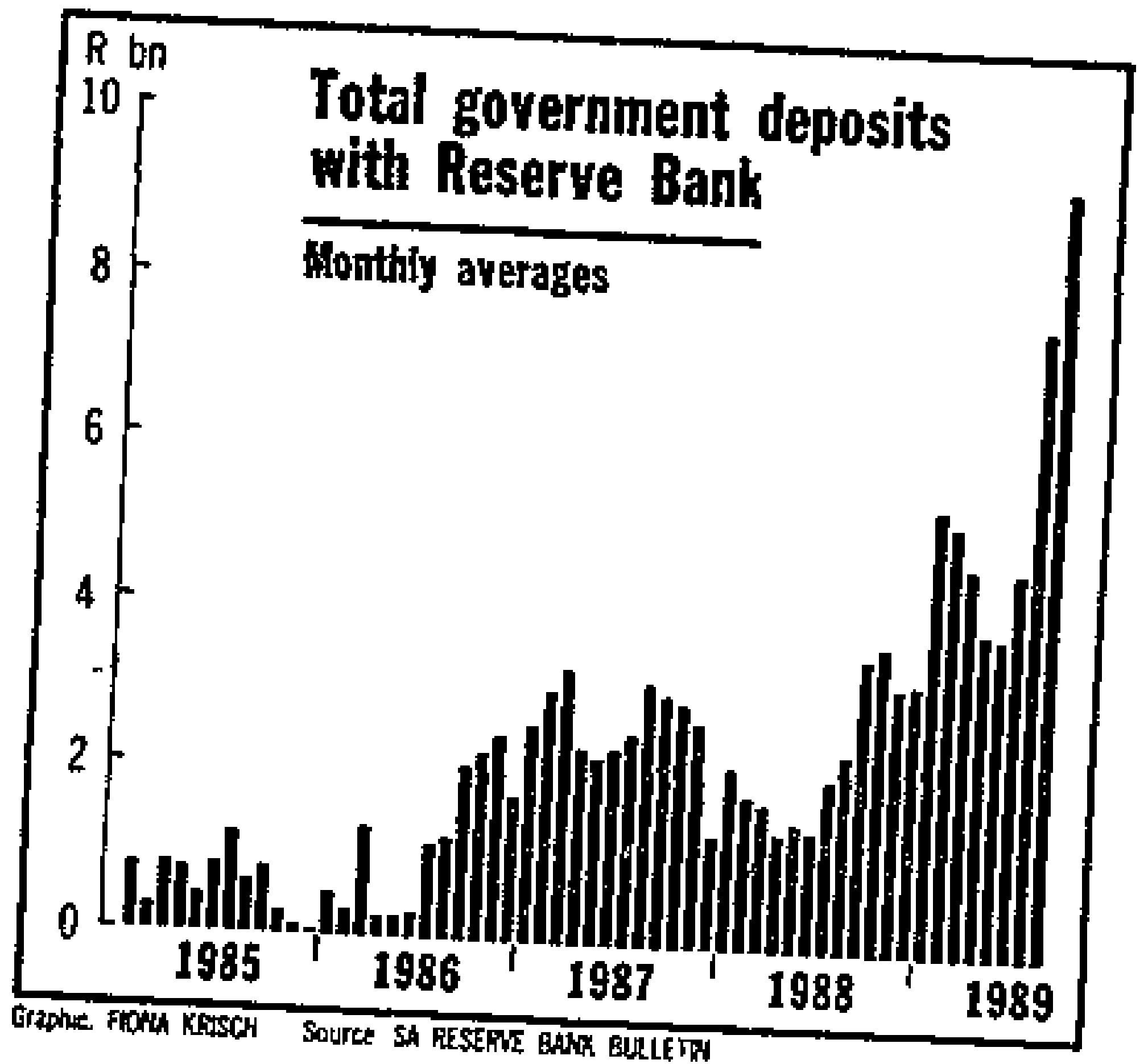
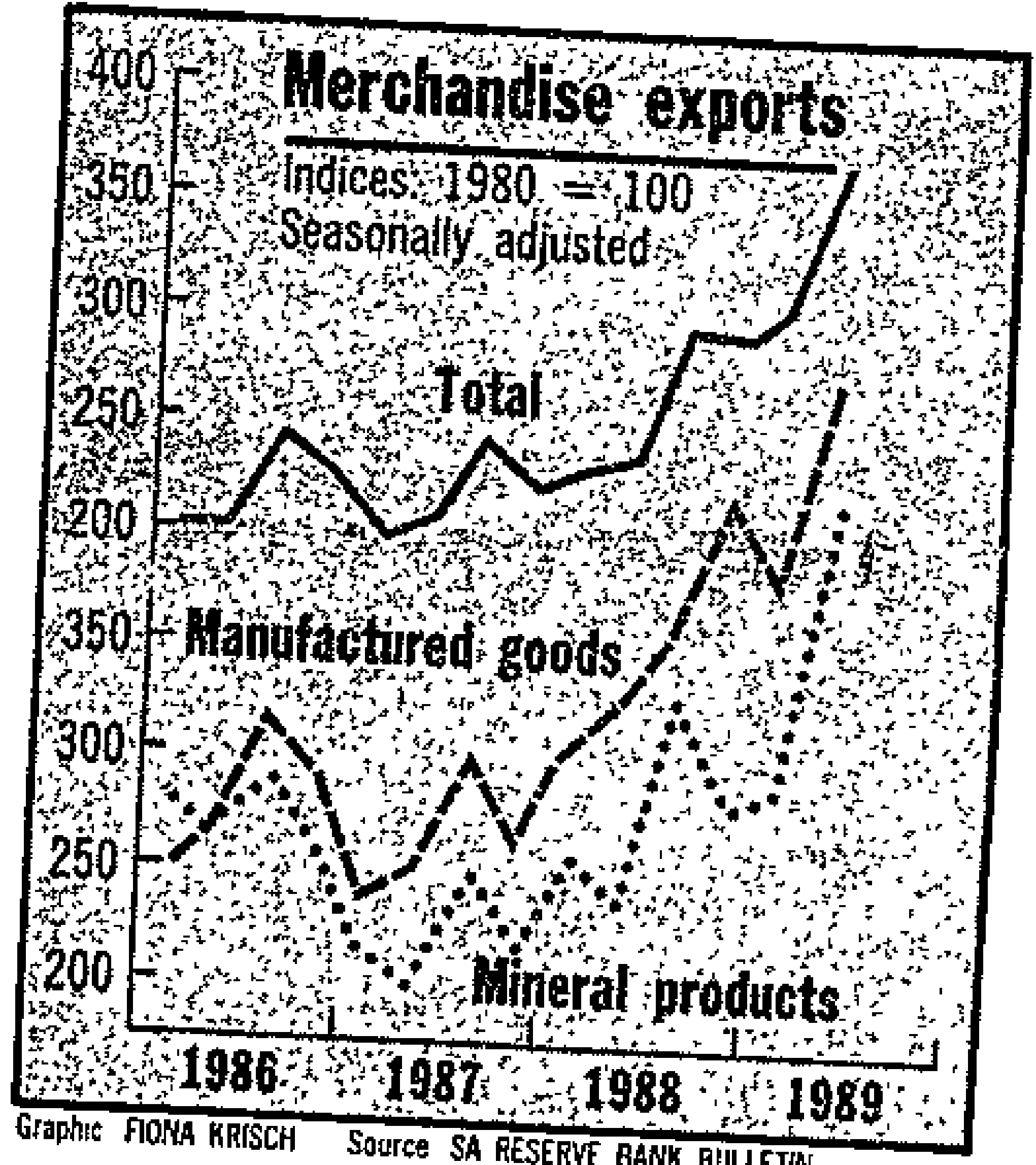


Graphic FIONA KRISCH Source SA RESERVE BANK BULLETIN



Graphic FIONA KRISCH Source SA RESERVE BANK BULLETIN

Exports

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short-term (quarter-to-quarter) basis in the first two quarters of 1989". And "far too little progress has been made" in slowing down the quarter-to-quarter increases in money supply growth.

Moreover, up to end August, large outflows of non reserve-related capital prevented any major rebuilding of the total gross gold and other foreign reserves.

But one of the main focuses was on merchandise exports and imports. In spite of the "adverse development" of the steep decline in the dollar value of gold, seasonally adjusted merchandise exports increased 28% from R34,6bn in the first quarter to R44,3bn in the second. Net gold exports slipped from R19bn to R18,2bn.

But an "unexpectedly high increase" was also recorded in the volume and value (R42,2bn to R49,6bn) of merchandise imports. Along with further slippage in the value of net gold exports and a large rise in net service and transfer payments to foreigners, the BoP current account, seasonally adjusted and annualised, fell from R2,7bn in the first quarter to R2bn.

The annualised value of exports in the second quarter was 51,4% more than the comparative figure for 1988 of R29,3bn; the volume of exports rose by 35% over the four-quarter period.

While export performances improved in all goods categories, "particularly large increases were recorded in the exports of various manufactured goods . . . as well as of mineral products".

Comparative figures for the R44,3bn merchandise exports going back to 1980 show that the next largest figure was R36,5bn in the final quarter of 1988.

The Reserve Bank says the volume of merchandise imports rose "rather unexpectedly", given the mild decline in real gross domestic expenditure, slackening of growth in real GDP, and policy measures (such as the import surcharge). The volume increase in imports, 17,5% seasonally adjusted but not annualised from the first to the second quarter, "was mainly due to an increase of 10% in import volumes".

The spurt in import volumes, says the Bank, "would appear to have been explained partly by SA businesses' pre-emptive purchases of imported goods in anticipation of possible further exchange rate depreciation, higher world oil prices or possible further measures for the curbing of imports, as well as by firms' rebuilding of inventories of imported goods".

Net service and transfer payments to foreigners rose "very strongly" by a seasonally adjusted but un-annualised 26% from an annual level of R8,7bn in the first quarter to a new record high at an annual level of R10,9bn in the second.

● Comment: Page 12

SA at turning-point, says Barlow chief

3/10/89 STAR

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By Magnus Heystek, Finance Editor

South Africa has moved away from being a bit player on the British and US political stage and is carving out its own niche in the world, says Warren Clewlow, vice-chairman of Barlow Rand.

However, a key variable in the scenario was how the SA economy would develop, he told the Swiss-South Africa Association in Zurich yesterday.

Whether South Africa would be able to play a competitive role in the changing world and whether it would be able to pave the way for internal political change and advancement, depended on the ability of the economy to develop at an adequate pace and perform according to its potential.

"South Africa's economy has done well, but has recently been starved of foreign capital.

"It has had to keep the balance of payments in surplus and rely on internal capital sources for development.

"Ironically, the country is now under-borrowed," he said.

"The need for foreign funds has meant the Government has had to curb economic growth, interest rates have risen and inflation stands at two to three times that of our trading partners.

"Structurally, the state has too a high share of economic activity and the Government's commitments to privatisation are to be encouraged," he said.

Long-term future

"The commitment of Dr Stals to reducing inflation is very much to be encouraged and supported.

"The consequences in the short term will be difficult, but they are necessary to ensure a long-term future," Mr Clewlow said.

He highlighted some of the issues which would be dominant in the way South Africa developed.

"We are witnessing significant changes in the world environment such as the 1992 process in Europe, the Soviet bloc economic revolution, the UK under (Prime Minister) Margaret Thatcher, the awakening of China as an economic power and the growth of the Pacific Rim countries.

"A key variable in the success of President de Klerk to reform in a meaningful way will be how the economy develops.

"There are two crucial questions.

"The first is whether South Africa will be able to play a competitive part in the changing world, and the second is whether we will be able to pave the way for internal political change and advancement, neither of which can happen if the domestic economy is not developing at an adequate pace and performing to its potential," he said.

B|Day 4/10/89

Creation of wealth 'could be reformer'

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TANIA LEVY

THE creation of wealth — if not fatally impeded by financial sanctions — may well prove to have been one of the most effectively subversive activities in modern SA, concludes SA Foundation director Gavin Lewis.

In an article to be published in November's SA International, Lewis says the economy, not government, is the real engine of change in SA.

Major reforms of recent years were driven by a combination of black resistance on the ground and by the labour demands of a growing economy.

Lewis says that at the time of ex-State President P W Botha's Rubicon speech many business leaders spoke out with unprecedented bluntness.

Today, however, "the protest politics approach of that time is seen in most business circles as having been counter-productive in terms of achieving state policy changes".

Lewis lists the emergence of the black trade union movement, the burgeoning black consumer movement and informal sector, the collapse of influx control and steady erosion of residential segregation as some of the symptoms of an economically-driven liberation.

Although there remains room for business to do more for blacks in the formal economy, business cannot be the decisive factor in SA, he says.

In SA, unlike in the West, the government is not beholden to business for its continued existence.

Government is influenced by other powerful lobbies, not least conservative white labour and state bureaucracy, who have more votes than business has. In a sense the state employs its own electorate — about 40% of the white workforce are state employees, says Lewis.

Vital for business to continue as an agent for change

B/Day 4/10/89

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RAYMOND PARSONS, chief executive of Assocom

BUSINESS can make an indispensable contribution towards the goal of reconciliation and negotiation in SA. It must continue to be an important agent of change.

Employers, through their network of contacts at all levels of black society — including the trade unions — are a positive force in bridge-building between the races. The experience gained by employers over several years in the hard school of industrial relations can make a valuable contribution to conflict management at the political level. This will be needed if we are to reduce the inevitable hurdles which are likely to lie in the path of the political transformation over the next few years.

The challenge is ultimately to combine the creation of a broad political democracy with sound economic management in ways which will sustain business confidence.

It is generally agreed that reform needs to be tackled from a position of economic strength. Economic growth is imperative if SA is to secure a stable democratic future, and to meet the legitimate aspirations of all its peoples.

Political change is inevitable — demography alone dictates such a shift — but the process will be a delayed, turbulent one if it is not accompanied by economic growth.

We must continue to open up the economy, create new opportunities for all, normalise our external economic relations — and continue to tackle the obstacles which stand in the way of higher economic growth. Growth is not "a cure for all diseases, an end to all distress", but it makes other aims easier to attain, and softens conflict among them.

Unless the economy can grow at a rate faster than the rate of population growth (presently 2.3% per annum) the country faces an increasingly impoverished future. There are already severe shortfalls in the provision of housing, education, health and welfare facilities for blacks. No government will ever be able to make up this backlog and provide for the needs of the growing population unless it can draw on the resources of an expanding economy.

The economy must grow at a rate of at least 5% per annum if it is to provide employment for the 350 000 work seekers who enter the job market each year. Without economic growth, the racial gap in incomes will widen and the black population will bear the brunt of increased unemployment and declining personal income.

The effect on the informal sector will be serious, as without increasing demand powered by an expanding wage bill of the formal sector, meaningful informal activity will be impossible.

Economic growth is a necessary condition, though not a sufficient one, for continued black economic empowerment. The bigger the cake, the easier it is to ensure that everyone receives a satisfactory portion. Faster growth helps reduce both internal and external tensions.

Economic growth is vital not only to increase the opportunities for meaningful participation in the economy for a growing black population, but also to facilitate important structural changes.

The economy is very dependent on unprocessed metal and mineral export products for which there is a declining demand in the world economy. Unless SA can begin to supply world markets with the beneficiated metal and mineral goods they require, its long-term economic prospects are poor.

The required structural adjustments — broadening the base of the economy, diversifying the manufacturing sector and upgrading mineral and metal products — can be accomplished only with the resources and capacity of an expanding economy and international investment in technology.

President F W de Klerk has taken office at a time when the role of the state and the frontiers of its powers — particularly its relationship to the forces of the market — have also been heavily questioned. He has committed himself and his Cabinet to proceed with privatisation and deregulation and generally to reduce the role of the state in the economy.

What needs to be clarified urgently over the next few years is to distinguish between:

☐ Things government need not be involved in at all;

☐ Things only government can ensure are done; and

☐ Things only government can do.

This process is essential to our future economic performance, though it should not be seen as a panacea for all economic ills.

Although SA can reasonably allocate enough time to undertake the political and economic changes required, we must not assume that such time is unlimited. We cannot ignore overseas perceptions.

We want to normalise our foreign economic relations. We must be seen to be taking the opportunities which now exists.

There are certain symbolic steps in the short term which, if taken, will demonstrate clearly to our friends overseas what the new direction is going to be.

We must not assume that all international opinion concerning SA is immutable. If, indeed, overseas opinion were an unalterable thing, it would be a waste of time to discuss SA at all. We have seen overseas perceptions shift in the case of Namibia, so it can be done.

We must help our friends overseas to help us, bearing in mind the converging events which could affect SA in the near future. There is a note of urgency in the air. The events are:

☐ The rescheduling of SA's foreign debt, which has become a target for those seeking additional financial sanctions;

☐ The reconvening of the US Congress this month when SA is likely to again be discussed; and

☐ The Commonwealth conference this month, in which Britain in particular will come under pressure about SA.

We must try to keep these pressure points to the minimum. We must give SA a breathing space under cover of which to address the fundamentals. And if useful gestures of reconciliation and flexibility are deemed desirable to create a suitable political climate within SA, they can also serve to assist our friends abroad.

All in all, a decisive and exciting five years lie ahead. All great leaders have had one characteristic in common — the willingness to confront unequivocally the major anxiety of the people in their time. It is now mainly in the hands of key white and black leaders whether the next five years will herald a political breakthrough or a political dead-end.

The next couple of year will also determine whether the economy will unlock its true potential or continue to be hobbled by inflation and balance of payments problems. So we have to get both the political and the economics right.

This is not a challenge which faces only our political leaders — it is also one which faces business if it wants to prosper and survive in the decade ahead.

In the immediate post-election phase there are new grounds for optimism. President de Klerk begins his term with a great deal of goodwill from the business community. Most businessmen are more than willing to give him a chance — indeed, the business sector is anxious that he should succeed in getting SA out of certain political dead-end streets. The opinion among many businessmen is that President de Klerk has made good start and has inspired confidence.

But business will also be keen to ensure that deeds match words and that the necessary energy, drive and political will exists to achieve reconciliation and negotiation in the years ahead. And it will also be the responsibility of business to be supportive of all those efforts which it genuinely believes will move SA in the right direction.

☐ This is an extract from an address by Raymond Parsons to the Free State Chamber of Commerce and Industry in Bloemfontein yesterday.

LETTERS

F Mail

QUARTERLY BULLETIN — 2

6/10/89

Off balance

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Time lags create booby traps for policymakers. Their variability and unpredictability undermine the effectiveness of monetary instruments — and lend support to those who argue against intervention in the markets. Statistics in the latest Reserve Bank *Quarterly Bulletin* show that in the second quarter SA was trapped between the intermediate target and ultimate goal of monetary policy.

Measures designed to hold down economic growth, curb demand for imports and thereby protect the surplus on the current account of the balance of payments, achieved the first but not the second. So, despite a deceleration in GDP growth to 0,5% (see "Rooting for rain"), the surplus on current account dipped under R2bn, in seasonally adjusted annualised terms, from R2,7bn in the first quarter (**see graph**).

It seems the traditional lag was reinforced by a number of factors: the gold price was low and dropping — from US$412/oz at the start of 1989 below $360 in late May; imports were high and growing (**see graph**); and outflows of net service and transfer payments were sharply up on the first quarter. All of which countered the "exceptional strengthening" in merchandise exports.

Specifically, at seasonally adjusted annualised rates:

☐ Merchandise exports rose R9,7bn to R44,3bn;

☐ Net gold exports fell R820m to R18,2bn;

☐ Merchandise imports were up R7,4bn to R49,6bn; and

☐ Net service and transfer payments were up R2,3bn to R10,9bn.

"The 28% increase in value of merchandise exports from the first to the second quarter of 1989 consisted of a 20% increase in volumes and a 7% rise in average prices." Performance improved in all categories, with particularly large increases in manufactured goods and mineral products.

The 7% rise in prices was due to a 4,8% decline in the average effective exchange value of the rand and commodity price increases in some international markets.

FINANCIAL MAIL OCTOBER 6 1989

At the same time, the dollar price of gold fell from an average of $US394/oz in the first quarter to $374 in the second, while the weakening of the SA unit allowed the rand price to recover from R970 to R998. However, a shrinkage of physical production caused the 4% decline in rand value of exports.

The unexpected 17,5% rise in value of merchandise imports was mainly due to a 10% increase in volumes. The bulletin attributes this to pre-emptive buying ahead of possible further exchange rate depreciation, higher world oil prices or further measures for the curbing of imports, as well as firms rebuilding inventories. The rise in prices was due to the rand exchange rate, higher crude oil prices and some acceleration of inflation in our trading partners.

The strong rise in net service and transfer payments "by a seasonally adjusted but unannualised 26% . . . was mainly a reflection of higher freight and merchandise insurance payments on the markedly higher rand value of merchandise imports, higher SA interest payments to foreigners and increased SA travel expenditure abroad."

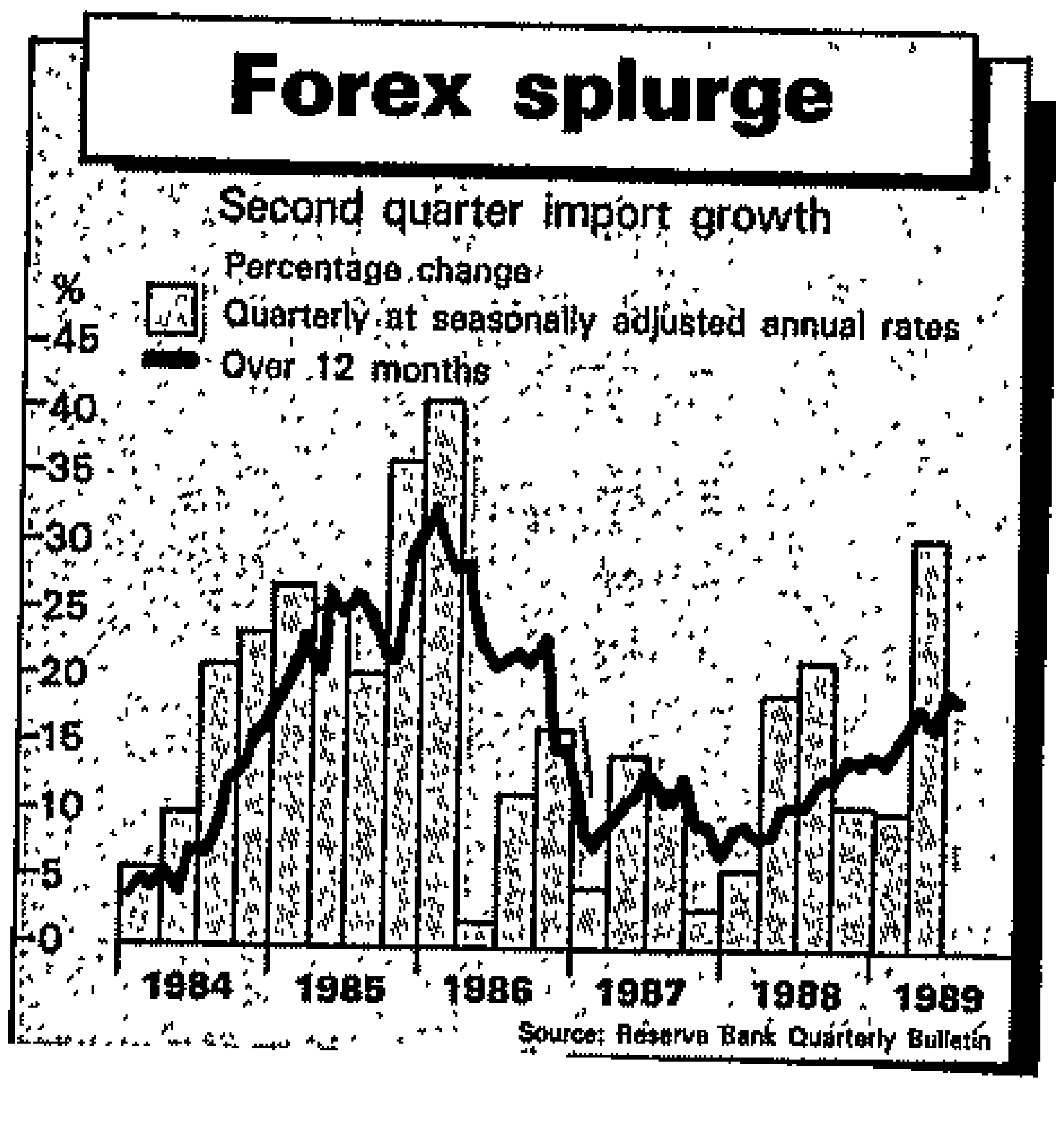
All of which adds up to a discouraging performance on the current account.

Fortunately the outflow of capital not related to reserves "shrank significantly from its relatively high level around R1,9bn in the first quarter of 1989 to R1,1bn" — despite an increase in long-term outflows from R400m in quarter one to R700m in quarter two, mainly because of foreign debt repayments in June.

The reduction came in short-term outflows, which apparently fell as a result of "an abatement and partial reversal of earlier unfavourable leads and lags in international payments and receipts in the second half of June 1989 in particular." In addition, R185m short-term capital was attracted by public corporations.

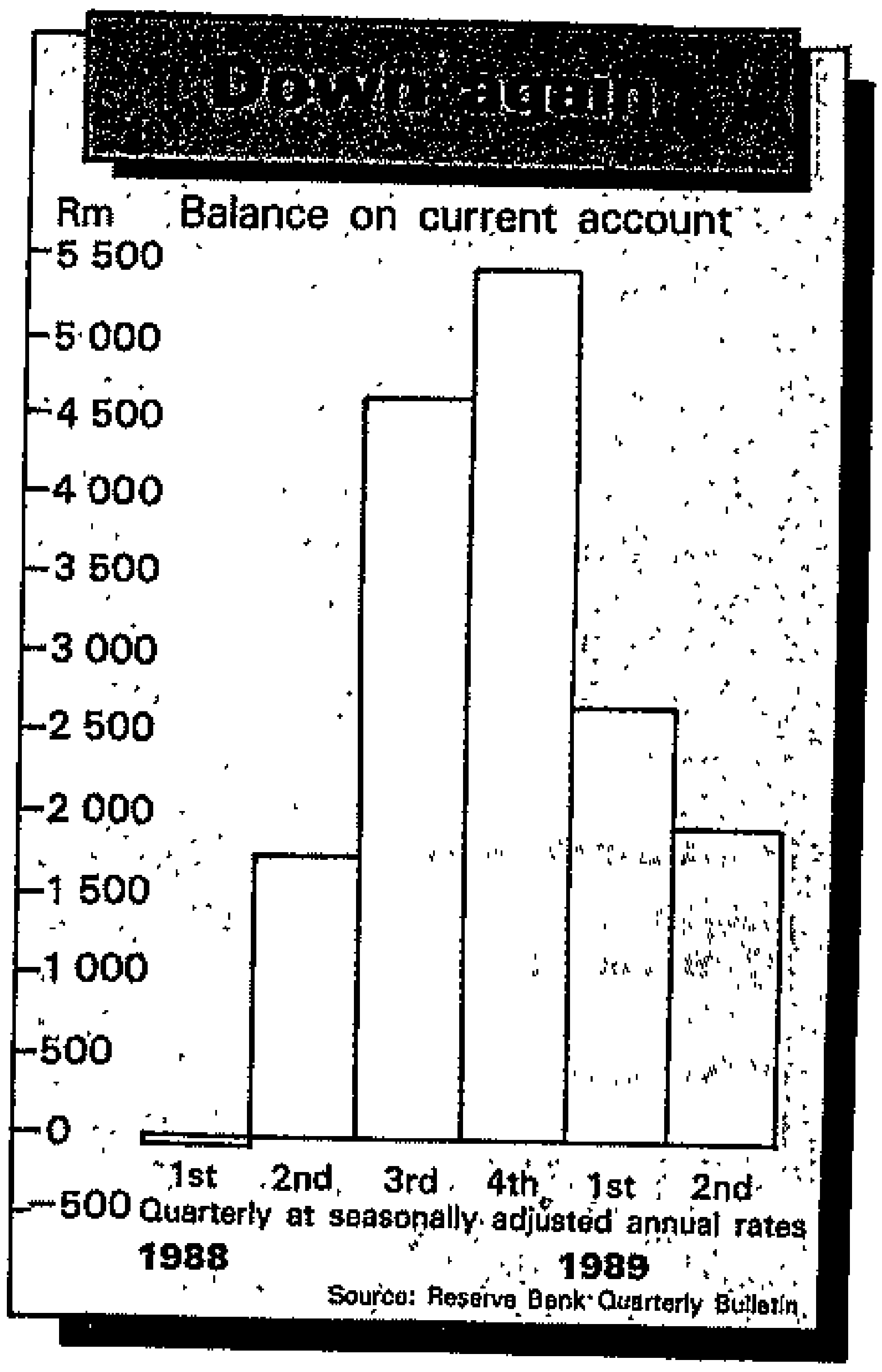
Bottom line is the level of gold and foreign reserves, which grew by R462m in the quarter to R7,4bn at the end of June — "largely because of reserve-related borrowing." This brought the rise in reserves in the first half of the year to R698m.

The gain in the rand, however, converts into a $157m loss. Subsequently there has been some improvement with a gain of $100m in July and $59m in August.



Forex splurge

Source: Reserve Bank Quarterly Bulletin



Down again

Source: Reserve Bank Quarterly Bulletin

However, the slender margins and volatility of flows are bound to renew concern about the balance of payments. In August the Bank's *Annual Economic Report* pointed out: "By early third quarter of 1989, doubts could still be entertained as to whether the landing in prospect might not turn out to be too soft or too long drawn out from the point of view of a comfortable handling of the balance of payments and foreign reserves."

We now await reaction to this new proof that margins are too close for comfort. ■

QUARTERLY BULLETIN — 1

FMail 6/10/89

Rooting for rain

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At least the weather was good. With real GDP in non-agricultural sectors contracting in the second quarter of 1989 "at an annualised rate of some 0,5%," the major contribution to GDP growth came from agriculture.

This was not, of course, due to climatic conditions in the second quarter alone but to "improved weather conditions in 1988-1989 in summer rainfall areas." According to a Central Statistical Service analysis, agricultural production increased at a seasonally adjusted annual rate of 17,5% in the second quarter, up from 16,5% in the first. Thus agricultural activity helped boost GDP growth to a seasonally adjusted annualised half-percentage-point that quarter, says the latest Reserve Bank *Quarterly Bulletin*.

Another thriving sector was transport, storage and communication, which grew 4,5% — largely because of sharply higher volumes of both exports and imports. Despite international sanctions, trade grew sensationally in the quarter. After contracting at an annualised 15% and 4% in the first quarter, "real exports and imports of goods and non-factor services . . . expanded at remarkable annualised rates of over 50%" each.

However, while "total real domestic production in the first half of 1989 was still more than 2% higher than in the first half of 1988," it was down from seasonally adjusted annualised growth of 1,5% in quarter one and more than 3% in calendar 1988.

Mining was the most disappointing performer, with "a substantial decline — at an annualised rate of nearly 8% — of real value added." This was despite substantial rises in the volume of mineral exports.

The problem was that real value added by gold mining was hit by the drift in the dollar price of gold, "the declining grade of ore milled by a number of mines, the rising costs of mining operations and the fact that virtually no increase at all was recorded, on balance, in the average rand price of gold from the second quarter of 1988 to the second quarter of 1989." This "more than fully offset" the achievements of non-gold mining.

Fortunately, "the share of net gold exports in total export earnings shrank from 44,5% in 1980 to only 28% in the first half of 1989" — or the damage would have been worse. However, "even at this reduced relative importance, movements in the dollar price of gold continued to have large and pervasive effects on the economy in recent months."

Manufacturing performance was mediocre.

At a seasonally adjusted annual rate, real value added by this sector fell 2%, after a half-percentage-point decline in quarter one. And a "slackening of real growth rates was also apparent in almost all other sectors."

However, says the bulletin: "Given good prospects for agricultural production in the rest of 1989, aggregate activity in the first two quarters may well turn out to be consistent with earlier projections of growth of approximately 2% for the year."

So, with achievements in other sectors considerably less promising, there's a lot riding on rainfall this summer. ■

F Mail 6/10/89

QUARTERLY BULLETIN — 3 ㊾

On demand

Households are spending more cautiously — while "volatile" government spending subsided in the second quarter. The latest Reserve Bank *Quarterly Bulletin* shows that, as a result, second-quarter GDE was down a seasonally adjusted annualised 2%. This provisional estimate puts GDE 2% lower than in the second quarter of 1988.

Real domestic final demand, which excludes inventories but includes private and government consumption expenditure and real gross domestic fixed investment (GDFI), declined at an annualised 1,5%.

Growth in real private consumption expenditure, which was 5% in 1988 and slowed to about 2% anualised in the first quarter, was down to 1% in the second — due to declines in purchases of durables and decelerations in purchases of semi-durables, non-durables and services.

Real consumption expenditure by general government, up a massive annualised 40% in the first quarter, fell an annualised 11,5% in the second quarter. However, it was still 3% more than in the second quarter of 1988: "The increase in government's real consumption outlays in the past four quarters, therefore, significantly exceeded the 2% rise in real GDP over this period."

Real GDFI, up 6,5% in 1988 and an annualised 5% in quarter one, slowed to 3% in quarter two, mainly because of "cutbacks in real fixed capital spending by public authorities and renewed reduction in real fixed capital formation by public corporations."

Private-sector GDFI, however, re-accelerated to an annualised 9% in the second quarter, from an annualised 7,5% in the first, after growth of 16% in 1988.

In line with the trend in total spending, credit extension by monetary institutions was down. The quarter-to-quarter increase in claims on the private sector, 24,8% in the first quarter, eased to 13,1% in the second. This "fell short of concurrent rates of growth in GDP and GDE at current prices. It also occurred in the face of continued increases in real private-sector fixed investment activity, uncommonly large second-quarter increases in volume and value of merchandise imports and exports, and increases in industrial and commercial inventories.

"This suggests a significant decline in incremental credit demands of households and individuals as an offset to rising credit needs of companies and 'other' borrowers." ■

Inflation psyche dominating SA business

Cit Times 7/10/87

49

By **AUDREY D'ANGELO**
Financial Editor

SA society is so dominated by "the inflation psyche" that both management and workers think putting up the price of their product is one of the best ways to increase profit, surveys carried out by Project Free Enterprise have shown.

Describing this as "horrendous", the research team say in their report: "Management, its workforce and the consumer have grown so used to the reality of inflation in the national economy that by far the easiest route to guaranteeing further wealth is perceived to be increasing the price of products and services.

"The implications of this mindset and its impact on the economy are horrendous. It requires the most urgent attention from policymakers in both the public and private sectors.

"This disease must be eradicated from the system if the economy is to survive with any semblance of real growth."

Project Free Enterprise, backed by more than 80 of SA's leading companies, was started in 1984. Its statement of intent says that it identifies itself "with the creation of a South African society in which stability, wealth creation and economic freedom are realised for all its citizens".

It has carried out three surveys since 1984. Its latest report, on Strategies for Economic Freedom and Growth in the '90s, says that there is now more common ground between management and workers than many people suppose.

It finds the labour force better informed than in 1984 — when a majority of unskilled workers believed that managers' salaries were the main expense of running a business.

But it believes there is a need for business education for everyone, to increase understanding of how labour and management are interdependent and how the economy works.

It stresses the importance of participative management and of share option and profit sharing schemes in helping the workforce to see the advantages of a free market economy and the need for increased productivity.

And it discloses that there is a need for business education in lower and middle management, where surveys have revealed surprising ignorance.

Its latest survey this year has shown big changes in perceptions. In 1984, most semiskilled and unskilled workers saw raw materials as fourth on the list of a company's operating expenses, employees' wages fifth and machinery and plant sixth.

They considered management salaries the biggest expense, followed by taxes and the repayment of loans.

This year, they saw raw materials as the biggest expense. Tax remained the second but wages had moved up to third place, with managers' salaries fourth followed by machinery and plant in fifth place and repaying loans sixth.

In the 1984 survey, their first suggestion for improving a firm's income was to "pay whites less". Improved sales and output came fourth on the list.

This year "pay whites less" had moved down to fifth and last place, with improved sales and output at the top. But "increase price of product" had moved up to second from third place, in line with the perceptions of management.

Discussing the need for business education, the report says: "At national level, a concerted attempt should be made to upgrade the knowledge and capabilities of the entire population.

"In this sense business education is a vital support to the deregulation drive and the extension of business opportunities."

It points out that Venezuela made major economic progress by way of a national educational advancement programme using radio and TV. "Similar success has been achieved in such Pacific Rim countries as Taiwan and Singapore.

"There is no reason to believe that the same results cannot be achieved in SA. But our policy makers need to recognise that business education is a matter for co-ordinated national action."

Support for holidays on Mondays and Fridays

STAR [illegible] 9/10/89

49

'Long weekend' may cost R500-m

By Karen Stander

The "long" weekend — including today and tomorrow — will probably cost the South African economy about R500 million.

Economists estimate that each public holiday costs about R340 million — but business leaders say that when one falls on a Tuesday — like Kruger Day does tomorrow — or a Thursday, "hidden" costs push the loss up by another one-and-a-half days of production time.

Mr Gerrie Bezuidenhout, labour adviser to the Federated Chambers of Industry (FCI), said there was a tendency for absenteeism to be higher on the days between a weekend and a holiday.

"I have heard people referring to this weekend as a long weekend, which of course it is not. But they turn it into a long weekend, anyway."

FCI executive director Mr Ron Haywood said having a holiday midweek meant a "negative multiplier effect".

"Take tomorrow's holiday. Those who do come to work today are unlikely to do a full day's work. They will probably leave early and their production will be down.

"And on Wednesday, when everyone comes back, they will sit round and chat about the weekend for an hour or so before they get down to work.

"What this means is that we lose one-and-a-half days' production, not just one.

"This is also true to some extent when a public holiday adds on to a weekend, but the effect is particularly bad when the holiday is midweek."

Mr Jan de Jager, economic adviser to the National Productivity Institute, said the actual cost of public holidays which fell midweek was difficult to determine.

The most conservative estimate of the cost of a holiday was R270 million, with the highest put at about R400 million. The true figure was probably somewhere inbetween — about R340 million.

President's Council

Mr de Jager said the President's Council report on public holidays had recommended that they should fall on a Monday or Friday wherever possible.

Mr Bill Lacy of Assocom said "responsible" members of the public would support public holidays being on a Monday or Friday.

Minister of Manpower Mr Eli Louw has announced that from next year Worker's Day will fall on May 1 instead of on the first Monday of the month.

In 1984 — the 80th anniversary of the first local May Day celebration — workers took up a campaign to have Workers' Day declared a public holiday.

The demand also began to appear in wage negotiations.

In 1986, more than 1,5 million workers throughout South Africa marked May Day with a stayaway.

It was one of the most extensive national general strikes in the country's history.

In 1987, workers' won a partial victory when the Government declared the first Friday in May a public holiday.

The Government decided on this because May 1 was to fall on a Sunday in 1988, and midweek in the following years. Having it on a Friday ensured that employees celebrated on a working day.

Share market entering period of consolidation

STAR (49) 10/10/89.

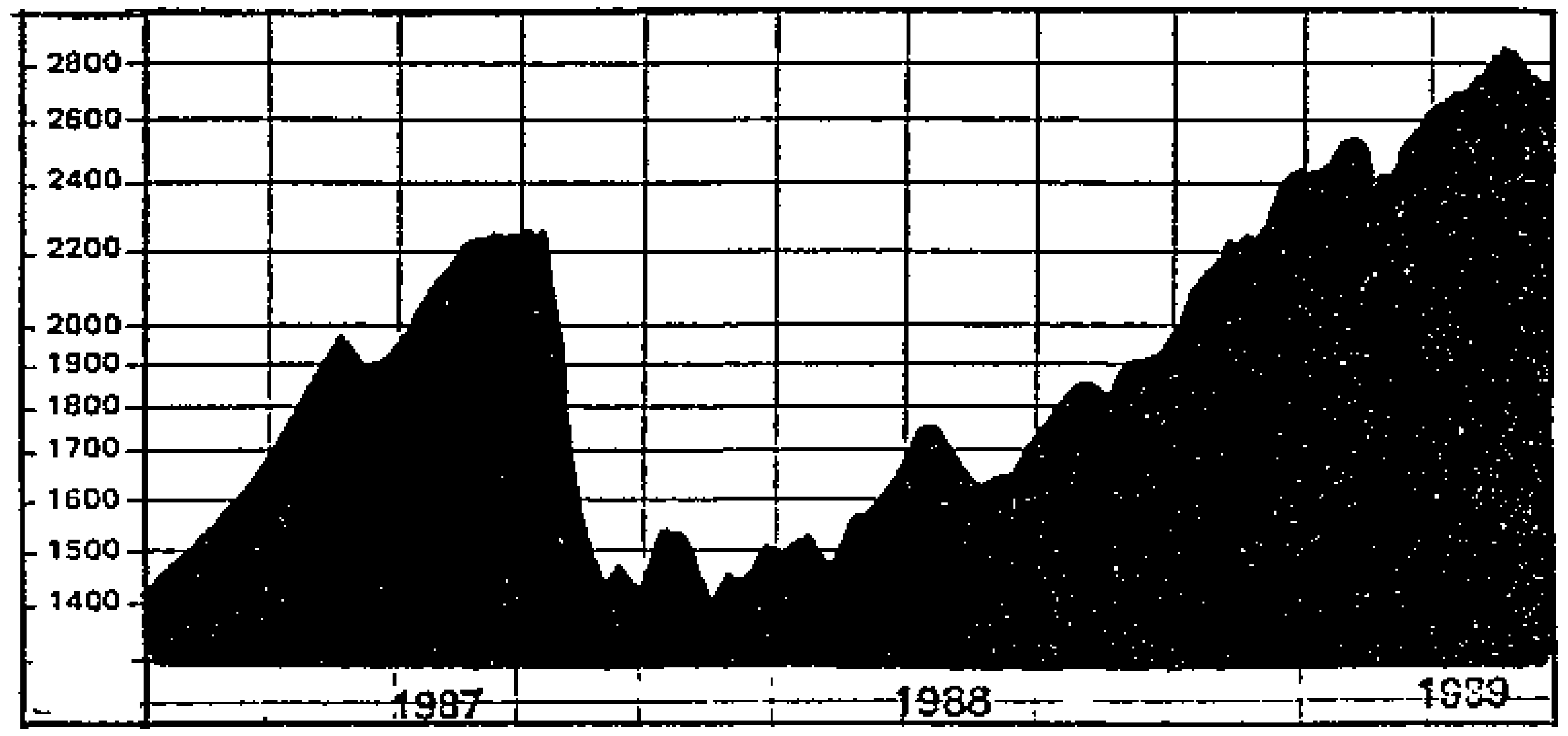
The expectation that the economy is heading for a slowdown, rather than a recession, is acting as a positive factor in the share market, Syfrets analysts say, but caution that the share market is entering a period of consolidation, which might even see some share prices dip.

In the quarterly Unit Trust Matters, released this week, the analysts say the implication of a slowdown is that the better managed companies on the JSE will still provide further growth in dividends in the coming 18 months, "although lower than the 20-30 percent growth enjoyed over the past two years."

But the Syfrets analysts sound a warning about demands on the other major factor affecting the market — the continued channelling of the public's savings into the JSE via the cash flows of the pension and life assurance industries.

Cash flows

"On the question of institutional cash flows, a point of caution must be raised over the ever increasing level of capital being raised on the JSE," says Anthony Gibson, portfolio manager of Syfrets' two unit trust funds.



The industrial index has been steadily climbing all year.

"When combining rights issues, new listings and foreign disinvestment, an amount approaching R10 billion has already been absorbed from cash flows during the first nine months of 1989.

"It is inevitable that such large draws on institutional cash flows must materially limit the extent of further flows which will be directed into share investment.

"Given a scenario of slower economic growth, high interest rates, lower equity purchasing by institutions, and a strengthening of the financial rand, it is our belief that the share market will enter a period of consolidation for the remainder of 1989."

There could quite conceivably be some easing in share prices, Gibson says.

Listing negative market factors such as the sluggish gold price, high interest rates and inflation, and the depreciating rand exchange rate, Syfrets say that with the exception of the gold price, these stem largely from South Africa's growing economic isolation and the resultant pressure on foreign exchange reserves.

"It is therefore with guarded optimism that investors await some relief to this economic stagnation as our new State President and Cabinet attempt to release the political log-jam.

"This anticipation is clearly demonstrated by the recent strength of the financial rand during the past quarter".

Gibson points out that due to this narrowing of the "political discount" placed on investments into South Africa, a number of "rand-hedge" shares have noticeably underperformed the indices of late.

"This trend looks set to continue during the months to come as the expectations for political reform are maintained at what might be unrealistic levels."

Liquidity

Of Syfrets' two unit trusts the Syfrets Growth Fund marginally increased liquidity in the quarter to the end of September, while the total portfolio itself increased from R149 million to R167 million.

Total return on the units (capital growth plus income) over the twelve month period was a healthy 51,32 percent.

Syfrets Growth Fund income for the quarter was 1,75 cents a unit, making 6,06 cents for the year compared with 5,29 cents for the 12 months to September 1988.

A breakdown of the equity portfolio shows that the lion's share, 52 percent (48 percent previously) is in industrials, followed by 20 percent in mining finance and 8 percent in diamonds.

The Syfrets Income Fund, now one year old, has grown to a market value of R52 million.

During the past quarter, the medium dated RSA stocks were sold at yields approaching 16 percent realising a small capital profit, and a "singificant investment" was made into Government Issue Loan Levy Stock at a yield of 17,25 percent.

Portfolio manager Anthony Gibson notes: "We will continue to purchase longer-dated issues during the coming months at interest rates which offer attractive returns to unitholders. In the meantime the cash holdings continue to earn very attractive returns."

Income distribution for the quarter was 4,07 cents a unit. Combined with a capital appreciation of 1,38 cents this represents an annualised total return of 21,5 percent.

W.Mail 13-19/10/89

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And now, the era of quick-reaction Stalsnost

To politicians, this is the era of FW. To commerce, it is the era of Chris Stals, who has quickly stamped a new style on the Reserve Bank: bold rather than cautious, pre-emptive rather than reactive.

HILARY JOFFE reports

THERE is a new style at the Reserve Bank in the era of new governor Dr Chris Stals. And there is a changing government style in the era of new state president FW De Klerk.

This week's unexpected interest rate rise appeared to reflect changes in both government and the Bank as well as in the relationship between the two. The timing of Stals' announcement that the bank rate would rise from 17 to 18 percent, and that the reasons he gave to justify the increase, are something of a departure from the norms of the past two years.

The bank rate increase — which raises the price commercial banks have to pay the Reserve Bank for their money — means the banks have raised the prime overdraft rate from 20 to 21 percent. This time last year prime was at 16 percent, having risen from 12,5 percent at the beginning of 1988. Bond rates will go up too, to around 21 percent.

It's clear that the increase in the bank rate, announced by Stals on Monday, came as a surprise in financial markets. Most economists had been predicting that although interest rates would not start falling until well into next year, they were likely to remain stable.

The economy has been showing signs of "cooling down" and most analysts believed another interest rate rise would not be necessary unless there were new pressures on the economy. Indeed Stals acknowledged this week that the latest economic statistics had confirmed the economy had slowed down.

But in contrast to last year, when the Reserve Bank was accused on several occasions of procrastinating on interest rate rises in response to political pressure, Stals acted fast. And the government backed him up.

Old Mutual economist Dave Mohr describes this approach as akin to the German style: in Germany, financial authorities adjust central bank interest rates in response to what they expect will happen in the economy, rather than waiting for signs of downward pressure on interest rates in financial markets.

The main reason Stals gave for the hike in rates was "the increases announced in the discount rates of a number of central banks in Western Europe and in the United Kingdom last week".

This, he explained, would put additional pressure on the capital account of South Africa's balance of payments, on the exchange rate of the rand and, eventually, on the inflation rate.

"In view of the relatively low level of South Africa's foreign reserves and existing commitments to repay foreign loans, and taking into account the relatively low price of gold at this stage, the country can ill afford any further pressure on its balance of payments," Stals said.

His response was that of a technician — not a politician.

Standard Bank economist Nico Czypionka points out that the direct linkage between international interest rate movements and South Africa's interest rate has been mentioned but never stressed in this way by the Reserve Bank.

The fragile state of South Africa's gold and foreign exchange reserves were clearly a crucial factor in Stals' decision. Czypionka notes the cushion provided by the foreign reserves remains very thin, even though the position has improved slightly.

The reserves are now enough to cover around 1,5 months' worth of imports, where a couple of months ago this figure was 1,3 months. But this is more because imports have declined than because the reserves have risen significantly. Czypionka adds anything less than reserves to cover two months' imports is dangerous.

Mohr points out that while the reserves have improved in rand terms, they have hardly increased in dollar terms. With nothing in the bank, the financial authorities can hardly risk anything which might cause large outflows of short term capital from the country.

This is where the rises in international interest rates come in.

If South Africa had not raised its rates, this could have caused large outflows of capital as business people switched their sources of trade financing from offshore to South African ones. (See accompanying story.)

When announcing the rate rise, Stals said although South Africa's interest rates might seem high in nominal (monetary) terms, in real terms, after adjustment for inflation, they were lower than those in Western industrial countries. The real prime overdraft rate of South Africa's commercial banks was 3,9 percent, compared with the UK's 6,3 percent and West Germany's 6,6 percent.

This may make businesses feel better, since they do make calculations based on real rather than nominal rates. It may even be some comfort to economic analysts who look to history — in 1984/85 real interest rates were as high as 12 percent, practically bringing the economy to a halt.

But it is little comfort for individual consumers, who have to look at nominal interest rates in relation to their monthly pay-packets. A 21 percent bond rate is likely to be crippling for some households.

Information Trust Corporation chairman Paul Edwards said this week a one percent hike in the bond rate would cost another R83 a month on a R100 000 bond.

"Higher repayments on hire purchase, and in particular vehicles, could mean that the average household will need to find at least another R120 to R150 a month," he said. Consumers generally pay three to five percent above the prime overdraft rate to borrow money.

Edwards pointed to the rising number of sequestrations (bankruptcies) and the number of sales in execution of homes. He said signals from the consumer sector indicated that spending was already slowing.

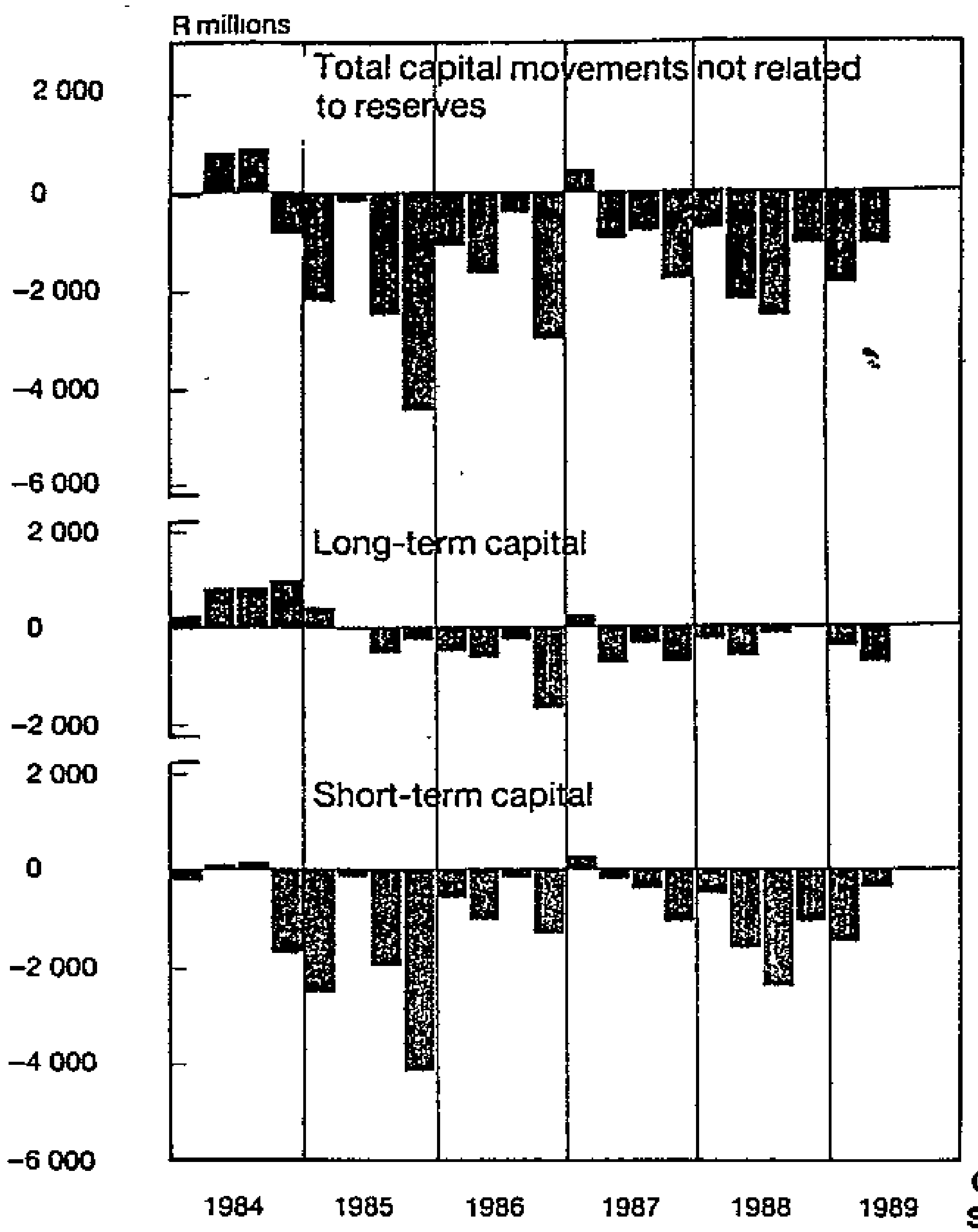
Czypionka said there was evidence for economic slowdown in the increased number of bad debts and liquidations, the decline in imports, reduced consumer sales — for example a tremendous decline in used car sales — and bad conditions in the housing market.

Most analysts had thought that the 20 percent prime overdraft rate would be enough to curtail domestic demand, thus cutting imports and protecting the balance of payments.

But Czypionka said the continued high growth in the money supply suggested the financial authorities still could not control the economy.

Justifying the bank rate increase

Net capital movements



Bleeding capital ... funds have been flowing out of South Africa since 1984 — with short-term capital losses the most significant

Graph: SA Reserve Bank

ECONOMIC REVIEW FM

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Slowdown

Higher interest rates can cause initial increased credit demand due to "distress borrowing," says the Standard Bank's latest *Economic Review*, with higher interest rates affecting individuals rather than corporate buyers who are in a position to finance spending from internal cash flows.

It predicts economic growth will slow — but erratically rather than consistently. "Signs of weakness immediately followed by apparent strength are not unusual during the early stages of a gradual economic slowdown."

FM, 13/10/89

Whether further interest rate increases are needed, it says, depends on the price of gold and the extent of government spending.

If commodity prices remain steady and government spending is kept under control, existing interest rates "should prove adequate" to slow the economy sufficiently to achieve the necessary surplus on the current account of the balance of payments.

Already furniture and appliance sales have deteriorated and private buyers of vehicles have virtually disappeared as personal disposable incomes are eroded by "higher effective tax levels because of fiscal drag, by successive hikes in the petrol price and by the increase in GST." ■

S|Times 15/10/89

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ite the Bullet arns Barend

Finance Minister Barend du Plessis ... bound to a manifesto that makes things tough for business and individuals

HOUSEHOLDS and businesses face a year of financial stress as the government "fulfils its contract" to restore economic discipline.

Finance Minister Barend du Plessis told Business Times the Government was bound by the undertakings it made before the election.

"Reserve Bank governor, Chris Stals and I are committed to monetary and fiscal discipline. That means positive interest rates, tight control of State spending, lower inflation and eventually healthy economic growth. The State President, Mr FW de Klerk, stands four-square behind us."

Mr Du Plessis conceded that discipline will entail pain initially — but said the long term benefits would be worth it. In more positive vein, he said curtailed State spending would help the government meet the electoral target of cutting taxes.

The stated objective is to cut the top personal marginal tax rate from 45% to 40% and to increase the income at which it becomes effective from R80 000 to R100 000. The Government aims to cut the company tax rate from 50% to 40%.

"We had to raise interest rates this week to preserve the reserves. Real rates after inflation were only 3,9% in SA, compared to 6,3% in the UK and 6,9% in West Germany.

"We were motivated mainly by higher foreign rates — but increased local rates should also shore up the balance of payments and the rand, help to check inflation and increase personal savings."

Mr Du Plessis said State spending would rise only 15% this year, which he said was zero growth in real terms.

Tax receipts will be much higher than expected. The deficit before borrowing would be appreciably less than the 4,1% of gross domestic product stated in the Budget.

Mr Du Plessis said the government had completed its borrowing but the Reserve Bank would mop up liquidity to keep interest rates above inflation.

Merchant banks say higher interest rates will reduce enthusiasm for the Iscor issue but are still confident of a five or six times over-subscription because the shares remain under-priced.

Sensible

The R3-billion the State is raising through the sale of Iscor will not be used to retire debt. A Government spokesman said it would be more sensible to avoid new debt, carrying a rate of 16%-17% than to repay old debt costing only 11% to 12%.

Finance costs, including the cost of forward cover, are among the largest items on the Budget. Pressure is building to stop the Reserve Bank providing forward cover to the private sector as it is seen as a subsidy for importers.

A bank economist, who has just returned from a number of European countries and the US, said economic growth abroad would continue and inflation would remain low. Interest rates were thus unlikely to rise much offshore. SA could probably avoid pushing the prime rate much above the present 21%.

"I would say we'll see the rate up to a maximum of 22% in January. Much depends on the dollar and the gold price but I don't see a replay of 1984/85 with prime up to 25%."

Households are most affected through their mortgage bonds and HP debts. Sales of consumer durables, such as cars, white goods and furniture, have already slumped.

By David Carte

Many home owners who took 100% bonds at interest rates of 12,5% 18 months ago are being squeezed out of their homes. Residential property prices, particularly those of luxury homes, are expected to fall.

Because it was unexpected, the latest interest rate increase has injured confidence. Inevitably there will be staff lay-offs in cyclical industries.

Company insolvencies and personal sequestrations, already rising, are expected to increase further, says Information Trust Company. The Land Bank is increasing some subsidies to farmers, whose total debt exceeds R14-billion.

Economists say there should be long term gain for today's pain. Suppressing the economy should underpin the balance of payments, assist SA to meet its debt commitments and eventually reduce inflation.

Savers will benefit by higher interest rates. They have been the main victims of inflation for years, while indebted home owners have been the beneficiaries.

Savers

Savers still receive negative returns after tax and inflation. Personal savings have fallen to an all-time low. There is rising hope that the Government will shortly announce measures to encourage personal savings.

The stock market was set back heavily by this week's rate increase. Higher interest rates make fixed interest stock more attractive relative to shares. They cut into the profits of heavily borrowed companies. They reduce sales and profits across the economy. They bolster the financial and commercial rands, which depresses many share prices.

Most analysts felt the market was ready for a period of consolidation but few expected a rout. They say, provided gold holds, downside is probably limited to 10%.

With the average industrial PE ratio around 10, most shares are reasonably priced. Motor and furniture shares were marked down heavily before Monday's interest rate hike, suggesting the move was discounted.

Shares of companies depending on the building, motor, furniture and white goods sectors, particularly those with high borrowings and heavy overheads, are most vulnerable.

Said Rob Lee, head of investments at Old Mutual: "Basically, the steps being taken are for the long term good of the economy. If we can get back to low inflation and reasonable economic growth, the stock market will go still higher. That was certainly the experience overseas."

Nine challenges for SA's economic success in the 1990s

(49)

BDay 20/10/89

RUDOLF GOUWS

THE economic challenge to SA in the 1990s is to turn around the progressive deterioration in economic growth, living standards, job creation and inflation, and the relative deterioration in per capita incomes.

The abolition of apartheid is a necessary, but not a sufficient condition for bringing the turnaround about. With apartheid, SA will remain unstable, out of bounds to foreign bankers and investors and unable to run the current account deficits that are the typical corollary of rapid growth.

If we did move towards a generally acceptable democratic government, and if economic policy challenges were tackled with resolve, the economic energies of the entire population would be released. The door of international loan capital and eventually of renewed private foreign investment would at least be unlocked, if not thrown open.

The first economic policy issue is the challenge to halt, and then reduce, the share of the government in the economy.

1. Reduce the state's claim on the economy's resources.

In the early 1980s the worldwide trend towards rises in government spending and tax revenue in relation to the size of the economy was halted or reversed by policy changes in most countries.

In SA, however, government's consumption and current spending not only rose in relation to GDP, but at a faster pace. Sharply rising government spending necessitated sharply rising government revenue.

The rising tax burden was felt particularly by private households. Lower disposable (after tax) income contributed to a collapse of net personal saving and slower growth in real consumer spending. Households did not stop saving to spend more, but to pay more tax.

SA has one of the world's highest marginal rates of direct personal tax and a low threshold where the maximum marginal rate takes effect. Our 50% (plus 10% loan levy) company tax rate is also one of the highest.

Government's intention to lower, over five years, the maximum marginal tax rate on individuals and the company tax rate to 40%, is encouraging. But even at 40% we will only just (and in important cases not even) match those countries with which we shall be competing.

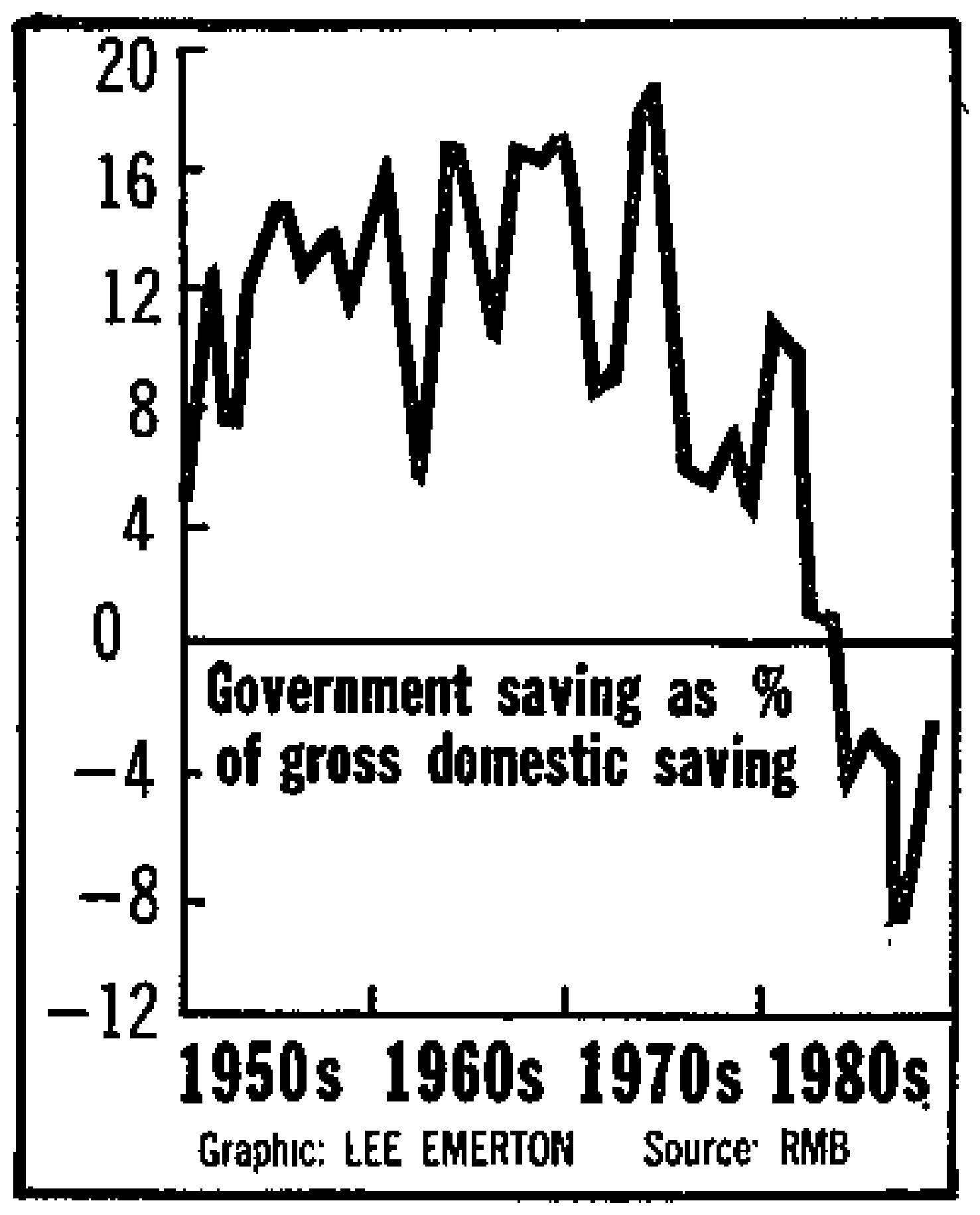
2. Reverse the impact of government finances on the balance of payments (BoP).

The rise in current government spending, especially during the 1980s, was such that even the sharply rising tax burden could not keep pace. From 1982 government started financing a portion of its current spending with borrowings.

Instead of contributing to the total pool of savings (gross domestic savings), it absorbed savings or "dissaved", contributing directly to the BoP problem. The difference between gross domestic savings and gross domestic investment is equal to the country's external current account balance.

To become a net saver again, the government would have to run a deficit smaller than its target of 3% of GDP. But to return to earlier levels of government saving, the government would have to strive towards a balanced Budget within three or four years.

The repair of its own savings position is the most important contribution the government can make to relieving the shortage of domestic savings, and to the fundamental improvement of the country's BoP.



Graphic: LEE EMERTON Source: RMB

3. Establish a firm framework for policy decisions.

A disappointment of economic policy conduct has been the apparent lack of a sufficiently strong framework within which decisions are taken. Examples are the two conflicting announcements on salary adjustments for public servants last year, the 10 different announcements on tax issues during the latter part of the last fiscal year and the introduction, only six weeks after the Budget, of a loan levy on company tax.

4. Orientate policy to the long term and shun "fine tuning".

The interventionist approach of influencing the economy by accelerating or slowing down government spending, lowering or raising tax rates and increasing or decreasing the size of budget deficits has been jettisoned almost everywhere.

Other countries have seen the light regarding fine tuning. SA needs to strive for consistently conservative fiscal and monetary policies which do not aim to steer the economy in one or other direction.

5. Reduce reliance on monetary policy.

Because fiscal policy so often had an expansionary impact on domestic demand, monetary policy has had to carry a disproportionate burden. The true "blame" for the 1984/85 experience, when the prime overdraft rate reached 25%, does not lie with the Reserve Bank, but to an important extent with the conduct of government finances from 1983 to 1985.

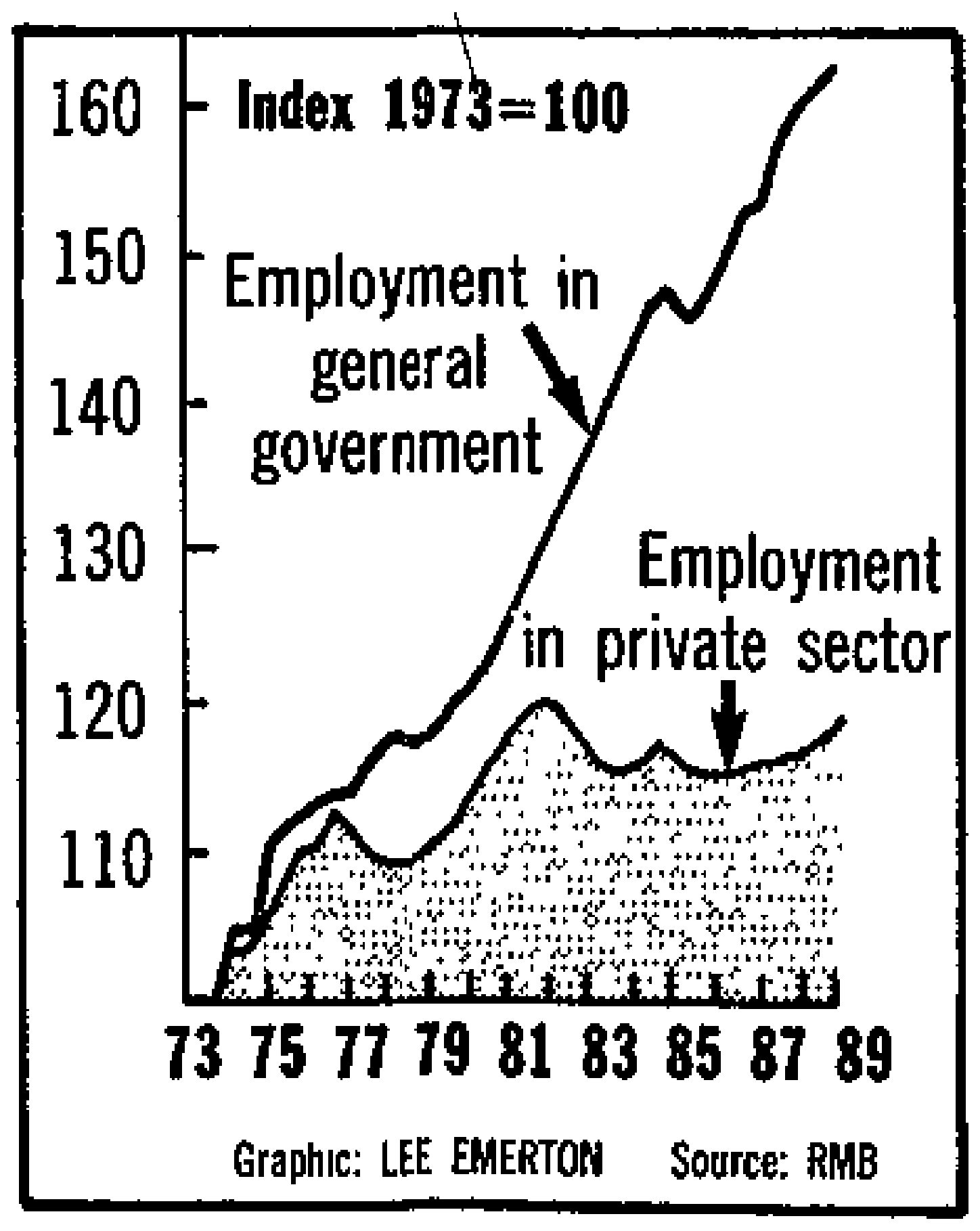
In late 1983, when the gold price was falling sharply, and domestic demand and imports were rising rapidly, government granted large salary increases for public servants, helping to push the 1984/85 borrowing requirement to 2,5 times the budgeted figure. The consequent drain on liquidity through the BoP, and burgeoning credit demand, left the monetary authorities no option but to allow interest rates to rise.

The sharp rise in interest rates during 1988 and up to the middle of this year was also to an important extent the counterpart of a too expansionary fiscal policy. Had the government stuck to its February 1988 intentions on public servants' remuneration, the two prime rate increases early this year could possibly have been avoided.

6. Conduct consistently conservative monetary policy.

The most important reason for SA's inflation since 1970 has been interference with the level of interest rates. This led to excessive rises in credit demand (which immediately translated into an excessive rise in the money supply) and so to inflation.

The new Governor of the Reserve Bank, Dr Chris Stals, has taken a strong stand against inflation, and for consistently positive real interest rates. The implied longer-term orientation should ensure that inflation is slowly ground down without sharp recessionary consequences.



Graphic: LEE EMERTON Source: RMB

If it is backed by a longer-term orientation in fiscal policy, SA can look forward to a less volatile business cycle, improved average growth in the 1990s, and a return to single-digit inflation by say mid-1991.

7. Work towards the abolition of exchange controls.

Continued exchange control over residents and the reintroduction of exchange control over non-residents in 1985 are an admission that government has not created an economic and political environment within which South Africans and foreigners feel comfortable leaving their financial assets.

Exchange controls address the symptoms and not the causes of the downward pressure on the rand's exchange rate. A major challenge to government in the 1990s is to create economic and political conditions for the abolition of exchange control.

8. Accelerate privatisation and deregulation.

The thrust for further deregulation should continue, but as long as it does not include the abolition of the Group Areas Act, we will not get the full economic benefit of deregulation because this law interferes with labour and business mobility. Without the abolition of this law, scepticism of large parts of the black population about the government's motives with deregulation will continue.

9. Tread carefully with industrial policy.

Virtually worldwide, governments are moving away from interventionist approaches and embracing "structural policies" which are really nothing more than the removal of rigidities and impediments which the governments imposed on their economies in the first place.

To the extent that government feels it should encourage outcomes which the market might not have brought about, or brought about quickly enough, efforts should be directed at encouraging exports, and not at protecting local manufacturers against imports.

I sense that the need for these nettles to be grasped has been accepted in the government. The corporate sector is, to my mind, in far better shape than for a long time to tackle new economic challenges.

If the political and economic policy challenges are adequately met, the SA economy can still suprise us all in the 1990s.

☐ Gouws is group economist of Rand Merchant Bank Ltd. This is a synopsis of his address to the Hollandia Forum yesterday.

LABOUR LETTER

LETTERS

(49) 22/12/89

WORLD ECONOMIC PROSPECTS

Some virtuous circles

Mixed and moderated growth should be the trend in the Nineties

Economically, the first year of the final decade of the 20th Century is likely to be one of contrasts. Having learnt the great lesson of the Eighties, that inflation leads to destruction, the monetary brakes gradually applied over the last year to dampen pressures of demand — most notably in the US and Britain — will slow overall growth of the main industrialised nations of the West to 2,6%.

This deceleration, accompanied by lower price rises, will be uneven (**see table**) and gentle, with the main exception of the UK where a sharp contraction is expected in the 11th year of Thatcherism. Growth will remain strong in the virtuous, low-inflation economies such as Japan, Germany and other continental Europeans, while Asia and the Pacific Rim will slow marginally to an advance of 5%. In spite of forebodings about continued trade imbalances, the threat of recession is discounted.

Overall, 1990 will still be the eighth consecutive year of expansion for a global economy which has a calmer look to it after the achievements and crises of the past. Thanks largely to the second oil price shock of 1979-1980 which sent inflation to a recession-inducing rate of 13%, the industrial world shares a common cause — whatever the political colour of governments in power. And Opec no longer has the power or desire to disrupt.

Noting the diverging performances of North America and Britain compared to most of the rest of the developed world, Arthur Dunkel, director-general of the General Agreement on Tariffs & Trade (Gatt), said in his annual report: "With the major countries in different phases of the business cycle, the world economy is expected to avoid the wide swings in economic activity that occur when all (of them) are contracting or expanding at the same time."

The problem legacies of the Eighties are proving slow to remove. Third World debt has reached US$1.290 trillion and, while creditor banks have written off between 50% and 80% of their exposure without the once-feared financial collapse, the net decline in capital for developing countries (World Bank relief dropped $8bn to $14bn) is hobbling economies which account for 28% of world imports.

The US Federal Budget deficit, helped by the receding threat of East-West conflict, is projected to drop to $117bn (from $161bn) and the current account shortfall to $109bn (from $116bn), thanks to the monetary squeeze and devaluation of the dollar. Fluctuations in the dollar have lessened, partly as a result of the international co-ordination achieved by the Group of Seven, but the fact remains that Ronald Reagan's heirs were left an American economy which is the world's biggest debtor nation, owing $800bn, while the current account surpluses of Japan and Germany increased by $635bn.

Gatt, avoiding strong language, says the persistence of these external imbalances "is likely to be a continued source of attention, partly because of uncertainty about when and how they will be corrected and partly because of their possible repercussions on trade policies." Protectionism is being held at bay for the moment and the vast amounts of cross-border investment may ultimately be a big contributor to reducing trade imbalances, but the issue remains politically sensitive.

External inflation, however, is falling. While oil prices are up by some 43% on 12 months ago, due to heavy winter demand in the US, increased production quotas by Opec in the new year are expected to see them drop by a fifth to an average of $16/barrel for 1990. And slower economic growth is forecast to keep metal prices about 15% lower on average than this year's levels (barring supply disruptions), with all commodities showing no real increase.

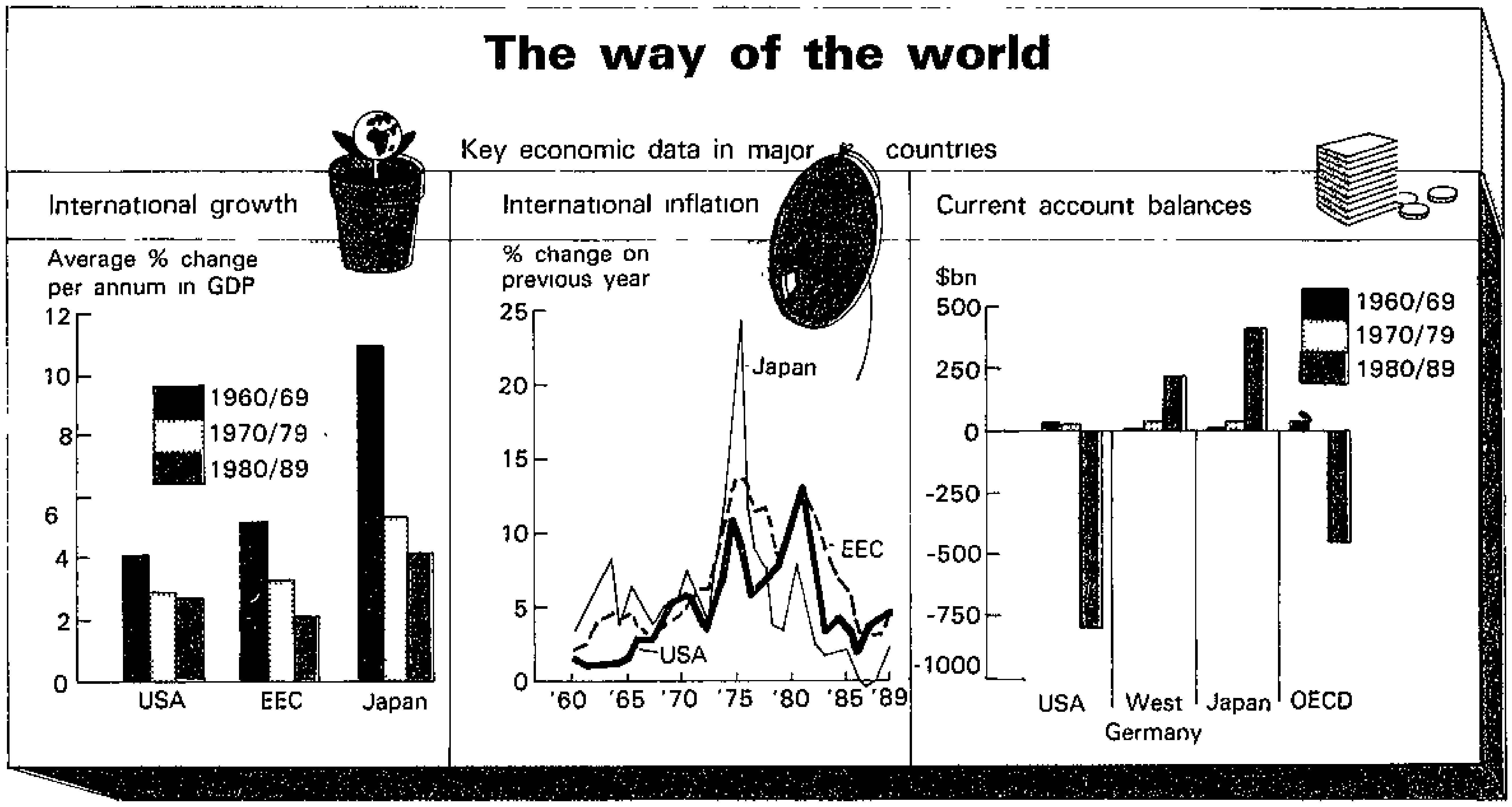
The one economic indicator which belies the success story is unemployment. In the Organisation for Economic Co-operation & Development (OECD) area, labour supply — swollen by the Sixties baby boom — has outstripped growth in jobs, kept lower than increases in output by higher productivity. And though well down from the recession peak of 9% in 1983, the forecast level of 7,5% compares badly with under 3% recorded 20 years earlier. The downturn in the demographic curves, however, should see marked improvement in the next five years and shortages are already affecting European countries in selected skills.

In the short term, the outlook for the low-growth economies of the US and Britain hinges almost totally on the success of monetary policy and export performance.

So far the US Federal Reserve's monetary tightness appears to be working, even allowing it to ease somewhat: consumer spending growth is projected (by the OECD) to fall to 2% next year (from 3,4% in 1988) so that GNP keeps gliding to a non-inflationary increase of 2,1% without any marked increase in unemployment from the 1989 level of 5,2%. But this will require no sudden upturn in consumption plus a continued rise in exports to offset an expected halving in the growth of manufacturing investment to 3%.

Forecasters, however, warn that with inflation being held down consumer confidence is relatively high and the economy is still working close to capacity.

In Britain, the weapon of high interest rates (which more than doubled since mid-1988) is likely to



The way of the world

Key economic data in major countries

prove a blunt instrument. And forecasts by the Society of Business Economists that consumer spending on durables could plummet by 14% were supported by the plethora of pre-Christmas sales.

Even the most optimistic do not see economic growth reaching 2%. Against 3,9% this year, consumer expenditure may rise by only 1%. The negative impact will be a massive destocking equivalent to 2% of GDP plus a fall of more than 5% in manufacturing investment.

Positively, this should slash imports and allow exports to rise 7% to cut the current account deficit from £20,5bn to £12bn (helped by better oil and invisible earnings). Inflation, however, is likely to be slow to respond. For while unemployment is set to rise again, the effect on wage settlements may be muted in the short run: a drop from average increases of 9,3% to 8,8% — still well in excess of an estimated climb of 6,1 in the retail price index.

1990 AND ALL THAT

	1988	1989*	1990*
GNP	% change		
US	3,9	3,0	2,1
Japan	5,7	5,3	4,2
Germany	3,4	4,2	3,2
France	3,4	3,2	2,8
UK	4,3	2,6	1,3
Other OECD	3,3	3,0	2,7
OECD total	4,1	3,3	2,6
Asia/Pacific†	8,3	5,5	5,1
Inflation			
US	4,1	5,4	4,5
Japan	0,7	3,2	2,5
Germany	1,2	3,1	2,5
France	2,7	3,4	3,0
UK	4,9	7,8	6,2
Other OECD	7,7	7,5	6,6
OECD average	3,8	5,2	4,5

* OECD and private sector estimates.
† Excluding Japan.

Unless Chancellor of the Exchequer John Major, successor to Nigel Lawson (now blamed for the problems), reverts to tighter fiscal measures (notwithstanding the £11,5bn budget surplus) to bolster monetary policy, it will be difficult to reduce interest rates which are penalising home-buyers — dangerous for Margaret Thatcher's government — and helping sustain inflation. And with UK prices still rising twice as fast as those of Germany and France, sterling is likely to remain wobbly until conditions allow it to become a fully fledged member of the European Monetary System.

In the meantime, Britain's often-lonely policy position within the European Community will be underlined by the economic strength of its fellow members on the continent. Investment will continue to increase — for example by 4,5% in Germany, 8% in France and 10% in Spain — as firms gear up for the promise of free trade in 1992 and to offset weaker exports to produce average growth of around 3%.

If there were political worries about German Chancellor Helmut Kohl's government, they have been largely doused by the collapse of communism in East Germany. The DM23bn tax cuts in January are likely to further underpin its position ahead of the elections due at the year-end. This will sustain domestic demand which already faces a boost from the wave of migrants from the East. Meanwhile, the Bundesbank's tight money policy has strengthened the D-mark and kept down import costs, reducing inflation without depressing investment.

In France, the minority socialist government's main concern is the current account deficit, forecast to rise 40% to Ffr42bn (mainly with Germany) as the continuing investment boom sucks in capital goods. This, however, amounts to less than 0,7% of GNP and with the government pursuing a conservative fiscal policy the franc is not under pressure.

Despite troublesome public-sector strikes, average wage increases are being held down to 4% in the manufacturing sector and inflation is likely to fall — though not to the government's target rate of 2,5%.

Among the continent's Big Three economies, Italy may face the roughest ride. Even after proposed spending reductions of L40 trillion ($28bn), the budget deficit will still be 11% of GNP. Demand has grown too fast for comfort, buoyed by real wage increases and lower savings. While it is expected that this year's 4% increase in consumer spending will drop in 1990 and inflation is likely to decline half a point to 6%, investment by business remains strong. The current account deficit is projected to rise further, to L21,5 trillion ($15bn) and a formal devaluation of the lira within the EMS is on the cards.

No such problems exist for Japan, its economic power undisturbed by the most unstable political period since the Fifties in the wake of the Recruit Cosmos scandal, or by the slippage in export growth. Internal consumer spending has taken over to complete nearly three years of expansion, the strongest since the Sixties — as the soaring Tokyo stock exchange has testified.

Fed by real wage increases of more than 4% and lower taxation, private consumption rose by a strong 4,6% this year, undeterred by the unpopular new 3% tax on spending. Next year it is likely to slow but with capital investment still growing — by more than 5% (or 20% of gross domestic product) — the combination will limit the projected slump in exports to a gain of only 1% (from 6%) and lift GNP by more than 4%.

This should also see a further downturn in the current account surplus from the 1987 peak of $87bn. But it is slowing with forecasts of $60bn after the $66bn estimated for this year.

For, despite rising imports (up a cumulative 33% by volume in the past 24 months) and the increase in Japanese travel abroad which has produced a tourism deficit of $20bn, the current account is reaping mounting benefits from the huge amounts of investment overseas. Since 1985, invisible inflows have risen by more than 150% to about $120bn. Some forecasters believe Japan will be stuck with a $50bn-$60bn current account balance for several more years even if imports continue to outrun exports.

Around the Pacific Rim, the dynamic economies of South Korea, Taiwan, Hong Kong and Singapore — with an aggregate GDP equivalent to about 15% of Japan's — will all suffer mutually from the US downturn, their biggest single market. Average growth is set to slip to 6%, against rates of 8%-12% achieved in the late Eighties. This may help take some heat out of the labour markets where three years of expansion have driven unemployment down to under 2% — and in the case of Singapore, 3% — driving up wages.

The health of the entire region is also being clouded by China, the most promising of markets during the economic reform years up to 1988 when growth averaged 10%. Even before the political upheavals terminated by the slaughter in Beijing in June, the Chinese were reining in as inflation headed over 20% and imports ran out of control.

Even though the rate of expansion shrank from 11% to 6% this year, the current account deficit is estimated to have shot up from $3bn to $13bn — worsened by the disappearance of tourist earnings after June. Next year should see lower growth of 5% and an external shortfall of $8bn and, until foreign qualms about China's political regression are eased, the country will be hard put to easily raise credit abroad — even though foreign debt totals less than 12% of estimated GNP.

But China's retreat from the future is overshadowed by the hopes (and anxieties) about the reconstruction of Eastern Europe as the apparatus and methods of old-style communism are discarded and dismantled. Until early this year, the most significant date on the calendar of the Nineties was 1992, when the European Community is due to tear down internal trade barriers, with forecasts that this could add a full point to aggregate GNP.

Those prospects are now even more exciting. But a lot of questions have to be answered before the forecasters can rewrite the somewhat bland, if comfortable, projections that recovery from next year's deceleration will be modest with growth in the OECD member nations adding up to an average of 3% from 1991. ■

THE GROUP OF SEVEN

Current account balance	1988	1989	1990*
	as % of GNP		
US	-2,6	-2,3	-2,2
Japan	+2,6	+2,3	+2,1
Germany	+4,1	+4,4	+4,2
France	-0,3	-0,3	-0,3
UK	-3,3	-3,7	-2,7
Italy	-0,6	-1,0	-0,9
Canada	-1,9	-2,3	-2,3

* OECD and private sector estimates.
Source. UBS Phillips and Drew

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Now for economic medicine!

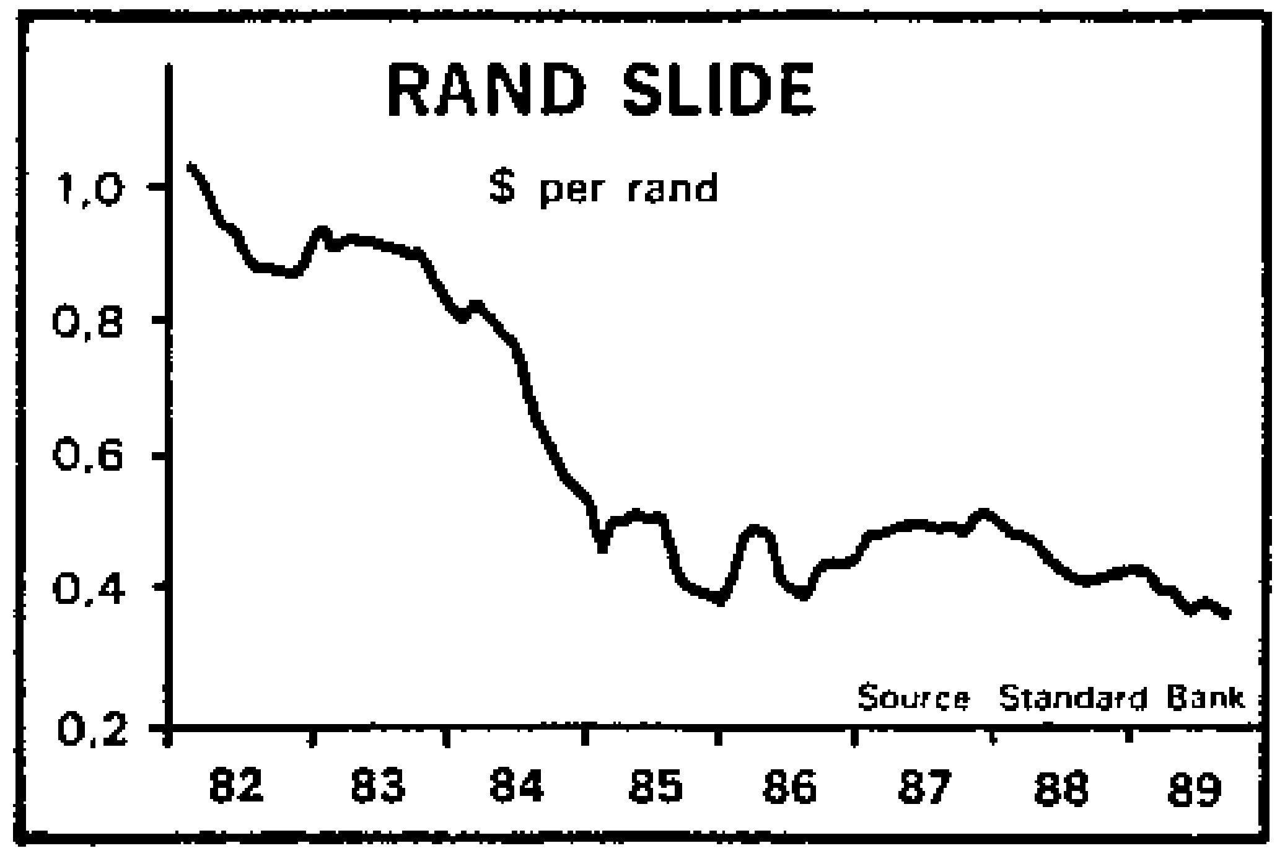
By David Carte

COMPANIES have ridden out positive real interest rates during all of 1988 and 1989 with surprising aplomb

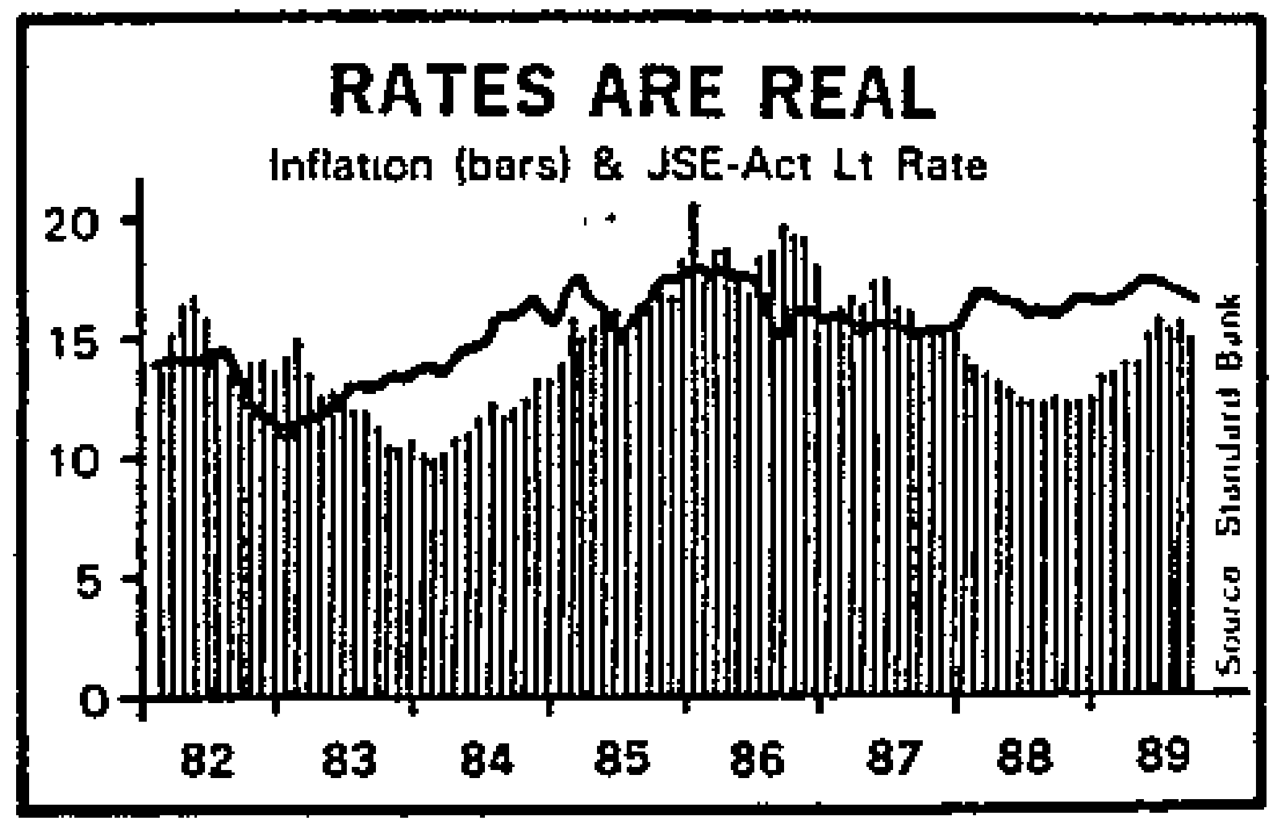
Up to September, nearly all listed companies reported increased profits, in spite of prime overdraft interest rates rocketing from a low of 12,5% at the beginning of 1988 to the present 21% — and a fall in the economic growth rate from 3% in 1988 to 0.5% in the September quarter

With the average earnings' increase around 30%, some improvements have been quite startling.

While high interest rates have not hurt companies much directly, they have cooled domestic economic activity, largely by hitting the consumer, mainly through mortgage and HP payments.



Source Standard Bank



Source Standard Bank

Sacrifices

House sales are flagging, while those of cars, furniture, white and brown goods have been hard hit by tighter HP curbs as well as higher rates.

Consumers are sacrificing in the durable area to sustain their lifestyles. Sales of such semi-durables as clothing, and consumables like pharmaceuticals and food, have held up fairly well

With the exception of certain motor and furniture companies, the corporate sector managed to continue flourishing by retaining profits, restraining capital spending and keeping stocks to a bare minimum in order to keep gearing low. It learned its lessons dearly in 1984.

It also covered forex exposures forward at great cost to the Reserve Bank.

Most companies have cut their payrolls to the bone — good for profits, if not for social peace and harmony In short, companies are running lean and mean. The process of agglomeration in the past five years did much to diminish competition and protect margins.

Gross domestic fixed investment picked up from the depths, reflecting additions to capacity in several sectors, notably beneficiation of minerals. Engineers and builders continue to prosper in an Indian summer of profitable orders signed some time ago. Mass housing, Mosgas and Lesotho Highlands have underpinned the market.

The softer rand has stimulated exports. Dollar prices of several important minerals have boomed, giving a double whammy to non-gold exporters such as Samancor, Middelburg Steel and even Iscor Imports were reduced by a softer rand and by the surcharge

Rising non-gold exports and a good agricultural season last year softened the economic decline and did much to hide distress in some quarters, notably in the area of imported consumer durables, such as personal computers, video and TVs.

The economy has been so robust the authorities have virtually had to hit it on the head to slow it down, mainly to protect the reserves. Curbing inflation was a secondary consideration.

Now the authorities are telling all and sundry that a new era of economic discipline is at hand.

Real interest rates will depress demand and get inflation under control. They will cool import demand and bolster the rand. They will increase saving One far-fetched argument is that real interest rates increase the attractiveness of labour, relative to capital, but tell that to SAB and Sats.

Overkill

In short, the authorities are trying to persuade us, real rates are nasty medicine but good for us.

There have been warnings of overkill and Reserve Bank governor Chris Stals recently said no further increase in interest rates was planned.

Finance Minister Barend du Plessis and Privatisation Minister Wim de Villiers say there will be fiscal discipline as well as monetary discipline One hears stories of savage State spending cuts, notably in the area of defence and of a large Budget surplus for the year and a small Budget increase next year

If the State is to emulate the State corporations by shedding manpower and cutting spending generally, there is rising hope of tax cuts to compensate.

Sceptics point out, though, that government debt is horrendously high. If one takes into account the Reserve Bank's losses on forward cover and the unfunded liabilities of the State pension funds, we are looking at R100-billion plus and an interest bill of R10-billion to R15-billion a year

So if there are tax cuts, they are likely to be illusory Bracket creep could well nullify any concessions

The worst-case scenario for debt repayment requires SA to repay $8-billion in the next four years. Sanlam reckons we could achieve a R7-billion current account surplus next year but all that and more will be needed to offset capital outflows.

Hope

The current account of the balance of payments will be the tail to wag the dog of the SA economy for the foreseeable future. It spells high interest rates and sluggish growth.

Gold's slightly better trend has triggered a lot of hope but, as good as it may be for the balance of payments, it hardly compensates the mines for rising costs.

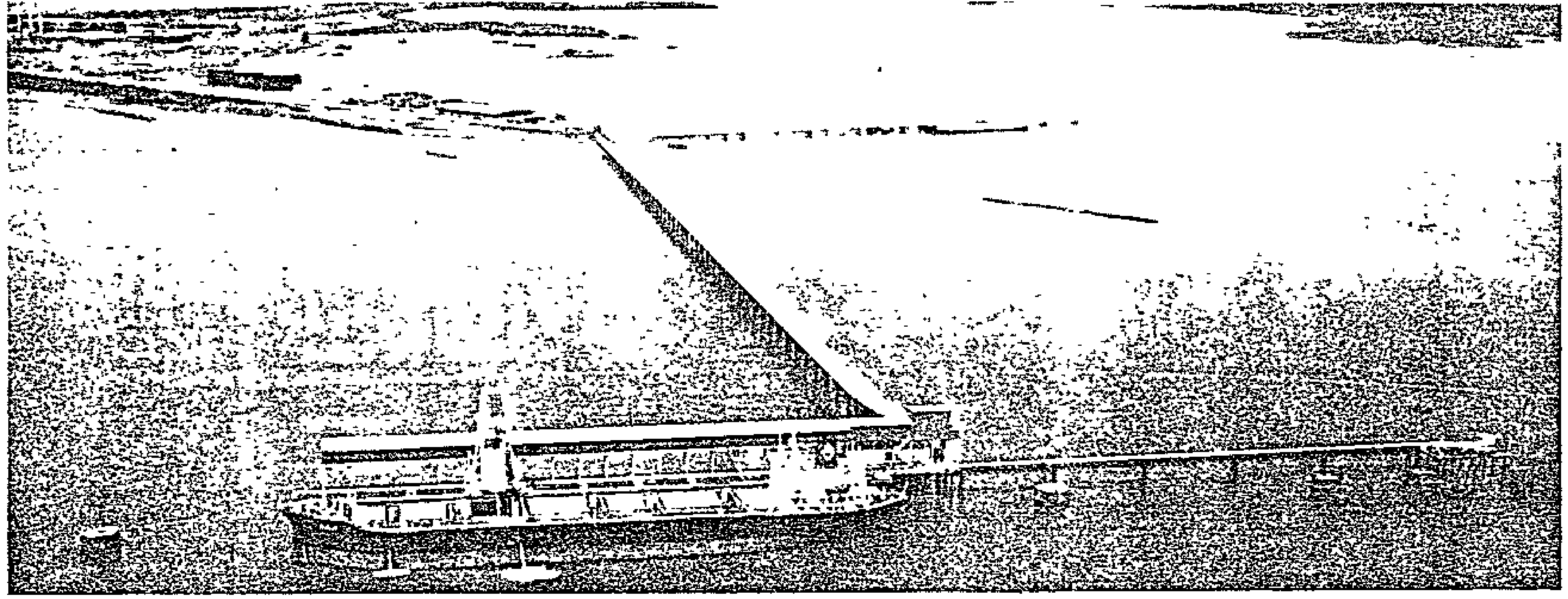
Gold has fallen to 28% from nearly 50% of export revenues. With the dollar still suspect, there is still hope for help from gold

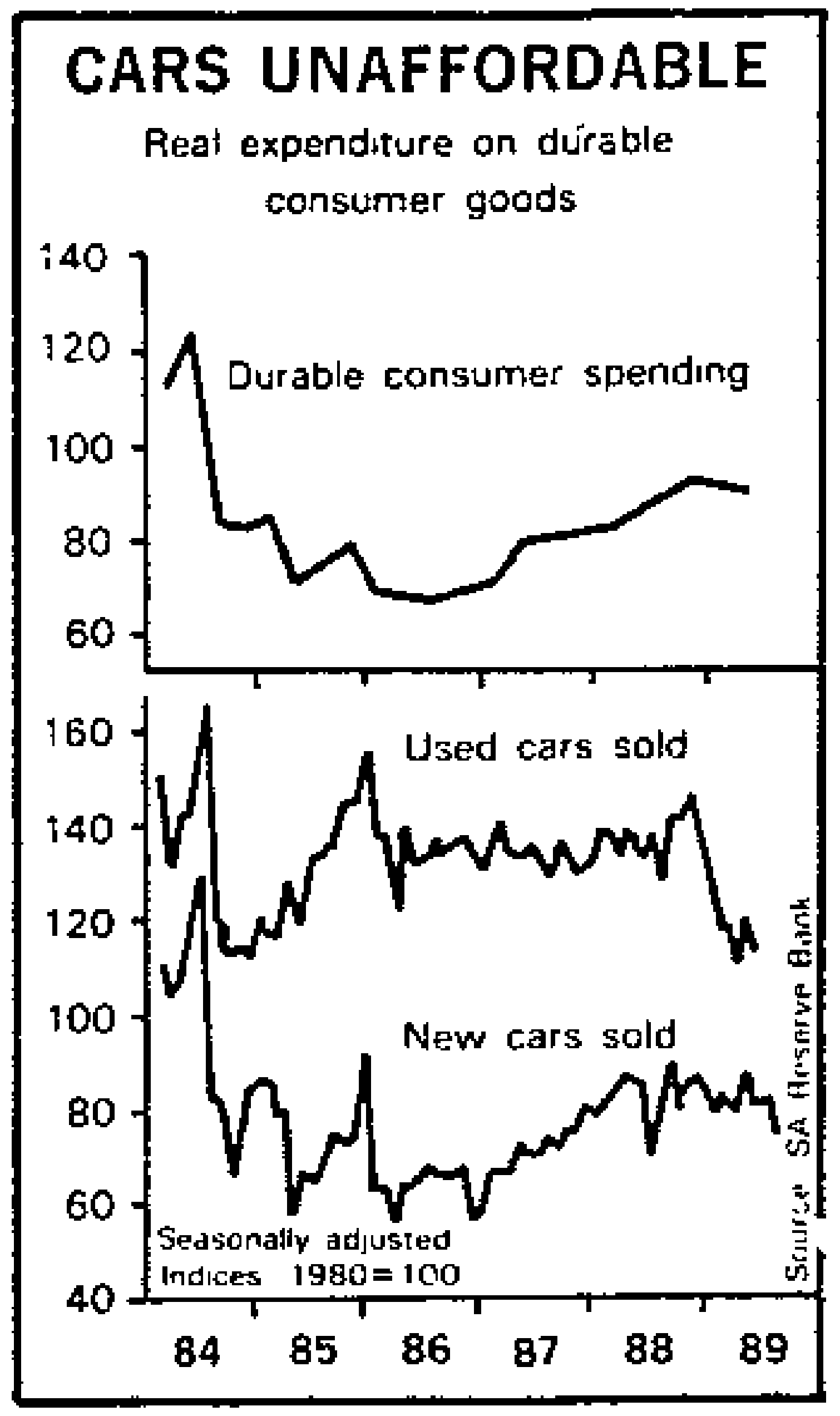
Non-gold exports may be negatively affected by a slowdown in the world economy Already a number of commodity prices have started to soften.

But the economic parameter possibly most crucial to the corporate outlook today could be the number of man-days or man-months that companies lose through strikes.

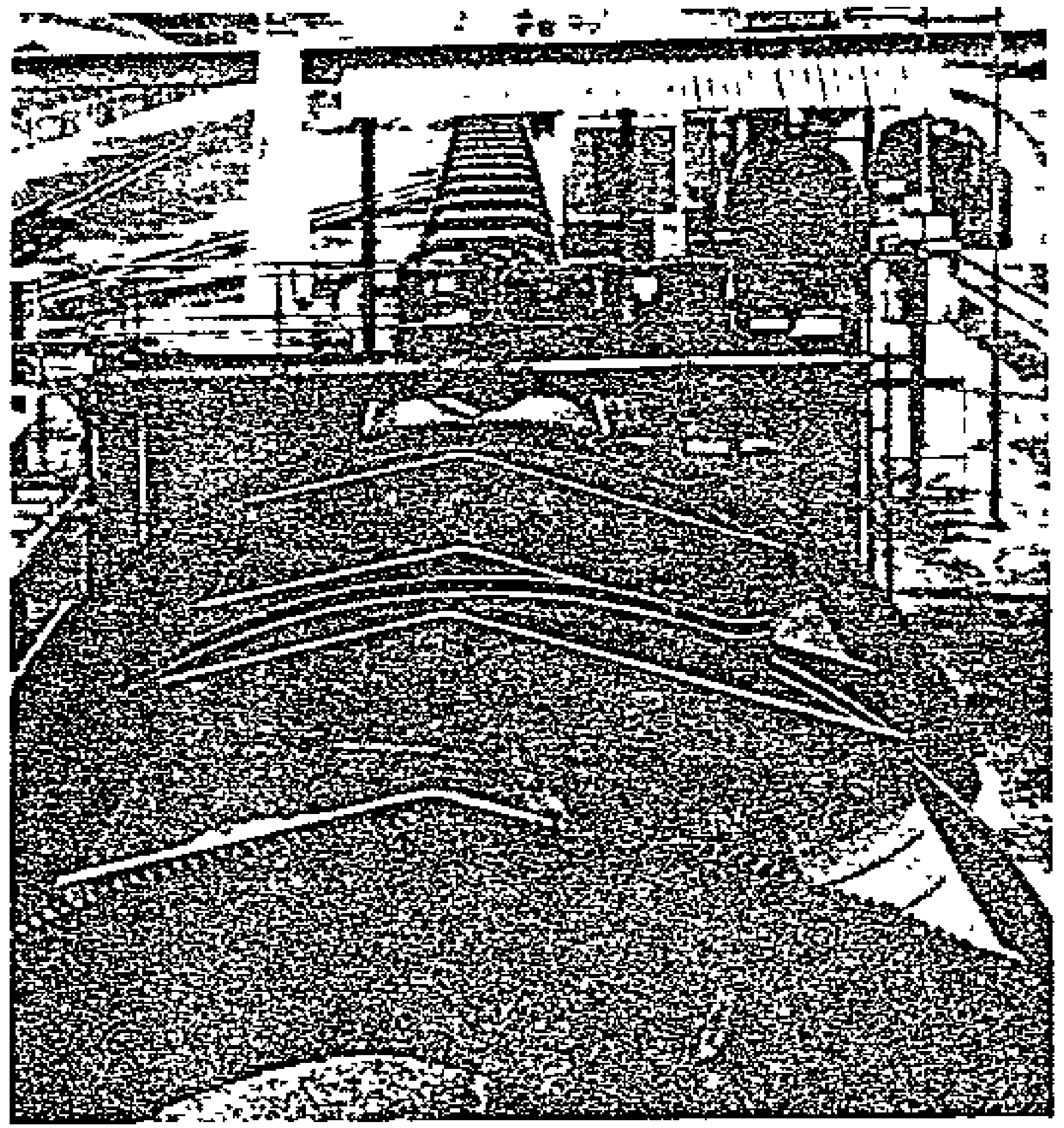
President De Klerk's bold reforms have raised expectations just as the economy is slowing. People out of work are notoriously restive. Today's strikes are politically motivated.

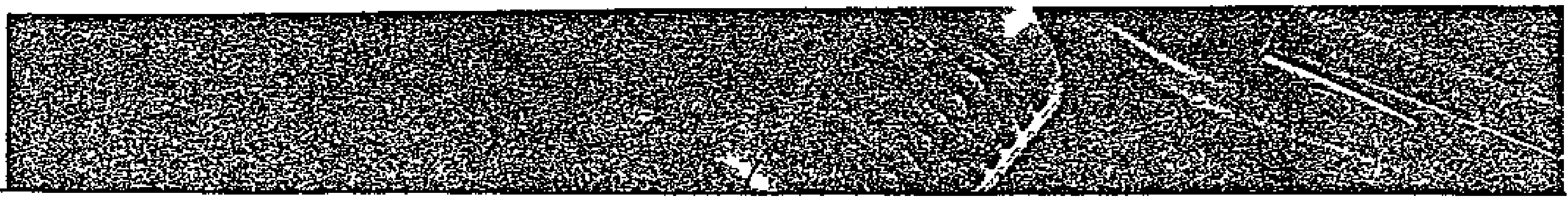
The unions are trying to stake their claim to a say in any new political dispensation There will have to be further progress towards negotiations on power sharing if we are to avoid a winter of discontent.


TOP EARNER: Loading coal at the Richards Bay terminal. Non-gold exports were substantial earners



Source SA Reserve Bank


ROLLING: Coal heads for the loading terminal



FM BOARD OF ECONOMISTS

1/12/89

Still heading for a soft landing?

■ That remains the crucial issue for 1990

The gold price, the balance of payments, interest rates and the impact of change in eastern Europe are other topics addressed by the *FM* Board of Economists, represented this time by JCI's Ronnie Bethlehem, Brian Kantor of UCT and Louis Geldenhuys of stockbroker George Huysamer. Assocom's Raymond Parsons asks the questions.

Parsons:**Let's take a snapshot picture of how you see the economy at the moment.**

Geldenhuys: Some people expected it to happen sooner, but the economy is now clearly slowing down.

Bethlehem: I agree, but we must distinguish between the real economy and the financial economy. In particular, the critical thing is net foreign reserves.

Parsons: **Is it slowing fast enough to meet our balance of payments target?**

Kantor: Probably.

Bethlehem: We can't answer that properly at this stage because we don't have a full picture of net reserves. At the end of the second quarter net reserves (gross reserves of the monetary banking sector less its short-term foreign liabilities) had deteriorated markedly, largely because of a deterioration in short-term foreign liabilities between the end of 1987 and June 1989 of almost R5,5bn.

Geldenhuys: We're headed for a hard landing.

Kantor: The economy is moving sideways at quite a high level. If it doesn't move downwards and continues on this path it will have done nicely by way of consolidation dr reaction to previous excesses.

The liabilities Ronnie is talking about may not be a bad thing. We want foreign capital and if we've been able to borrow this represents balance of payments relief.

Parsons: **How do you see the impact of the world economy over the next 12 to 18 months, especially for non-gold exports?**

Bethlehem: We must take warnings of a slowing down of the world economy seriously. Prospects for non-gold exports may be deteriorating, but we must look at exports as a whole. Fortuitously, the gold price has risen, so whereas last year, when the gold price was down and non-gold exports did better, we might now have a reverse of that.

Geldenhuys: Forgetting about things like sanctions, from a purely economic point of view it's going to be tougher for exporters.

Kantor: We have seen a fall in commodity prices. But the increase in the price of gold is not fortuitous. There is a negative correlation: when the world economy slows and interest rates come off, the cost of holding gold falls. People buy more gold and start worrying about overshooting again.

Eastern European developments are a fundamental change in the world economy with huge potential for growth, from which SA will benefit, though they will also put heavy demands on world financial systems.

Parsons: **Are you now inclined to take a bullish view on gold? If the gold price should rise dramatically, can or will SA handle it better than on previous occasions?**

Bethlehem: I don't think the gold price is going to run away. It's reflecting mainly two things: perceptions of a cap or a ceiling on real interest rates, which have emerged particularly since October 13 and developments in eastern Europe and Russia.

If gold surged over US$600 would we be able to resist the pressures that would build up, like the rise in the cost structure, and then could we handle the decline in the gold price when it came? I don't think so, particularly if it stayed up for a while, like it did in the Eighties, and we started to build in the assumption that there had been some fundamental structural change that justified a permanent adjustment in policy.

Geldenhuys: Sentiments surrounding gold have certainly turned favourable, though I don't think we're headed for a massive bull run. There are some rays of hope that we have learnt from experience on what policies we should then adopt.

Kantor: I wouldn't want to be seen as a gold bull at this stage, but the rise from $350 to $410, without much dollar weakness, is significant. Slow world growth is good for gold.

If gold moves up, say to $450, the authorities would not let the rand increase much. The Reserve Bank would take the opportunity to accumulate reserve strength. Financial markets would bet on upward movements in the rand, confidence would be encouraged and we would soon see a pick-up in money supply growth. That would be the same mistake as before and again we'd become vulnerable to subsequent weakness in the gold price. The way to avoid these errors is to allow the exchange rate to move immediately and allow some foreign exchange control relief rather than try to bottle up reserves, but we are not ready to do that.

If we let the rand rise all other exporters would complain about the impact on their profitability and they would be listened to in the same old way. We will never get rid of inflation without some exporters suffering in that the prices they get won't rise as fast as their costs over some short period.

Geldenhuys: Our main errors have been in monetary policy. I get the impression from Chris Stals's latest Reserve Bank Governor's address that monetary policy will be pursued in a slightly different way and rely not only on interest rates or the price of credit.

'SA real interest rates must stay positive for reasons of balance of payments management alone. We need interest rates to be positive and more market-related'

— **Bethlehem**

[redacted]

Kantor: Stals may be tougher on the downside but will he be better on an upswing?

Geldenhuys: He needs to build reserves now.

Parsons: **Could eastern Europe look more attractive to foreign investors and divert economic attention from our part of the world?**

Bethlehem: Even if sanctions go tomorrow, capital inflows won't come when the gold price is depressed and we are sorting out internal political problems. Anything that happens in eastern Europe that needs bankrolling will divert funds away from the Third World, and so make the position tougher.

Kantor: One can exaggerate the diversionary effects or whether SA will be much prejudiced. Our share of the world capital market is so small anyway, and we have lost so much capital, that any inflow — which will be extremely helpful to us — would not be important for world capital markets.

Bethlehem: SA is a schizophrenic country in how it is perceived by the outside world. When gold and commodity prices boom SA ceases to be looked on as some Third World phenomenon and becomes an attractive target for investment funds. When prices of our export commodities are depressed we tend to be classified differently. That can make a material difference to investment flows.

㊾ Fmail

economic policy priorities and top of the list now is to reduce the rate of inflation. What are the chances of getting inflation down to a more acceptable level?

Geldenhuys: If you look at his speech closely, Chris Stals spoke about macro-economic equilibrium and balance, using inflation as the benchmark. It's not a policy directed only at curbing the rate of inflation. In the short term certain factors, maybe coincidentally, will favour a reduction in inflation. If gold remains strong the rand won't fall that much. We've had lots of indirect tax increases in the past two years which I don't think will recur. But it's still early days to talk confidently about single-digit inflation; maybe we'll be able to in a year's time.

‘Eastern European developments are a fundamental change in the world economy with huge potential for growth, from which SA will benefit, though they will also put heavy demands on world financial systems’

— **Kantor**

[redacted]

Kantor: The key to inflation will always be the exchange rate. If they can hold the exchange rate then one can look forward to lower inflation down the line.

Bethlehem: The shift of policy giving more emphasis on inflation is welcome. I'm not so sure, however, that the shift actually displaces the balance of payments on top of government's priorities.

Parsons: **Do you see appeals for wage and price restraint as playing a useful part in an anti-inflation strategy?**

Geldenhuys: No, not really. We must pursue policies that will create the sort of environment where restraint will be self-imposed.

Kantor: The most important area in which government can exercise restraint is with its own employees. Government has a useful opportunity coming up to limit public-sector salary increases to less than 10%. With the next election way down the road, now is the time to hang in tough and set an example. A general wage increase of no more than 10% in the public sector has an immediate positive effect on the Budget, opening up room for tax relief. The private sector would take a lead from that. The authorities should accompany it by income tax relief. A low wage increase and income tax relief at the same time is a very useful package, and if they don't do it this year they'll never do it.

Bethlehem: Appeals for wage and price restraint are no way to conduct economic policy. But the public sector must be looked at much more discretely. The total public-sector wage bill must be contracted but we need to retain and reward good people in the public sector. To do that we must get the public sector down in absolute size; that's where the leadership must come.

Parsons: **In the post-election phase, is there more determination in official circles to discipline State spending?**

Bethlehem: Yes, there is — as long as the environment remains reasonably accommodating and quiet.

Geldenhuys: There are encouraging signs that we may be close to the Budget figures for this fiscal year. On top of that, again it may be early days, but there may be room for more efficient allocations of expenditure.

Kantor: I don't think our fiscal record is as bad as people like to make out, though there are problems with the structure of the Budget. Obviously defence must be a prime candidate for real cuts now we are not fighting the Soviets on the border.

Parsons: **We need more policemen and fewer soldiers?**

Kantor: That's right. One has to be very sceptical about our ability to reduce absolutely the size of the public sector if you include nurses and policemen and teachers.

I've heard Barend du Plessis talk about SA's economic problems and have no doubt that he has a good grasp of the necessities. I think he is politically influential enough now to actually get his way.

Parsons: **If you were beginning to think about the March 1990 Budget, what strategy would you recommend? Should taxes be cut — if so, direct or indirect or both?**

Geldenhuys: The deficit before borrowing must not be bigger than the actual outturn for this year, which should be much less than the budgeted 4,1%: maybe as small as 3,2% or 3,4%. To ensure that I must look at expenditure and then see where I can reduce taxes as well. If government comes up with a 13% increase in expenditure, which will probably be in line with the inflation rate, the deficit will leave little room for tax cuts. If spending growth can be limited to something like 10% there will be scope for tax cuts of some R2bn-R2,5bn. I would devote the bulk to direct taxes, though some should go to reduce the import surcharge.

Kantor: Don't forget we've already had significant direct tax reductions, mainly for women.

We must cut away at direct taxes and go the indirect taxation route. The buoyancy of sales tax revenue is remarkable. This gives a wonderful opportunity to introduce Value Added Tax at rates not above the current sales tax rate.

Bethlehem: The Budget is government's most important statement on the economy. There is no way government is going to be able, in March 1990, to tell the economy that it can relax and go ahead. It's not just a matter of there not being enough room: it would be the wrong signal. We want to discourage spending and encourage earning and the way to do that is to switch the emphasis by reducing income taxes and raising indirect taxes. But just to get the deficit — before borrowing — clearly below 3% would be welcome and this is the time to do it.

Parsons: **What do you see as the average inflation rate (CPI) in 1990?**

Bethlehem: 13,5%.

Geldenhuys: 13,5%.

Kantor: 14%. And note that all these forecasts are for a fall in the rate, which is itself a significant change in sentiment.

Parsons: **And salaries and wages?**

Kantor: You must be consistent with your view of the economy. If you think the economy is coming off, obviously real wages will fall. If you feel the economy is not coming off, real wages will be sustained. It will depend largely on the lead the public sector gives.

Bethlehem: Real wages will be squeezed.

Parsons: **And gross domestic product growth next year?**

Bethlehem: 0%.

Geldenhuys: 1%, but GDE will fall.

Kantor: I'll go with that.

Parsons: **It is often said that politics and economics go hand-in-hand in SA. How would you evaluate De Klerk's recent political initiatives in this context?**

Geldenhuys: Encouraging. I think we'll see progress.

Kantor: He has an impressive sincerity. His role is critical. One must be so cautious of euphoria in these matters. I just hope he can maintain the momentum.

Parsons: **At the end of the day, what is the bottom line for businessmen over the next 12 months? What is your basic message?**

Geldenhuys: There are encouraging longer-term signs but 1990 will be tough.

Kantor: I expect a sideways movement with some upside which they should watch for, like the gold price and the Budget.

Bethlehem: Since F W has become president we've had the highest level of internal political activity for decades, yet we have lower anxiety than for a long time. We need to turn this around into the economic area. In 1990 we'll have toughness from the monetary and fiscal authorities, but at the same time, because of an improving general climate we'll have a greater feeling of ease on the part of the business community to take long-term decisions. ■

SA needs a macro plan and clearly defined policies

B|Day 24/11/89.

(49)

MERVYN KING, executive chairman of Consolidated Frame Textiles

THERE can be no greater constraint or restraint on commerce than to make long-term plans in an environment where politicians' plans are short term.

Fiscal discipline should be directed at achieving conservative government expenditure and taxation, and a budget deficit before borrowing that does not exceed the reasonably expected growth rate of an economy. It follows that government should be disciplined not to overspend because, if it does not do so, it will not be required to overtax the economy.

In SA, government expenditure as a percentage of total GDP has risen from the more or less constant level of 22% sustained in the 1970s to 27,3% in 1988/89. The deficit before borrowing has risen strongly in the 1980s, both in total and as a percentage of GDP.

I suggest that monetary and fiscal policies — or the lack thereof — have suffered from the basic problem of having or trying to have multi-dimensional objectives. The long-term vision should be macro in form, such as reducing government's share in the resources of the economy.

But can such a macro objective be carried out in the long term by exercising monetary and fiscal disciplines?

It was generally accepted that long-term economic management was not possible in a democracy because of the political cycles. To win, politicians had to change necessary but politically unpopular economic policies. Margaret Thatcher destroyed that theory.

The Minister of Finance recently said government's "primary concern should be sound economic policy and not election popularity".

Economic policy is now a political issue in SA. That a long-term economic plan, which wins political popularity, can be carried out has been proved by the Iron Lady herself.

I accept that Thatcherism appears to be on the retreat in Britain. Some commentators say this is the result of her "Iron Lady" qualities, but the reason may well be that Britain's economy is not growing as fast as it did in her first decade, and inflation is now at 6,5% compared with France's 3,2% and Italy's 5,9%.

Notwithstanding the apparent present retreat, Thatcher did in fact force the Labourites to change their economic policies; did oust socialism; did bring inflation down from 24% to 4%, and did cut government expenditure.

The reason for the present setbacks is that the European trend is towards the freemarket approach — but ensuring by interventionist means that "the people" do not suffer from inadequate pensions, inadequate health care, and so on. In Britain popular opinion is that priority should be given to health care, adequate pensions, better education, etc, rather than further tax cuts.

The lessons being learned in Britain are that everything cannot simply be left to the markets, that not everything public is bad and everything private good. This is an important lesson for the future SA.

Notwithstanding the wisdom of hindsight in looking at Thatcher's policies, it is the Thatcher approach which we need in our monetary and fiscal policies.

When she came to power the Labour government had failed to close the growing gap between lagging productivity and spiralling wages (a chilling similarity). This gap and excessive government expenditure fed ever increasing inflation (again a chilling similarity). During the first year of her premiership inflation peaked at 24%.

☐ KING . . . "to lead by example"

Her long-term economic policy was a macro one — namely to reduce the state's share of the economy. Her policy included a mixture of monetary and fiscal measures and she carried them out with fierce determination. So, her approach was to formulate a macro plan and to carry it out with determination.

In carrying out her macro plan she specifically cut tax rates. By 1982 inflation was back to 10% and it reached a low of 3,7% in May 1983.

She also "put Britain up for sale" through privatisation. The British socialist householder became the British capitalist shareholder in the country's largest industries.

The privatisation revolution started in Britain has become the greatest of the great revolutions, having spread faster than the industrial or Christian revolution. Thatcher has also created conditions conducive to growth and employment by removing regulations and controls and allowing markets to work better. Deregulation is needed more urgently in our economy than privatisation.

The private sector in Britain flourished because it could do some long-term planning within the framework of a macro plan, with definitive long-term monetary and fiscal policies.

No long-term planning can be done by the private sector with any confidence in an economy buffeted by vacillating monetary and fiscal movements.

The private business sector in SA needs a macro plan with defined monetary and fiscal policies and long-term objectives so that the private sector can plan with a reasonable degree of certainty.

What happened in May this year was also a good example of short-term planning. Shortly after the Budget, and in an attempt to cool down the economy and curb imports, interest rates were increased, a 10% loan levy on company tax was imposed and increased deposits and shorter repayment terms in hire-purchase agreements were promulgated.

A leader should lead by example. Can government expect the public to cut back on spending when the state lives beyond its means?

High tax rates, inflation and political uncertainty motivate the consumer to spend. Personal savings have, in any event, fallen in direct proportion to the increase in personal taxes.

The crucial question is whether the constraints on private sector spending will have any impact if they are not accompanied by curbs on public sector spending. The answer must be in the negative. An increase in interest rates alone will not correct the ills of inflation. There has to be a corresponding cut in government expenditure.

The other concern for the private sector is, of course, that the political situation has resulted in a complete lack of foreign investor confidence in SA. It is a sobering thought that the 1989 country credit ratings put SA at No 55 between the Cameroons and Trinidad and Tobago. Venezuela, Colombia and Algeria are given a higher rating than SA.

The decline in our GDP and our political problems explain why SA has been relegated to the lower-middle income group of countries.

While in the last decade the men from the Treasury and the Reserve Bank might have known the route and direction that had to be taken, the politicians kept on building detours for them. It must also be said, however, that our new State President has acknowledged that economic prudence and success is needed to underpin political change.

Are the monetary and fiscal policy-makers and the political policy-makers at last dancing to the same tune? I am starting to believe they are.

To sum up, the specific targets of a macro plan should be a reduction in government expenditure, deregulation of the economy, limitations of money supply and a reduction in the tax burden.

If Britain and America can do it, so can we.

☐ **This is an edited extract from an address yesterday to the Johannesburg Banking in the 1990s seminar.**

LETTERS

BDay 24/11/89

(49)

SA prosperity vanishing — CSIR

EDWARD WEST

TO KEEP up with world standards, more money needed to be invested in research and development (R & D) and research equipment infrastructure was crumbling, the CSIR's Foundation for Research and Development found in a recent study.

The report said SA's unchallenged wealth and prosperity were vanishing gradually, and its rich natural endowment and cheap labour were no longer the ingredients of economic prosperity for the country.

Internalised markets and increased investment in R & D by SA's competitors were dimishing SA's competitive edge. The export of primary products could no longer support the economy.

Producers of primary commodities had to produce 40% more in 1986 than in 1900 to buy the same quantity of manufactured goods.

SA's BoP was increasingly strained by high and medium technology deficits. During 1987, the deficit in high and medium technology was nearly R10bn, more than 6% of the GDP.

Productivity, which depended on R & D, had to be improved. In recent years SA's productivity increases averaged a scant 1,1% while countries once in lower levels of development were doing four to six times better, the report said.

Australian researchers were endowed with 50% more funds than South African researchers while Canadians received seven times as much. Only 18% of research equipment at universities could be considered up-to-date.

CSIR president Chris Garbers said yesterday the R & D funding mechanism for universities had as yet not been fully implemented, even though these funds had been increased by around 250% in the past few years.

Universities needed to be maintained as centres of excellence, especially considering government rationalisation of spending which had placed universities under pressure.

The R & D Foundation report added it was not surprising so many scientists left SA for greener pastures. More than 20 000 residents left the country permanently each year, a large proportion of whom took skills abroad.

National Productivity Institute (NPI) director for industries Jan Boer supported the view that not enough was invested in R & D. Industrialists often purchased technology overseas not suited to SA conditions.

Private businesses and government should work together on R & D programs, ensuring a focussed program which could be practically applied, said Boer.

Science and engineering were SA's only hopes to meet the challenges of international competition, the R & D Foundation report found.

(49) B.day 20/11/89

Study puts SA informal sector at 30% of GNP

Business Day Reporter

THE total informal sector in SA now comprises 30% of the economy and is growing at an uncontrolled rate, according to a study by the London-based Research Support and Marketing.

Author of the study, Tony Beaumont, says all official statistics, by definition, relate to the First World, formal sector of the economy.

"Alongside this is a more or less healthy, informal Third World sector in which no records are kept and on which few authoritative estimates are available.

"A considerable amount of moonlighting by over-committed whites also takes place, and is not declarable for tax purposes, so it debatably belongs to the informal sector which, by definition, is poorly defined."

However, black unemployment is high, he says, with estimates ranging up to 40% of the would-be active adult population, which encourages a great deal of informal initiative.

"Recent estimates by the SBDC suggest that 3,5-million to 4-million jobs are now provided by the informal sector, which soaks up 40% of all job hunters and accounts for 30% of the GNP, making a mockery of official statistics."

The study says growth is not occurring in the First World white-controlled sector where it can be measured and taxed by Pretoria, but the extent of informal activity makes nonsense of statistics.

He says government has lost control of the economy to a certain extent. It is the First World sector which is inside the government tax net which is not growing sufficiently.

Confidence

"It is profitable enough, but the well run companies are in a defensive mode, growing only sufficiently to match or exceed inflation, unless it is by acquisition or export-led growth resulting, not from improved efficiency, but from the weakening currency."

Beaumont says SA industry has simply lost all confidence in the status quo since the Rubicon speech of 1985. It was industry which led the trek to Lusaka to open discussion with the banned ANC.

The role of business as an agent in change is critical, given the debate surrounding black attitudes to free enterprise, the impact of sanctions and the concern of many South Africans to promote peaceful co-existence and improving standards of living after the change.

"It is only with the imposition of sanctions and disinvestment that government has, belatedly, begun to invite commerce and industry to express an opinion on national policy matters, and the invitation is largely restricted to the economic sphere.

"Industrial leaders opinions are, almost without exception, reformist, not because they are notably liberal, but because no other course promises sufficient stability for them to make decisions with confidence for the longer term. As a result industry is taking at last covert political initiatives way beyond its designated role."

Beaumont says free enterprise, and especially big business, wants to be part of the new dispensation in SA — "so much so that it is probably prepared to bankroll the change and finance the new society to an extent that blacks would be well advised to listen to.

"If the well-being of black South Africans is more important than political posturing, they will certainly do better to accept the participation rather than insist on the nationalisation of such enterprises as Anglo," the study says.

The Star
Finance

Star 20/11/89

Economy still under foreign debt pressure

W9

CAPE TOWN — Sanlam estimates that South Africa will in 1989 have a surplus of about R4 billion on the current account of its balance of payments, but that on average R5 billion per year will be required over the next four years to repay foreign debt.

The company's chief economist, Johan Louw, says in the latest *Economnic Survey* that although the rescheduling of South Africa's foreign debt will relieve immediate pressure on the balance of payments, it is clear that it will remain under considerable pressure.

This will place a serious damper on growth potential unless a considerable part of the foreign debt can be rolled over.

The current favourable tendency in South Africa's net trade with the rest of the world should result in the growth rate exceeding two percent this year.

As regards 1990, Sanlam expects that economic activity will decelerate at a considerably faster rate.

Real private consumption expenditure should grow at a noticeably slower rate than in 1989.

Real fixed investment by the private sector should also decline in 1990 — after rising by more than 25 percent in the past three years.

For the year as a whole Sanlam also expects a marked depletion of total real inventories.

"All in all, we estimate that real gross domestic expenditure in 1990 will be about 1,8 percent lower than in 1989.

"A relatively sharp decline in the volume of imports and a continued rise in exports will nonetheless result in the gross domestic product being about one percent higher in 1990 than in 1989," says Mr Louw.

While the inflation rate for 1989 should be roughly 14,8 percent, against 12,9 percent in 1988, Sanlam expects that various factors will continue to exercise considerable upward pressure on the inflation rate in the first half of 1990.

"Furthermore, although we believe that food prices will continue to rise more slowly than the average inflation rate for the great part of 1990, the increases will be larger than in recent times and will therefore place more pressure on the total inflation rate.

"The effect of most of these factors should decline significantly later in 1990, leading to a reduction in the inflation rate. For 1990 we foresee an average inflation rate of about 14,5 percent," says Mr Louw.

The process of privatisation and continued deregulation will support this tendency.

At the same time it must be realised that certain factors in the SA economy make a substantial reduction of the inflation rate a formidable task and that efforts in this regard can succeed only if both the public and private sectors give their full co-operation.

He concludes that the tempo of economic expansion will slow down considerably in 1990. — Sapa

B/Day 16/11/89

49

SA 'losing that economic war'

Business Day Reporter

IN SPITE of denials by government, SA is in the process of losing the economic war declared on the country by the international community.

According to a report published by London-based Research Support and Marketing group, SA's weakened economy has become extremely sensitive to political decisions with no "fat" to act as a buffer against more international sanctions — particularly financial pressures.

The comprehensive 250-page report says a new political framework has become paramount in preventing a continued slide into Third World economic chaos.

"By the new year it is anticipated that the world will be complaining about the obduracy of F W de Klerk — whose likely delaying tactics will be designed not to prevent reform ocurring but to secure the best bargain he can for Afrikaners," the report says.

"Meanwhile, the external pressure on SA will be mounting, including pressure for increased sanctions, which De Klerk will try to avoid by making concessions."

Entitled Industry Under Siege, the report lists recent moves made by government to lift the "externals" of apartheid, including the release of Walter Sisulu and his fellow detainees, testing the water for the release of Nelson Mandela, negotiations for the enfranchisement of the nonelectorate and the rescinding of laws guaranteeing white privilege, which have become too costly to maintain.

"The present level of sanctions is distorting the SA economy but is not as damaging, or as unwelcome to the SA authorities, as outsiders suppose.

"On the positive side it forces structural industrial changes which may be to the country's long-term benefit, causing industry to be rationalised into fewer, larger more competive production units," the report said.

This restructuring presents opportunities for foreign investors willing to take political risk on lucrative financial terms.

"Thus Taiwanese participation is under discussion for the new stainless steel project of Highveld and Samancor, in return for preferential customer treatment.

"Further foreign finance is needed for future public sector investment, and will certainly be sought for major mining investment in the nineties."

Invested

However, the report says, foreign monies will not be made available until SA has reformed sufficiently, while maintaining stability, to re-activate its economy.

The SA economy is now in a box — from which an increasing amount of "smart" money is somehow finding its way overseas. The rest is buying up foreign-owned assets in SA, or being invested in property and the JSE, the report says.

"There is insufficient industrial investment for the long-term good of the country, nor will there be sufficient until there is clear political direction which industry insists must be towards reform."

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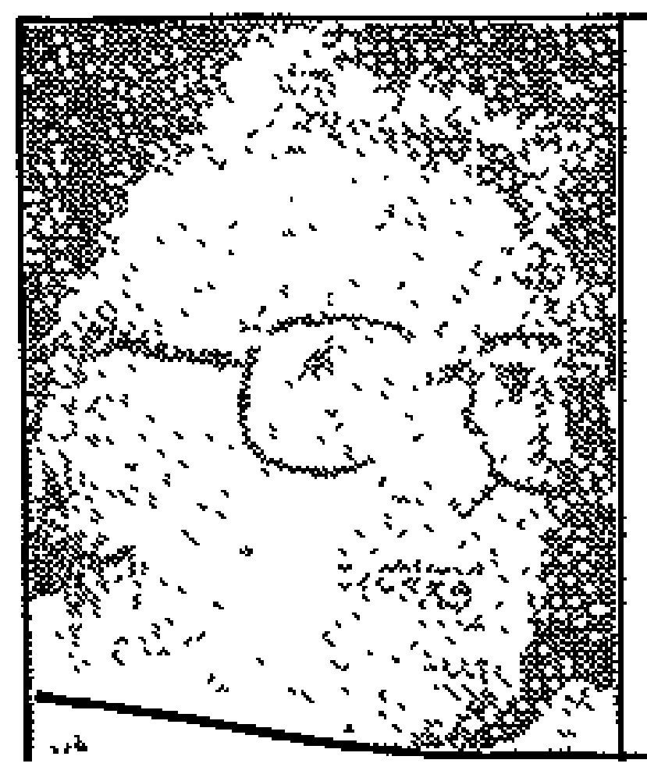
WHY economic apartheid must go . . . quickly

(49) S. Times 12/11/89



Paul Johnson

the respected British historian, concludes his assessment of South Africa

THE WORLD'S system of double standards has become much more blatant in recent years.

Three countries, Russia, China and South Africa, have begun the difficult and painful process of retreating from the ideological blind alleys in which they found themselves. The world's response to these three has been very different.

China, which entered the process first by seeking to liberalise its economy, was greeted like a returning prodigal.

Investors and businessmen, government delegations and experts poured in from all quarters. Credits were extended and technical agreements negotiated in endless profusion. There were prime ministerial, presidential and even royal visits without number. All this, without any solid evidence that the essentials of China's totalitarian system were being changed at all.

What happened in Tiananmen Square in the early summer of this year came as a shock. For a time the policy of the open hand had been suspended.

Faced with the wicked enormity of the response of China's rulers to the plea for democracy, the West's liberal societies had no alternative but to stop most visits and even to talk of economic sanctions.

But little has actually been done to enforce this disapproval. China continues to receive even military supplies from Western countries. The United Nations has done nothing at all.

Sympathy

For most countries which trade with China, it is "business as usual" The moment China's rulers make a liberal gesture or two, Western liberal opinion will be satisfied and even the symbolic gestures of censure will be dropped.

With Soviet Russia's policies of glasnost and perestroika there has been no such incident as the Peking Massacre to interrupt the smooth flow of assistance, credits, approval and sympathy with which the West has greeted the Russian regime's efforts to reform itself.

Almost from the start, Mikhail Gorbachev's good faith has been accepted, his sincerity applauded and his efforts to change Russia given the widest publicity in the Western media.

Statesmen, churchmen, journalists and businessmen have given him every possible benefit of the doubt and the most generous measures of practical assistance, both economic and political.

He has run into all kinds of difficulties but these have been mainly domestic, springing from the inherent difficulties of his task.

From the outside world he has received nothing but help. No opportunity has been taken by the West to exploit the internal conflict of nationalities which have now become a feature of the hitherto monolithic Soviet empire. We have been good neighbours.

Contrast this with the world's response to the beginning of change in South Africa.

Many countries, under United Nations auspices, have been applying sanctions to South Africa for the best part of a generation, beginning with bans on the sale of arms and oil cidentally, a low-cost coal export industry.

Not only did sanctions fail; they were counter-productive. Even the latest form of economic pressure — disinvestment — enforced in the United States with some vigour, has had a mixed effect.

If, on the one hand, some big US and British firms have sold out and left, and investment capital is harder to come by, on the other hand, large and valuable businesses have passed into South African hands at bargain prices.

It is probably too soon to calculate the net effect, but it is worth noting that there is no instance in history of capital failing to make itself available if the opportunities for profit-making are good enough.

If the flow of capital to South Africa dries up — and there is no sign of this happening so far — that will be because of the destructive economic policies of the South African Government itself rather than the efforts of the anti-apartheid lobby overseas.

Convince

There is then no evidence that sanctions have worked. The desire of white South Africa to change itself, reflected in the reformist policies of the Government, springs from quite other causes — a process of political self-education among large numbers of ordinary people, a growing realism about the way the world is heading at the end of the 20th century, a change of head and, equally if not more important, a change of heart.

This slow transformation has been going on for a number of years now and is gathering pace — as is plainly evident to outsiders like myself who come here often. It spectacle of the world's largest and richest nation conducting a positive assault on the economy of what, after all, remains in many respects a Third World country.

It is a distasteful spectacle but it is also profoundly illogical, especially compared with the world's attitude to Russia.

In Russia, the more positive changes Gorbachev makes the more the world helps him because, so the argument runs, this will encourage him to move even faster towards liberal democracy.

With South Africa the argument is reversed. If President F W de Klerk takes steps to dismantle apartheid, it is asserted all that proves is that economic warfare works and should be stepped up to force him into yet more concessions.

The possibility that President De Klerk, or white South African opinion generally, favours change on its merits — a possibility suggested by the trend of all recent election results — is not even considered.

Also dismissed from consideration are the views of South African blacks. The Gallup Poll published in May this year showed that 82 percent of blacks oppose sanctions and 85 percent disinvestment.

But most leaders and US congressmen prefer to believe that they know better than South Africa's blacks what is in their interests.

I do not share the view that South Africa faces a violent catastrophe sooner or later. I believe strongly that it can progress slowly but surely, and by peaceful means, towards a society in which all races co-operate in sharing economic prosperity and political power, cause there is no provision for such a natural process, whereby the ability of the capitalist economy to accelerate the creation of wealth and widen its distribution is periodically reflected in a wider suffrage.

A political constitution based on race makes this benign and peaceful process impossible. Apartheid also inhibits the working of the capitalist economy and slows down the process whereby wealth is increased and spread more widely.

Aspirations

If, as I suggest, the economic aspirations of blacks are tackled first by dismantling apartheid restrictions, and blacks begin to participate fully in the workings and rewards of South African capitalism, it will become possible safely to extend the suffrage too.

Indeed, if economic apartheid disappears, political apartheid must follow suit eventually. But this can be a gradual process.

Apart from its other defects, South Africa's political system has too narrow an electoral base. The Cape coloureds and the Indians should never have been excluded and these historic errors should be remedied with all deliberate speed.

But it is more important still to begin soon the process of incorporating a significant section of blacks on the electoral rolls.

South Africa's political way ahead, it seems to me, does not lie with federalism, schemes of partition or absolutist plans to introduce universal suffrage rapidly — these solutions would raise more problems than they solve.

It lies, rather, in following the pattern set by the first democracies in the United States and Britain during the 19th century — that is tying the right to vote to property and education.

South Africa already possesses a growing black middle class. It has the economic means to accelerate the expansion of the class — which the end of economic apartheid will do of itself — and it should consider adopting political means to incorporate that class in the voting process as expeditiously as possible.

Looking back on it historically, democracy took peaceful root in the great Anglo-Saxon countries because their ruling class had the sense, in time, to share its power with the middle class.

This power sharing not only helped to legitimise and consolidate the system but also smoothed the way to a peaceful sharing of power, in time, with the working class. A pacific and constitutional solution to South Africa's problem depends essentially on the skill, speed and thoroughness with which the black middle class can be brought into the ruling structure.

If this can be done within the next decade everything else is possible, indeed may well prove easier than anyone at this stage imagines.

Some changes are required to stimulate middle-class black leadership. That is why I stress how vital it is to dismantle economic apartheid quickly.

Expanded

Upwardly mobile blacks must, for instance, be allowed to move out of the townships into secure residential areas so they can express their views in safety. And it is equally important for the ablest blacks to take their rightful places, and be seen publicly to take them, at the summits of the business and professional pyramids.

But as these cases occur, it is essential that work begin on introducing a system of qualified votes as well.

As educated and property-owning blacks come in out of the cold within South Africa, so South Africa will come in out of the cold in the wider world.

That, in turn, should benefit its economy and so the expansion of the black middle class, which is the key to the whole political future.

The process whereby the suffrage was expanded in America and Britain was never governed by timetables: Each step was regarded as sufficient unto itself at the time. The growth of democracy never conformed to some master plan decided in advance. It was natural, organic and relatively slow.

In Britain, for instance, it took place over the course of an entire century, from 1832 to 1929. In the US it was not much less. In South Africa's case I doubt if it will be possible, and I am sure it will not be wise, to introduce multiracial power-sharing over less than a generation, perhaps two.

But the most valuable things in life are always worth waiting for. Scores of African states were encouraged to be impatient and their peoples have ended up with nothing worth having. A slow, possibly even a very slow, gestation process for South African economic and political democracy will be justified if, at the end of it all, the country is prosperous, cohesive, law-abiding, stable and secure, and its institutions function as designed.

Sacrifice

Then South Africa will not merely ensure its own peaceful and democratic future but will serve as a beacon and an example for the rest of the African continent. We may not see this happy outcome but our children probably will, and certainly our grandchildren.

We must not expect progress to be steady, consistent and easy. History teaches that the process of peaceful power-sharing proceeds by sudden leaps and slow shuffles, often taking a step or two backwards. Those who direct it are often forced to sacrifice logic and truth-speaking and employ deceit.

Among those who direct it, a skill in deviousness is by no means the least of the qualities required. A man in the position of President De Klerk must sometimes speak different languages to different sections of the nation — and yet another to the outside world.

The important thing is to have a coherent, workable, long-term strategy and the patience to pursue it through all the difficulties.

I believe such a strategy can exist and will work if I am right, what a prize awaits this country at the end of it all!

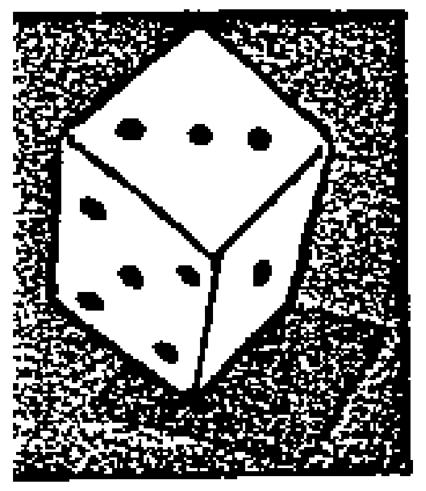
☐ *From an address to the Institute of Personnel Management conference at Sun City*

(19) 3/11/89

ROSPECTS FOR GROWTH

Looking beyond 1990

There are signs that the tough economic lessons of the decade have sunk home



Watching the implementation of economic policy in this country has for some time been rather like being a spectator at a game of snakes and ladders, where the players never had a chance of getting home. Those in the Treasury and in Church Square knew which way to go. But the politicians up at the Union Buildings were sure as hell not going to let them arrive

All that could be on the point of change. New State President F W de Klerk has constantly returned in recent speeches to the need for economic prosperity to underpin political change. He did so again last week at the *FM*'s annual investment conference, after having raised the question at two important regional NP congresses.

Early in the week the Cabinet met — on what reports described as a "retreat" — specifically to discuss economic matters

Reserve Bank Governor Chris Stals has reinforced his earlier tough statements on curbing inflation and signs in the money markets are that interest rates are being allowed to rise

The need to curb inflation was a recurring theme at the *FM*'s conference. It was first raised by the State President himself and by the governor. The debilitating impact on investment of a constantly rising general price level was candidly explained by stockbroker Ivor Jones and condemned for the social distress it causes by Chief Rabbi Harris.

Clearly, there is in the De Klerk Cabinet a sharper appreciation of the grave consequences of allowing double digit inflation to persist for close to 20 years now. Moreover, the speed with which De Klerk has acted diplomatically, by freeing top security prisoners and by drawing the sting from black public protests, gives him heightened credibility among businessmen. That, with his persuasive personality, was the reason for the standing ovation given to him by the 400 delegates at this year's *FM* Investment Conference.

To a lesser degree, the same applies to the monetary attitude taken by the governor He has spoken firmly, acted decisively, and has the advantage of support from a Cabinet that has a better understanding of economic imperatives.

Essentially, De Klerk promised to stabilise prices, reduce government spending and the public sector and continue to privatise and deregulate It is not that the promises are new. It is the president's willingness to face the political consequences of tackling these difficult tasks — and to persuade his political constituencies of the need for the hardship that is inevitable — that accounts for his high credibility

The first and most urgent step to reduce inflation and restore prosperity is for government to curb its own spending and reduce the size of the civil service. Until that happens, the only constraint on excess aggregate demand is high real interest rates. Inflation is caused substantially by the economy's inability to meet that demand, resulting in prices rising for what is available.

The longer it takes government to curb its fiscal profligacy, the longer high real interest rates will hurt businessmen and the homeowner. They deserve every bit of sympathy. Home loan instalments have risen by 50% over about four years and they are likely to go higher still. Some small businesses will not survive.

If government is to be successful in disciplining itself, it will have to face some economic perceptions which have clear political consequences.

The first is that, if inflation is brought under control by reducing aggregate domestic demand, so many blacks will be out of work that violence is the likely outcome — especially in view of the absence of a safety net of social security.

That is a widely held view, prevalent in the Economic Advisory Council, which has been, in its reconstruction, denuded of professional economists. There is nothing amiss with the logic But what must be kept in mind is that, allowed to perpetuate, the consequences will not disappear, they will just get worse.

By avoiding its own fiscal discipline and countenancing inflation, government is pushing the cost of keeping unrest down on to the shoulders of that section of the community that can least afford it or protect itself from it — the elderly of all races who try to live on savings, fixed incomes and pensions. The cost of creating jobs for young blacks to avoid unrest is being borne by pensioners, widows and orphans. They are paying the price of apartheid. That is morally reprehensible.

If the price of government's social policies is inevitable, then justice demands it be spread equally on all taxpayers and the only way that can be ensured is by eliminating inflation

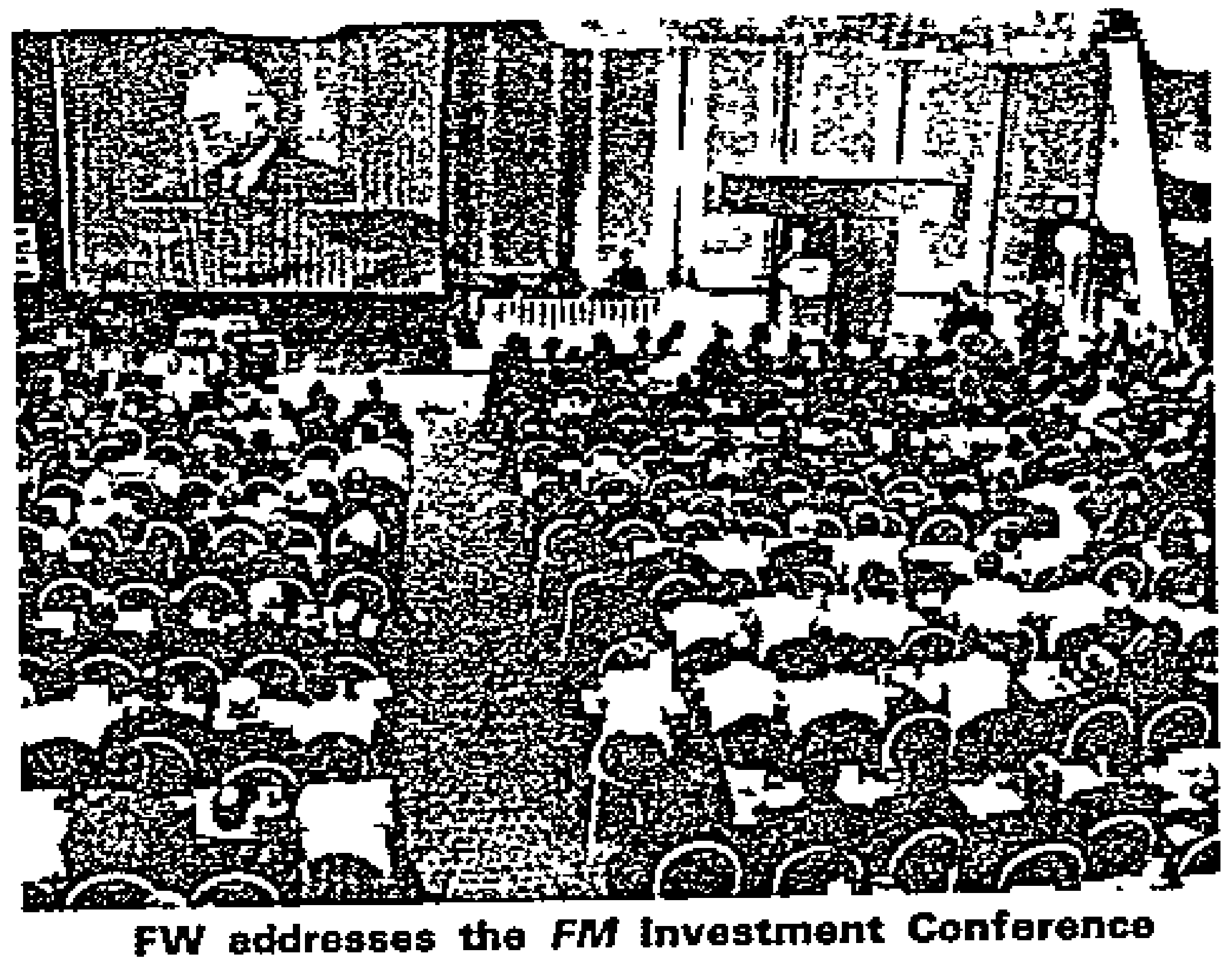
Of course, cutting government spending and the public service is no simple task — unless government uses to a much greater extent the privatisation option and changes its attitude to group rights. They are the key to fiscal discipline and their importance economically is not easily underestimated. They will require, however, as much courage and boldness.

Government's dilemma is that the majority of public servants today are teachers. Reducing their number when black demands for quality education are increasing would be folly Nor would reduced education facilities be in the longer-term growth interests of the country

The answer, therefore, is first to unify education under one government department instead of 14 — 10 education departments for each of the homelands, as well as those of whites, blacks, coloureds and Indians Not only would this be economical, it would go a long way to removing black perceptions that their education is inferior to that of whites.

Secondly, schemes should be devised to enable communities or churches to acquire government schools and run them as private or semi-private institutions. This could be done on a leasehold basis or some other method which would allow ownership of property and valuable fixed assets to pass into community hands.

But it is not education alone that has been distorted by the effects of apartheid· in an inaugural lecture in 1987, UCT sociologist Michael Savage estimated that expenditure from the State Revenue Account of 1985/1986 "on items in the implementation of apartheid" amounted to somewhere between R2,9bn and R5,7bn.



FW addresses the *FM* Investment Conference

(49) 3/11/89.

Says Savage: "At a conservative estimate (somewhere between these two amounts), some 12c out of every R1 spent by the State that year was directed towards maintaining and enforcing segregation, in imposing apartheid programmes and on policing and guarding the system."

Wastage, he says, "is most apparent at the apex of the apartheid state where a complex and intricate network of legislative machinery has given birth to 13 houses of parliament or legislative assemblies, as well as a President's Council, together with 151 government departments and 121 ministers of government."

Indirect costs, of course, are unquantifiable. But the US$11bn net capital loss to the country in 1985-1988 is something to start with.

In terms of opportunities forgone, Savage says these in any given year amount to about 1,5% of growth in GDP. "During the period 1980-1985, instead of GDP increasing by 1,1% a year it would have increased by 3,6% a year."

No one expects government to throw thousands of public servants on to the labour market to achieve its privatisation purpose. So the process of deregulation needs to be accelerated, especially so far as provincial and municipal regulation is concerned.

Experience in Britain has shown that not only does this promote economic activity, it also recreates opportunities which collectivist regulation had destroyed. For instance, new forms of sophisticated domestic services have grown up in recent years that are attracting educated and ambitious young people

Some superfluous public servants may have to be paid to go and a logical argument could also be made for the provision of subsidies directly to the very poor, indigent and unemployed to cushion them from the harshness of a difficult — but not infinite — economic adjustment.

There is nothing wrong in that, provided the amounts are identifiable and subject to annual parliamentary approval. It is the hidden subsidy that tends to become pernicious and militates against the optimum allocation of resources.

Simply put, if government is going to cut its spending, limit its role and reduce the public service, it is also going to have to come to terms with its group rights philosophy. The early abolition of Group Areas legislation would reinforce perceptions that government is tackling fundamental economic problems with vigour and boldness.

These measures would lead to a more efficient economy and a better allocation of resources, making it easier for Pretoria to tackle inflation. They would not themselves be a substitute for the monetary discipline necessary to create stable prices.

The Reserve Bank has now to demonstrate that it can get the growth in the money supply down to at least the level of its revised targets. There is no technical problem about that. Its main difficulty is how it finances the losses arising from the provision of forward cover.

The proceeds of privatisation — especially if they are used to redeem official debt — will also have to be handled in such a way that the creation of additional credit is avoided. So the role of the Central Bank and its early response to changing fiscal and monetary circumstances is another key point in the implementation of sound economic policy.

The proactive strategy of Reserve Bank Governor Chris Stals is in itself encouraging the markets to act with care. They are anticipating that further interest rate increases are probably necessary.

In his latest *Economic Perspective*, UBS economist Hans Falkena points out: "Rough calculations show that if an average inflation rate of 16% is assumed for the next 12 months, while the real BA rate in the US remains at 4% . . . the domestic BA rate will have to be about 21% a year, implying a prime rate of some 24%. For every single percentage point below this level, approximately R400m a year will be lost on import cover alone" *(see Economy)*.

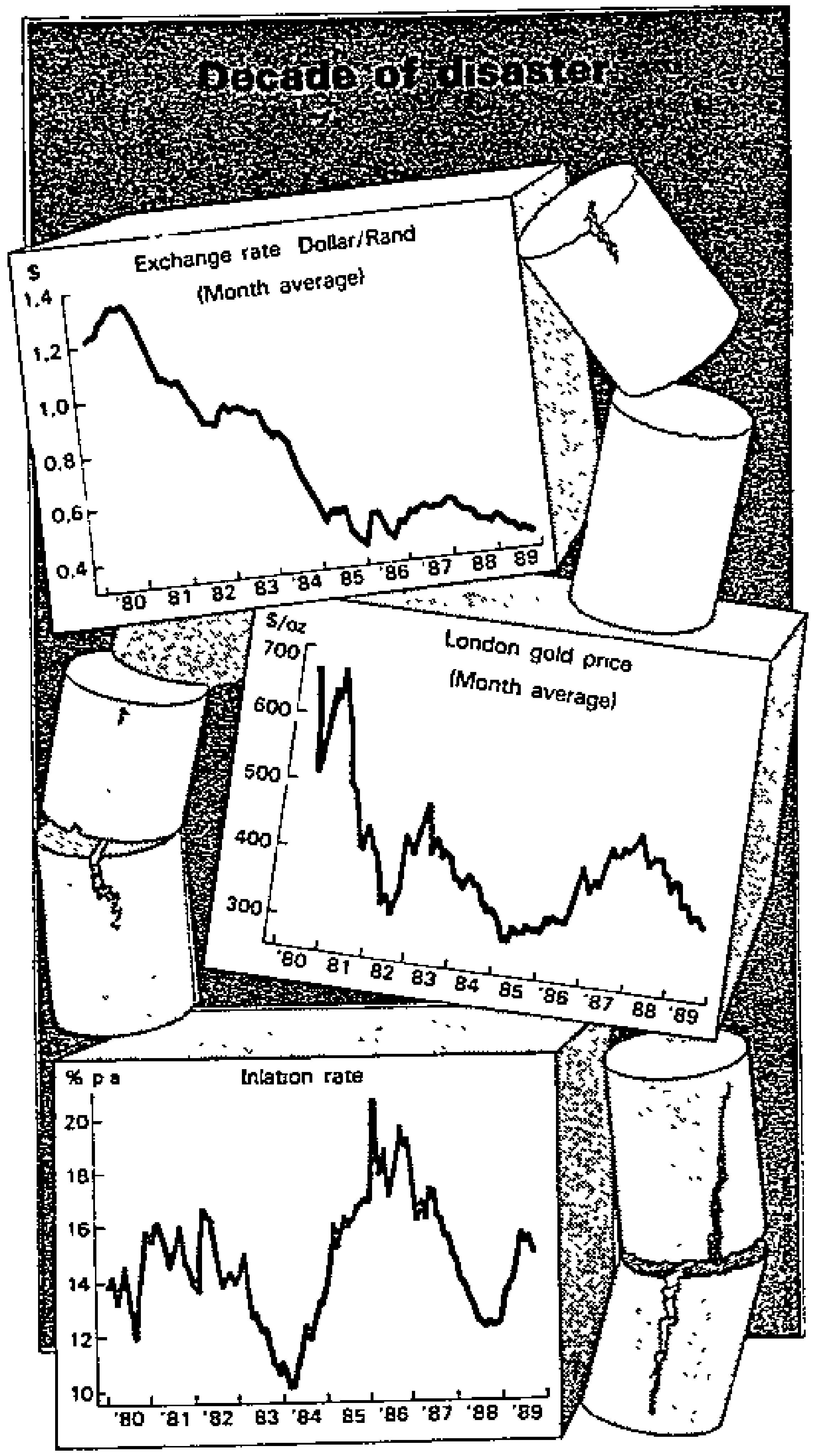
He goes on: "The benefits provided by lower inflation and a more stable currency resulting from sustained positive real interest rate levels far outweigh the possible negative influences on specific groups" He advocates instead direct and selective subsidies which would be "less costly to the Treasury than forward cover losses which effectively subsidise all imports."

There is no better example of how misguided policies can backfire than the damage caused when low or negative real interest rates are used to stimulate growth, so as to provide employment, protect the agricultural sector and generally promote social stability.

By underpricing capital, they have actually destroyed jobs — a point deputy Reserve Bank Governor Jan Lombard has made many times.

As a method of subsidising farmers they have misallocated resources and encouraged unsustainable ratios of debt which in hard times turns bad. And the uncertainty and insecurity they have engendered have been politically and economically destabilising.

Of course, we still face rampant inflation, credit sanctions and substantial huge debt repayments. But as we near the end of the decade, there is growing understanding among politicians of the dangers inherent in continued international hostility — in an economy still shackled with pointless and counterproductive laws, by-laws and regulations. If the State President is as bold in economic matters has he has been over the release of political prisoners, the prospects of a reasonably fast return to prosperity in the Nineties must be good. ■



Former SA leader PW Botha

Soviet leader Gorbachev

Blend of socialist and capitalist methods cure for Africa's poverty

(49) Sowetan 2/11/89

FOCUS

By STANLEY UYS in London

SCARCELY a week passes now without a conference being held somewhere in Europe on the "Whither South Africa" theme.

Sometimes the conferences are fruitful, sometimes not. The one I have just attended in West Germany was not merely fruitful, it was an eye-opener.

Organised by the Munich-based Institute for African and International Studies at Feldkirchen-Westerham, the conference was attended by no fewer than nine of the Soviet Union's leading Africa experts.

It was probably the biggest single gathering of Soviet Africanists outside the USSR since the "new thinking" began under Gorbachov in 1985.

They all presented papers on "Problems of Socialist Orientation and Democracy in Africa."

The other participants were mainly West Germans with a scattering from Britain, the United States, South Africa and a specialist on South Africa from the Hungarian Academy of Sciences.

Reports that it was essentially a conference between Soviet and South African participants are not correct.

If there are still any warriors of the "total onslaught" school of thought left in South Africa, they should have been at the conference. They would have discovered that if ever there were plans for a Soviet sponsored "total onslaught" against South Africa (which most analysts reject as poppycock), then the Soviet Union has withdrawn its sponsorship.

This came through powerfully at the conference: that the Soviet Union is no longer in the game of sponsoring revolution in Africa.

Revolution is no longer an affordable expense. The Soviet participants came across as detached, if not disenchanted observers of Africa.

Reconciliation, not revolution, is the password now.

Revision

The Soviet view is that socialism is still the superior system and that this is the ideal Africa should pursue. But as the leader of the Soviet delegation, Professor Gleb Staroushenko (deputy director of the Institute for African Studies of the USSR Academy of Sciences) put it, the quest in Africa now is to 'revise and even replace some of the old political and ideological tenets."

Most of the Soviet speakers took the view that achieving socialism in Africa, and this includes South Africa, will be a long march.

There are no socialist countries in Africa today, they said, only countries of socialist orientation, which is a transitional stage that could last for generations.

According to Staroushenko, a distinction should be made between political regimes in Africa and systems of economic development.

Socialist and capitalist oriented countries alike could produce either democracies or tyrannies.

Progressive evolution, to some extent, was possible along the capitalist path. Socialist oriented states could use capitalist structures. It was a matter of "yes to capitalism as an economic structure but no to capitalism as a syst-

leavers, the "most explosive" element in the situation.

In future African countries could blend socialist and capitalist methods. There was nothing wrong with this. In fact, on occasion socialist methods had even impeded Africa's development.

Socialist methods were not always necessarily the best methods, particularly in an undeveloped continent like Africa.*

Dr Leonid Fituni said the USSR had no special interests in Africa, no aspirations that were hostile to the West, and no intention of undermining the industrialised countries's historic trade links with Africa.

As for South Africa, the 'new thinking' envisaged a political, not a military, settlement there.

Grave

Prof Gleb Smirnov, head of the Africa Institute's economics department, suggested that it would take three generations for Africa to reach socialism - this would take the continent into the middle of the next century.

Africa's underdevelopment, said Smirnov, was incompatible with socialism. He did not think socialist oriented countries in Africa were any worse off than capitalist oriented ones; the whole of Africa faced a grave economic future.

This meant that the struggle between the two world economic systems, which often has threatened world peace, could be transferred from the international arena to within national boundaries.

The Soviet speakers listed some of the failures of socialism in Africa: exaggerated expectations, unrealistic targets, over-rigid centralised planning and economic stagnation in the 1980s, leading to unemployment particularly among young school-

No rift

There was no rift between the Soviet Union and the ANC as some reports had suggested, he said, but the Soviet Union was ready for wider-ranging contacts with South Africans.

If the Soviet Union thinks it will take generations to achieve socialism in Africa, including South Africa, where does this leave South Africa's black socialists?

This question was asked at the conference: "What impact have the failures of socialism, not only in Africa but throughout the 'socialist' world, had on the socialists and marxists in the ANC, PAC, Black Consciousness Movement, etc.?"

The answer seemed to be - none at all.

Their rejection of capitalism is not based on a rational costs-benefits analysis: it is predominantly an emotional response, deeply embedded in their rejection of apartheid.

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Warning sounded on economic curb overkill

W9

B Day 2/11/89

CAPE TOWN — The economy "has now reached the stage where overkill through the use of an unbalanced package of measures should be guarded against", Senbank chief economist Johann du Pisanie says in his Economic View.

"If the authorities were to persist for too long with the present restrictive monetary policy, it would lead to even higher negative growth rates in real private expenditure than have been recorded until now, less welfare per capita and further increases in unemployment. The solution to the problem is to be found in energetic discipline in state spending."

Du Pisanie says that continued restrictive monetary policy "will not necessarily improve the level of the country's foreign reserves in the short term".

"High interest rates redistribute income from net debtors to net creditors. The latter are usually in the high income group and the windfall of higher interest income could prompt greater spending on luxuries such as new cars, imported porcelain and trips abroad — which would just serve to increase imports and could thus result in a decline in the reserves.

"The pressure of higher interest rates on a net debtor's financial position could also have a perverse effect. Higher interest and therefore higher instalments on existing debt mean less disposable income for other purposes and could force him to incur more credit. Possibly he does not qualify for a further personal loan but should he buy an asset such as a car the asset will serve as security.

Own Correspondent

"Suppose the person had bought a medium-sized car about three years before. The difference between the selling price and the redemption amount would probably be more than the deposit on a new small car, and the balance could be used for other purposes.

Inflation

"Should the debtor act on these facts, the result is an increase in new car sales, in bank credit and money supply — not because the debtor refuses to curb his spending but in fact because of the strict monetary policy."

LESLEY LAMBERT reports from Cape Town that Old Mutual economist Dave Mohr says the emphasis of the recent shift in economic policy should be on curbing sharp growth in government spending.

This should be one of the first considerations when it comes to implementing the recently announced shift in monetary and fiscal policy towards the control of inflation, Mohr says in the Old Mutual's latest Economic Monitor.

While the Mutual welcomes the shift, it stresses that it should not be aimed at the short-term goal of controlling cyclical inflationary pressure, but should represent a structural adjustment aimed at combating inflation in the long run.

If long-term success is to be achieved, strict monetary control will have to be applied in the form of positive real interest rates, and strict fiscal discipline will have to be applied, especially to government spending.

President F W de Klerk's Cabinet appears to have responded to both suggestions in the past two weeks by promising strict co-ordination of short-term and long-term economic goals and strict control of spending.

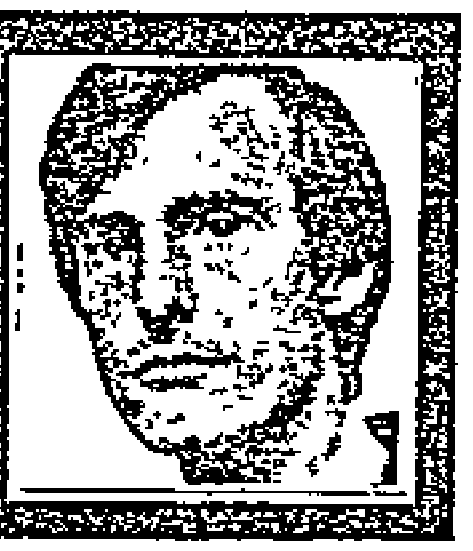
Mohr encourages the financial authorities to make the structural policy adjustments while conditions are favourable, but warns them not to allow a premature and excessive relaxation of economic policy if, and when, the economy shows clear signs of a slowdown.

It is likely that further cooling measures will be required next year, if the foreign exchange reserve position remains vulnerable and inflation continues unabated, Mohr says.

Only a 1990 recession will do the trick

REX

Cees Bruggemans reviews the local and world scene



BARELY two months into the new economic and political reign, confusion and contradiction abound to such an extent that fragile trends can easily be overlooked.

Insofar as one can believe good news, import volumes appear to have fallen steeply in August and September. The consumer-price index inflation rate marked time at 15,5% for two months before falling to 14,9% in September, the rand remained fairly stable in a R2,60 to R2,80 range, and M-3 money-supply growth tumbled again in September to 22%.

[redacted]

However, interest rates were increased by one percentage point in October, prime overdraft rising to 21%. The official explanation accompanying this Reserve Bank-induced rise was a litany of everything that is wrong with our financial position.

The announcement of the third interim arrangement, rescheduling $8-billion of our debt to foreign banks, was followed closely by an official suggestion that the outflow of capital in the next couple of years would remain burdensome.

Depending on one's sentiments, anything can be read into these developments, and by all appearances anything is being read into them. This being the fashion, one more interpretation as to where we are going would probably not do any harm.

Starting with the "good" news, import volumes are erratic from month to month. The Reserve Bank is the source of information about import volumes, but it releases such data only at the end of each quarter for the previous quarter.

We will therefore have to wait until late December to find out what happened in August. But a hint of decline is there if one translates the Customs and Excise figures into other currencies.

It is possible that this could be the start of the long-awaited fall in import volumes. However, to gain certainty on this score we need confirmation that all sectors have been reducing their spending, and especially their ordering.

On the fixed investment side, this is hardly the case. A closer look at the Reserve Bank figures for the second quarter suggests that there was an acceleration under way in private-sector spending, focusing on machinery and equipment, but with no clear sign as to sectoral spread.

This trend was borne out by import figures at the time, and by anecdotal evidence from company managements. There has been no indication so far that private fixed investment behaviour took a sudden turn for the worse in the third quarter. It may therefore be too early to interpret the volatile import figures as the start of the long-awaited downtrend.

[redacted]

It is impressive that the CPI inflation rate marked time for two months at 15,5% and then fell to 14,9%, but most of the shine was lost when Reserve Bank Governor Chris Stals picked the highest available rate handy to calculate the level of real interest rates.

By opting for the producer-price index inflation rate, which also has been steadily rising and now stands at 16,1%, Dr Stals could claim that the real interest rate on prime of 21% is "only" 3,9%, and not 4,5% as would be the case if we were to use the CPI as a reference.

The year-on-year CPI inflation rate has been out of fashion since Gerhard de Kock started to quote quarterly-annualised rates of change.

Such rates of change reflect more accurately what is happening on the margin. But they confuse many people because few seem to know the meaning of quarterly figures at annualised rates.

But generally the message got through because these changes are either high — about 18% — or fairly low, 10% to 12%, in both instances no doubt serving the intentions of the user.

However, let us not be too particular about CPI at 14,9% being a "good" performance, not while expectations continue ever so sticky at 30%.

The rand has been stable and apparently mostly by the market's own hand rather than that of the Reserve Bank. That is encouraging, but not necessarily a pointer as to what is to come because a year ago we were in exactly the same position. The Reserve Bank, by its own admission, most certainly does not have too many dollars to spare to really "protect" the currency, and that is in any case not its ultimate intention.

[redacted]

Theoretically, our currency should depreciate by at least 1% a month because of the difference between our inflation rate and those of our foreign trade partners. If the rand has not fallen for four months, we will have to catch up soon unless we want it in time to become overvalued.

If the dollar were to start weakening internationally, the rand would not have to depreciate as much against it. Unfortunately, more than 70% of our imports come from non-dollar areas, so the rand would still need to show a monthly 1% depreciation against other currencies even if it is not fashionable to measure it against them.

M-3 money-supply growth slowed to 22% in September. But quarterends always seem to be good times to show favourable money-supply performances, which may have more to do with the reporting of the banking sector than the performance of the economy.

On the other hand, lending to the private sector on a quarterly-annualised basis (sorry!) was already slowing down in the second quarter, suggesting that private borrowing is responding.

The good news about August and September, and not particularly widely reported so far, is that the forex losses of the Reserve Bank have suddenly grown quite minimally, mainly courtesy of the more stable rand.

The Reserve Bank is thus printing less money to subsidise importers. There is bound to be a follow-through into money-supply growth. Unfortunately, all of this can deteriorate again when the rand starts playing catch-up with its accumulating inflation differential.

The one piece of solid fact was that bank rate and prime both rose a percentage point, and we had better believe the litany of woe accompanying that announcement.

In property and retailing it is location, in a mugged Third World economy it is the external cash flow that is paramount.

Farce was added to insult when the new foreign debt announcement was released. Of course, the new agreement was good news. But much of the anxiety surrounding it was inappropriate because it has been evident for some time, from innumerable sources, that this was the only logical outcome.

[redacted]

After a good face was put on the numbers for domestic purposes, it suddenly became necessary to place a damper on things for the foreign audience.

The foreign banks cannot be seen to be too accommodative to this country if they are to serve us in future. Still, I think Mrs Thatcher relished news of the rescheduling taking the wind out of the sails of Commonwealth sanctioneers, especially Mr Hawke's.

So appearances continue to deceive. However, a $1,5-billion capital outflow is for real, and the domestic effects will presumably be so as well.

There will have have to be a recession next year if we are to finance such outflows, rebuild the foreign reserves and reduce money and wage growth to below 15% a year.

(49)

Deficit to be sliced to only 3% of GDP

B|Day 18/10/89

GRETA STEYN

GOVERNMENT is set to achieve a major breakthrough on fiscal policy in the current financial year, as the deficit will be slashed to almost 3% of GDP while a tight rein is kept on spending.

Finance director-general Gerhard Croeser yesterday told a panel discussion of the Institute for Business Leadership in Johannesburg surging revenue and control over spending indicated a dramatic decrease in the deficit in 1989/90.

He said current estimates showed the deficit before borrowing would fall to only R7,7bn, or 3,2% of GDP — against a budgeted R9,9bn, or 4,1% of GDP. He stressed he was using estimates based on preliminary figures.

However — if achieved — it means government has in practice attained its longer-term objective to bring the deficit down to 3% of GDP.

On spending, Croeser said: "I am confident total expenditure during 1989/90 will be very close to the Budgeted R65bn. But to play it safe, I am predicting a small overrun which could see spending in the region R65,2bn."

This overrun could be ascribed to, among other things, an overrun (R100m) on the cost of privatising Iscor. Included in the Budgeted R65bn is a R1bn contingency reserve for unforeseen expenditures.

A figure of R65,2bn in spending means an increase of 15,3% from the previous fiscal year, compared with the Budgeted 15% — by far the best performance in the past decade and a vital step towards improving credibility damaged by years of exceeding Budget estimates on spending.

The major reason for the decline in the deficit before borrowing was a tax windfall which, Croeser said, "exceeded our wildest hopes." Total revenue was expected to overrun the Budget by about R2,5bn to reach R57,5bn. (An increase of 21,2% compared with a Budgeted 16%).

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☐ From Page 1 (49)

Deficit slash

B|Day 18/10/89

The main developments on the revenue front were an expected overrun of R1bn on customs and excise and the surcharge on imports and an extra R300m from the fuel levy. Both these reflected "somewhat unsuccessful attempts to cool overheated sectors of the economy."

Added to this was an extra R800m in income tax on individuals, mainly due to an increase in the number of taxpayers, and another R200m in company tax not foreseen in the Budget. However, sales tax and gold mine revenues would be somewhat lower than budgeted.

Although a reduction in the deficit was a welcome development, Croeser expressed concern at the increase in the tax burden. The total tax burden would now be about 23,6% of GDP (budgeted: 23,3%). But in spite of his concern about the tax burden, he warned that little could be done to alleviate the problem next year.

"Keeping the deficit down will obviously limit the extent to which tax relief can be implemented in the short term. If the need to curb consumption spending next year, especially, is kept in mind, the authorities may not be able to do much more than reduce the effect of fiscal drag."

Ways would have to be found to end the practice of financing current spending with long-term loans. This was receiving special attention, and it had been decided to review the benchmark 3% of GDP for the deficit as government's capital spending was only about 2,5% of GDP.

On the spending side, economic services was the "first candidate" for cuts, since the private sector could play a role and user levies would also be implemented more widely. Candidates for a larger slice of state spending were housing, education and social services.

Zach outlines main tasks to take business into the 1990s

B Day 20/10/89

"ONE task facing business in the 1990s was to tell employees what was right and constructive about free enterprise and what was inefficient and unhelpful about socialism, DP co-leader Zach de Beer told a the SA Direct Marketing Association in Johannesburg yesterday.

The second task of business was to understand and deal with the objections to free enterprise. What might look like a socialist bias on the part of workers was often only a "fight for human dignity and human rights", using the weapon they believed they had found in their economic power.

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The third task was to make profits, for if investment was the engine of growth, profits were the fuel. — Sapa.

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'Dynamic player in building of a new SA'

Star

25\10\89

Tourism was to be a dynamic player in the building of a new South Africa, said the Minister of Trade and Industry and Tourism, Mr Kent Durr, last night in announcing the new appointments.

He said tourism could make a substantial contribution towards improving the current balance of payments.

The next six months would be a formative period when his department, the SA Tourism Board and the Board of Trade and Industry would work closely to plan the future of the industry.

"This is not a move towards central planning for the industry but a measure to provide clear guidelines and leadership as well as removing any uncertainty about the industry," said Mr Durr.

"Obstacles and bottlenecks that stunt growth must be identified and addressed immediately."

Mr Theo Behrens, chairman of the national tourism committee of the Federated Hotel, Liquor & Catering Association of SA (Fedhasa), said the new Tourism Board was a very "positive and welcome change".

"The Tourism Board always had a number of people from the private sector serving on it, but most were not active in the tourism industry.

"The new members are people who earn a living from the industry and know exactly what gaps to take in terms of marketing tourism locally and overseas."

Mr Bob Williams, managing director of Williamsworld travel agency, said:

"South Africa's tourist industry could bring in more money than the gold industry, and any new approach to tap this enormous potential is a welcome one."

Star 25/10/89

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Tourism industry gets dramatic boost

By Helen Grange

The Government has taken dramatic steps to boost South Africa's multibillion-rand tourism industry.

The appointment of a new SA Tourism Board (Satour), consisting mainly of private businessmen, was announced last night.

Mr Danie Hough, who was chairman of Satour for eight years, resigned yesterday. A spokesman for Mr Hough, who is Administrator of the Transvaal, said he no longer had time for the position.

The Minister of Trade and Industry and Tourism, Mr Kent Durr, last night said Mr Piet van Hoven, managing director of the Comair airline, would be the new chairman.

He would be assisted by 13 leading figures in the travel and tourism industry.

The number of international tourists to South Africa has boomed in the last two years after falling into the doldrums during the unrest situations of the mid-80s. Last year foreign tourists spent an estimated R2 billion in South Africa, compared with only R1 billion in 1987. And visitors are expected to spend R3 billion this year.

The new board appointments, said Mr Durr, would serve to "end any uncertainty regarding the future of the board and of the Government's attitude towards the importance of the industry".

Mr van Hoven, who has worked in the tourism industry for 20 years, said last night it was clear "the Government intends approaching tourism in a far more businesslike manner. The new board members are predominantly from the private sector."

The new appointments are Mr N de Villiers, previously managing director of Rennie's Travels and the Hertz Car Hire Group; Dr W J Pretorius, marketing and development consultant to the National Parks Board; Mr Ronnie Meyer, director-general of transport; Mr P E I Swartz, a company director involved in the hotel industry; Mr G J J Breyl, deputy director-general of the Department of Trade and Industry; Dr A Moolman, managing director of the South African Transport Services; Mr R A Camerer, an international banker; Mr Bruno Corte, managing director of Southern Sun; Mr G C Simpson, managing director of Holiday Travel and Tours Group; Mr M L P Rattray, owner of Mala Mala game lodge and Dr G M Msibi, a Soweto hotel owner and former Swaziland parliamentarian.

Two other appointments will be announced.

the crisis had been a long while in the
fundamental differences between the Prime Minis-
on key points of policy

Economy still in trouble – prof

Stals comes to the rescue

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Star 28/10/89

PATRICK LAURENCE

THE Reserve Bank Governor has got South Africa "off the hook" but the country is still in serious trouble, says Professor Sampie Terreblanche of the University of Stellenbosch.

His appraisal came as an addendum to the sighs of relief from the business establishment — and cries of anger from the extra-parliamentary opposition — which greeted the recent statement by Dr Chris Stals on South Africa's foreign debt.

The Reserve Bank Governor announced he had negotiated an extension on the repayment schedule.

Under the existing agreement, SA would have had to pay back $8 billion when it expired on June 30 next year; Dr Stals averted that crisis by negotiating a new agreement under which Pretoria would have to pay back $1,5 billion on its short-term, "in the net" debts in eight instalments between June 1990 and December 1993.

But, as Minister of Finance Mr Barend du Plessis was quick to point out, South Africa would still have to pay back $8 billion in the next four years ($1,5 billion plus $6,5 billion on long-term debts "outside the net").

The professor assessed the implications of the situation in an interview with the Saturday Star.

Since 1985, capital valued at R27,5 billion had drained out of the country: roughly half was for capital and interest repayments on the huge foreign debt, which currently stands at $20 billion; "flight capital" accounted for the second half.

Repayment of the debt had been made from surpluses on the current account of the balance of payments; very little capital was thus available to finance economic growth, a situation which exacerbated the low rate of economic growth.

Noting that the average annual rate of economic growth had been less than 2 percent since 1974, Professor Terreblanche spelt out the consequences: declining per capita income, rising unemployment and growing impoverishment.

He summed up: "After 40 years of power, the Government has lost control of the political economy."

Reversal of the situation, and a change in the direction of the flow of capital, required fundamental social and political change, he said.

But, expressing scepticism about President F W de Klerk's ability to bring about the necessary changes, Professor Terreblanche said: "It will only happen when Mandela or a Mandela turns around and tells the world: 'I am satisfied with the process. Please help us rebuild the economy'."

Anger at US banks' agreement with SA

Tough measures predicted

Cabinet in secret discussions to pep up economy

Star 31/10/89

By Peter Fabricius,
Political Correspondent

Strong medicine to cure the country's economic ills is expected to follow a special Cabinet think-tank which took place at a secret venue yesterday.

President de Klerk's office confirmed last night that the Cabinet had met outside Pretoria. It said the matters discussed would be embodied in the Cabinet's decisions as well as in the Budget for the coming financial year.

Rationalisation

A report by Minister of Administration and Privatisation Dr Wim de Villiers — laying bare the country's economic problems — is believed to have formed the basis of yesterday's talks.

It is understood the discussion centred on ways of cutting State expenditure and it is almost certain that rationalisation of the public service was one of the proposals.

This follows President Klerk's announcement last week that the Government would have to reduce the size and costs of the public service to bring down State spending.

The Government has already begun to cut back on staff at Armscor.

The parastatal arms manufacturer announced last week that up to 1 000 workers could lose their jobs when the ammunitions factory Pretoria Metal Pressings closed down as a result of the drop in demand for ammunition following the end of South Africa's fighting in Namibia and Angola.

Another Armscor ammunition-making subsidiary, Naschem, had to close its factory at Lenz near Johannesburg a few months ago.

Apart from curbing the public service, other strong economic measures were considered at yesterday's Cabinet think-tank, Government sources said.

Most ministries would say very little about the special meeting.

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Sowetan 1/11/89

Remove land Acts

Most destructive, says top industrialist

By JOSHUA RABOROKO

THE various Land Acts were the most destructive regulations that inhibited black economic advancement in South Africa, the chairman of the Free Market Foundation, Mr Michael O'Dowd, said in Johannesburg at the weekend.

In his address to the FMF annual general meeting, O'Dowd said the Land Act of 1913, the Urban Areas Act and the Group Areas Act needed to be removed for reasons of economic efficiency and for social justice.

He said deregulation, like the repeal of these land laws, was even more important than privatisation.

"Privatisation is still of utmost importance but we must deregulate if we want economic growth.

"It is by means of regulation that poor people, which means mostly black people, have been denied their proper role in the economy and this has been one of the things which have kept our rate of growth lower than it might have been," he said.

He said the deregulation which has benefited small business and the lower end of the economy had been spectacular.

The rise of the black taxi industry remained a model of what deregulation could achieve and the very considerable removal of burdens from hawkers had also had a spectacular result "but here we still have a long way to go," he said.

"The object of deregulation at this level must be that the whole of the informal sector which is morally legitimate, which means everything except real crime, should be able to become part of the mainstream economy," he said.

Markets

It should not be forgotten that racial laws that still existed in South Africa were, among other things, interventions in the economy and obstructions to the operation of the market. They needed to be removed, he said.

"A free market in fixed property is the absolute foundation of a market economy and until we have an approximation to such a market we will not have a functioning market economy.

"One point remains to be made. There are those who still cling to their outmoded socialist attempt to discredit free market ideas by saying that because the Government supports free markets, free markets are therefore part of the apartheid system.

"Those who are saying this are lying and know they are lying."

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Financial Mail

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GOLD

Don't run out all the flags

While it's too early to say gold is about to come galloping to our rescue again (see ***Markets***), clearly a higher price of gold will do the balance of payments no harm. But now more than ever we must guard against complacency.

The worst out-turn would be to treat a higher gold price as an excuse for not taking (or deferring) the basic structural economic reforms needed to shift the growth rate permanently upwards (see **Cover Story**). Alas, this has happened all too often.

It is a matter of observable fact that our underlying growth rate was at its highest while gold was relatively (or totally) price-stable. Dollar inflation of the gold price, on the other hand, has permitted profligate policies which have impoverished us all — not least, paradoxically, the gold price, as we have this decade moved from one of the world's lowest-cost gold producers into the top end of the range.

It's not necessary to believe there's a direct causal relationship between a high gold price and a low growth rate; what matters is the consequences of this coincidence.

One is the ever-increasing gold resources that are becoming uneconomic to mine. Another is the narrowing margin of profitability, and the associated sharp decline in tax paid by the industry, increasing the burden on the rest of us.

Though the gold price may move in lengthy cycles, and we may well be on the verge of a new bull phase, there is no reason to think that in the ultra-long term the gold price will increase significantly in real terms.

A depreciating rand (against the dollar) may assist gold mines short-term but it also reflects an excessive inflation rate that, in the long run, damages the gold mining industry — essentially a price-taker rather than a price-setter, as it is — just as much as, if not more, than the rest of us.

The argument that a declining rand/dollar rate benefits *all* of a gold mine's revenue but affects only *part* of its costs is, unfortunately, no longer tenable — if it ever were.

We need structural reforms regardless of what happens to the gold price. Looked at in proper perspective, a higher gold price simply gives us breathing space in which to make the necessary adjustments.

And breathing spaces, by definition, are temporary.

So if the gold price is indeed headed upwards for a while, this actually if anything increases the urgency of doing what we must. We've missed the opportunity too often in the past; this could be our last chance. ■

Stagnant economy is on the cards — BER

(49) B.Day 7/11/89

LESLEY LAMBERT

CAPE TOWN — SA's economic growth rate could grind to a halt next year as the economy enters a cyclical downturn and the effects of structural changes in personal savings and fixed investment filter through.

That is the view of Ockie Stuart, director of the Bureau for Economic Research. Speaking at a BER conference in Somerset West yesterday, Stuart said the BoP had become the major constraint on growth and would remain so as long as foreign debt was high and fixed investment and savings low. There had been a shift away from sectors which produced goods to those which sold goods or services. As a result, SA had become a nation of consumers rather than producers.

This structural change had happened at a time when the manufacturing sector should have been filling the employment gap which remained as the mining industry's contribution to the economy slowed down. Instead, the real amount invested in fixed assets or capital goods in the manufacturing sector last year was only 90% of its 1984 value.

The change from production to consumption did not imply consumers had more to spend. A reduction in taxed real income had accelerated during the second half of the eighties, making most people poorer, in real terms.

Spending on durable goods had dropped from 13,7% of total consumer spending in 1981 to 9,5% in 1988 and personal savings had shrunk, with the savings ratio currently about 1,5% and expected to slip to 0,5% next year.

Nevertheless, Stuart said, total private expenditure had increased in real terms as people relied more and more heavily on credit to maintain living standards. Many had raised living standards in anticipation of improvements in real disposable income as a result of continuing political reform.

Ironically, the net result of this had been a lowering in the average per capita living standard, an increasing burden of debt and a low savings ratio.

Bank report outlines plan to build Soweto's economy

GERALD REILLY

49

B Day
8/11/89

PRETORIA — Soweto's vast and complex socio-economic problems cannot be solved overnight and there is no simple short-term solution.

This is the clear message in a report on the sprawling city's economy and finances compiled by Development Bank of Southern Africa chief executive Simon Brand.

The report, released here yesterday, recommends a financial adjustment programme, stressing the root of the problem is Soweto's severely under-developed economy. In addition, it is denied access to income sources available to other local authorities.

Brand said at a Press conference here: "The adjustment programme is already being implemented."

He also stressed that budgetary assistance would be needed from other levels of government, including the province, on a planned basis.

He stressed the report was not a blueprint for Soweto development — it was aimed at diagnosing weaknesses caused by the council's financial predicament.

Rental arrears were only part of the problem against a background of other service arrears.

Need

Brand said: "Even if the rent boycott ended, there would still be financial problems because of Soweto's under-developed economy."

The first important overall need for Sowetans was income-earnings opportunities. The second need was for an assured and adequate revenue base. A third need was more effective local administration and urban management.

The report recommends an accelerating transfer of existing housing stock on more lenient sale conditions and repayment terms.

On transport the report says further deregulation and diversification of the system is needed to enable Sowetans to use employment opportunities elsewhere.

A multi-year financial adjustment programme should be based on full development and collection of revenue, and arrangements for the council to share in revenue raised from its spending in other local authority areas.

● **BRAND** . . . adjustment programme in operation

Consideration should also be given to privatisation of trading services, starting with electricity distribution.

The Transvaal Provincial Administration should be responsible for managing the financial adjustment programme in close consultation with the Soweto council, the Finance Department, Constitutional Development and Planning Department and the Central Witwatersrand RSC. Agreement should be reached with the Johannesburg municipality for more sharing of services.

The long-term aim should be Soweto's development as a dynamic, growing satellite city of Johannesburg with adequate internal services and jobs.

☐ Sapa reports that Brand, asked at the Press conference how Sowetans could be persuaded to pay their rents, said: "We could take some of the emotion out of the system by introducing a more scientifically based system."

He proposed separating the service charges from the flat "rent" residents were charged.

MEC Olaus van Zyl said Brand would chair the financial adjustment programme committee that would investigate means of realising the recommendations contained in the report.

Van Zyl added that the Central Witwatersrand RSC had provided R190m to Soweto during this financial year.

Sowetan 16/11/89

Apartheid to blame

BY JOSHUA RABOROKO

STATE President F W de Klerk should scrap all laws that hamper the economic development of blacks.

This was said yesterday by Professor Louise Tager, executive director of Law Review Project, when addressing more than 3 000 delegates at the Southern Africa Black Taxi Association annual conference at Sun City.

She said that apartheid was responsible for blacks being at the bottom of the pile.

Risk

Apartheid had penetrated every aspect of life in South Africa.

Tager said apartheid had created barriers between black and white businessmen.

Black entrepreneurs were disadvantaged because they were regarded as a risk by financial institutions while whites were given loans more easily.

It was only when all South Africans were subject to the same laws that it could be claimed that apartheid had died.

The regulations affecting the taxi industry frustrated many black people. It was therefore important that the Government should deregulate this industry although some form of control would be needed.

Tager said the taxi industry was not easy to run because of the deaths and violence that had plagued it for a number of years.

Sabta's president James Ngcoya said the taxi industry was plagued by many problems. He said safety was of paramount importance.

He said deregulation had also created problems because there were many new entrants into the market.

SA debt peaks in 1990 but payments won't ease up

(49) Wmail

By HILARY JOFFE

DESPITE the recently negotiated Third Interim Debt Arrangement, South Africa faces substantial debt repayment commitments and continuing strain on the balance of payments for much of the 1990s.

Foreign debt repayments are due to peak next year, when the country may have to pay over $3-billion, according to official figures. And the figures indicate foreign debt repayments from 1992 through to 1998 will be at a sustained level of between $1-billion and $1,5-billion.

But in the latest *Nedbank Guide to the Economy*, Nedcor economist Edward Osborn estimates the "bunching" of debt repayments will be lower in 1990 but higher through the decade. To the extent that repayments due next year and in 1991 are spread into later years, debt payments through to 1998 are likely to average between $1,5-billion and $2-billion a year, on his figures.

This means South Africa will probably have to generate surpluses on the current account of the balance of payments of $2-billion to $2,5-billion annually — and monetary and fiscal policy will have to remain stringent, according to Osborn.

The Nedcor Group Economic Unit has tried to put together a comprehensive picture of South Africa's foreign debt profile, since the financial authorities seldom give detailed figures.

At the end of last year, debt "outside the net" of the interim agreement with foreign creditors included $7,5-billion of public sector debt and $2,5-billion of converted debt — that is, taken out of the ambit of the agreement with foreign creditors and rescheduled for 10 years. Total foreign debt, including that "inside the net" was $21,2-billion.

But it is the public sector debt "outside the net" which is the problem, because much of it is due to be redeemed in the years 1989 through to 1991.

It is not clear precisely when such debts become due but latest government figures suggest a huge payments obligation in the second quarter of next year — of $2,5-billion — including debt "inside and outside the net". This is because of an extraordinary amount of $2,3-billion due to be paid in that quarter.

$ million	State redemption schedules 1st	2nd	Nedcor Group Economic Unit estimates
1989	752	733	931
1990	1 711	3 138	2 705
1991	2 161	1 043	893
1992	805	733	735
1993	456	611	576
1994	150	300	267
1995	144	250	317
1996	35	161	257
1997	18	131	288
1998	21	49	227
1999	6	12	256
2000	6	–	–
Totals	6 265	7 161	7 452

Three estimates of what South Africa will be paying to the year 2000: government schedules of September 1988 and 1989 and Nedcor's figures

But, says Osborn, "This clearly will not — and cannot be allowed to — occur because of the rollovers and refinancing of public debt that will have been arranged."

The Nedcor estimates show a peak in repayments next year followed by roughly equal totals due each year until 1997, after which the amounts start to decline.

From 1993 to 1999 there will be substantial payments due on debt converted to 10-year loans in terms of the "exit clause" contained in the interim debt arrangements with foreign creditors, but payments due on public debt will decline.

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Cape Times 14/11/89

Scant growth from metals

JOHANNESBURG. — Little if any growth in the metal industries is expected next year and the future after 1990 is very uncertain said outgoing Seifsa president Willem van Wyk in his presidential address yesterday.

He stated a modest fall off in demand was experienced in the first half of 1989, mainly as a result of the austerity measures introduced by government.

He said turnovers for the year as a whole were expected to top R40bn (R36bn). Production volumes were expected to increase by between 2 to 3%.

Van Wyk said: "However, the recent measures taken to curb imports and dampen consumer demand signal little or no growth during 1990 and the prospects beyond 1990 are very uncertain. The imposition of a 15% surcharge on imported capital equipment has put many planned capital projects in jeopardy and will inhibit future expansion of production capacity."

Van Wyk went on to state: "Government priorities at the moment appear at the moment apprear to be focused largely on protecting the BoP rather than promoting economic growth. It is alarming to consider that annual growth rate of even 2% cannot be sustained because the pressure such growth puts on the BoP."

Van Wyk added: "Of particular concern has been the unnecessary removal of exemptions of the import surcharge on capital equipment and components. Seifsa and the FCI have argued that the surcharge will only serve to inhibit capital investment which is sorely required if SA is to fulfil its need for increased economic growth, exports and employment.

"Most capital equipment currently being imported regardless of cost cannot be sourced or manufactured locally. The surcharge will therefore not offer any saving to the BoP and will only be inflationary," said Van Wyk.

● Dorbyl's Dawid Mostert was elected as Seifsa president for the coming year. — Own Correspondent and Sapa

NGK raps Boesak on sanctions call

Argus 15/11/89 (48)

JOHANNESBURG. — The NG Kerk has strongly criticised the moderator of the Sendingkerk, Dr Alan Boesak, for calling for intensified sanctions against South Africa.

In an editorial in its publicationthe church said it found Dr Boesak's actions unacceptable and said the matter would have to be discussed in depth during any future contact between the two churches.

Meanwhile, the NG Kerk has urgently called on President De Klerk to consider reprieving security prisoners who have been sentenced to death.

In Die Kerkbode the church said it did not want to imply the death sentence was unbiblical, but it wished to plead for clemency in the light of the situation in South Africa.

The church asked the government to give immediate and serious attention to the matter. — Sapa.

Sowetan 15/11/89

SOWETAN Wednesda

Hard times ahead

THE declining economy and sanctions will make it difficult for the metal industry's employers to grant future wage increases similar to those negotiated in the sector this year.

By LEN MASEKO

This was said by Mr Willem van Wyk, president of the Steel and Engineering Industries Federation of SA (Seifsa), when addressing the employer body's annual general meeting in Johannesburg this week.

Seifsa and the 14 unions which are part of the industrial council reached agreement on pay rises ranging from 15,2 to 18,5 percent.

Objections

This year's agreement is to be gazetted this week and will become effective from Monday.

Focusing on the Labour Relations Act, Van Wyk said objection to the labour legislation's amendments "had manifested itself in threats of dispute, stayaway action and other forms of mass industrial action."

He said the overtime ban and stayaways called by Cosatu, Nactu and non-aligned unions served only to create a climate of confrontation. Seifsa supported negotiations between Saccola and the unions to seek changes to the labour law.

B/Day 16/11/8

Competition in SA 'unfair'

THEO RAWANA 49

SUN CITY — Competition was healthy for an economy, but the problem in SA was that competition was not fair, Law Review Project director Prof Louise Tager said yesterday.

Addressing the Sabta AGM at Sun City, Tager said concern that in a free economy there would be over-trading stemmed from a misunderstanding of the nature of an economy.

"Without competition, business cannot grow; it becomes complacent; services suffer; prices remain high; and businesses just deteriorate. Without competition everyone is affected. Consumers are prejudiced and the economy is frozen — it never grows because there is no incentive to grow. Competition benefits everyone."

Tager said the economy was not a "fixed size" cake that had to be shared by more and more people.

"The economy is market related; it is capable of continuing growth and the more it is stimulated the more it grows. That is why we do not have to speak of the distribution of wealth. In fact, the distribution of wealth will not solve our problems.

"Wealth has to be created, and it will be created if we free the economy of the controls and permit it to grow and prosper," Tager said.

"But competition has to be fair and this is the main problem in SA. How do we ensure that there will be fair competition when the odds are at present so unevenly balanced, because whites have all the privileges.

"The playing fields have to be levelled before there can be free and fair competition in this country."

Tager had high praise for the black taxi industry under Sabta.

From earning R12 a week to big business

49

Sowetan 16/11/89

By JOSHUA RABOROKO

IN April 1985 Joseph Moerane Motaung established himself at a small industrial park in Mogwase with his wife Sheila and six machinists.

Starting out with only five sewing machines, his production capacity was limited to small orders.

Today JM Clothing employs 86 people and has moved to new premises covering 3000 square metres at Bodirelo Industries.

He is the first black man to set up a factory in what is known as the 'bigger industries' area - where the main industrial companies are found. Until recently this area was made up of exclusively white-owned companies.

Motaung, who sees his company grow by the day, has now set his sights on Johannesburg where he wants to compete with the giants in the clothing industry and get into the export market.

His factory specialises in all types of protective clothing, such as shirts, overalls, boiler-suits and security uniforms.

His career started in Johannesburg in 1968 where he earned R12 a week working for various clothing companies. He had qualified as a tailor at Mopedi training college in 1966. While employed he also sewed clothing at home, making 10 times what he earned at work. He then decided to start his own business as he was tired of working for a white man.

He moved to Mogwase in 1984 where he started as a tailor, sewing dustcoats, curtains, school uniforms. He was awarded two contracts in 1986 for the manufacture of uniforms for the Bophuthatswana Defence Force. This, he says, was the turning point and he has never looked back.

When his business grew he realised he did not have enough space and the Bophuthatswana Development Corporation built a R330000 factory from where he is operating at the moment.

At the moment he has two particularly big orders worth more than R1,5 million. One is for 45000 sets of uniforms placed by the Bophuthatswana Defence Force, the other is an order in excess of R500000 for miners' wear and security uniforms, placed by the Anglo American Corporation.

He also has a contract to manufacture overalls for many of Anglo American's mine workers. He has made curtain for the popular Sun City hotel near Rustenburg.

"Our ability to handle orders of this size proves that we are at a stage where we can look into exporting our products, especially to the African states," he says.

Motaung is planning to start exporting his products to the neighbouring states and overseas. His turnover exceeds R2-million a year. He is not satisfied because he still wants to grow.

Like Lebaka in Lebowa he is looking into the possibility of getting his company listed if this is possible and the best course at this stage. Mention among the top 100 businesses in the country is also being eyed by the former R12 a week factory hand. As far as he is concerned this is possible in the next five years.

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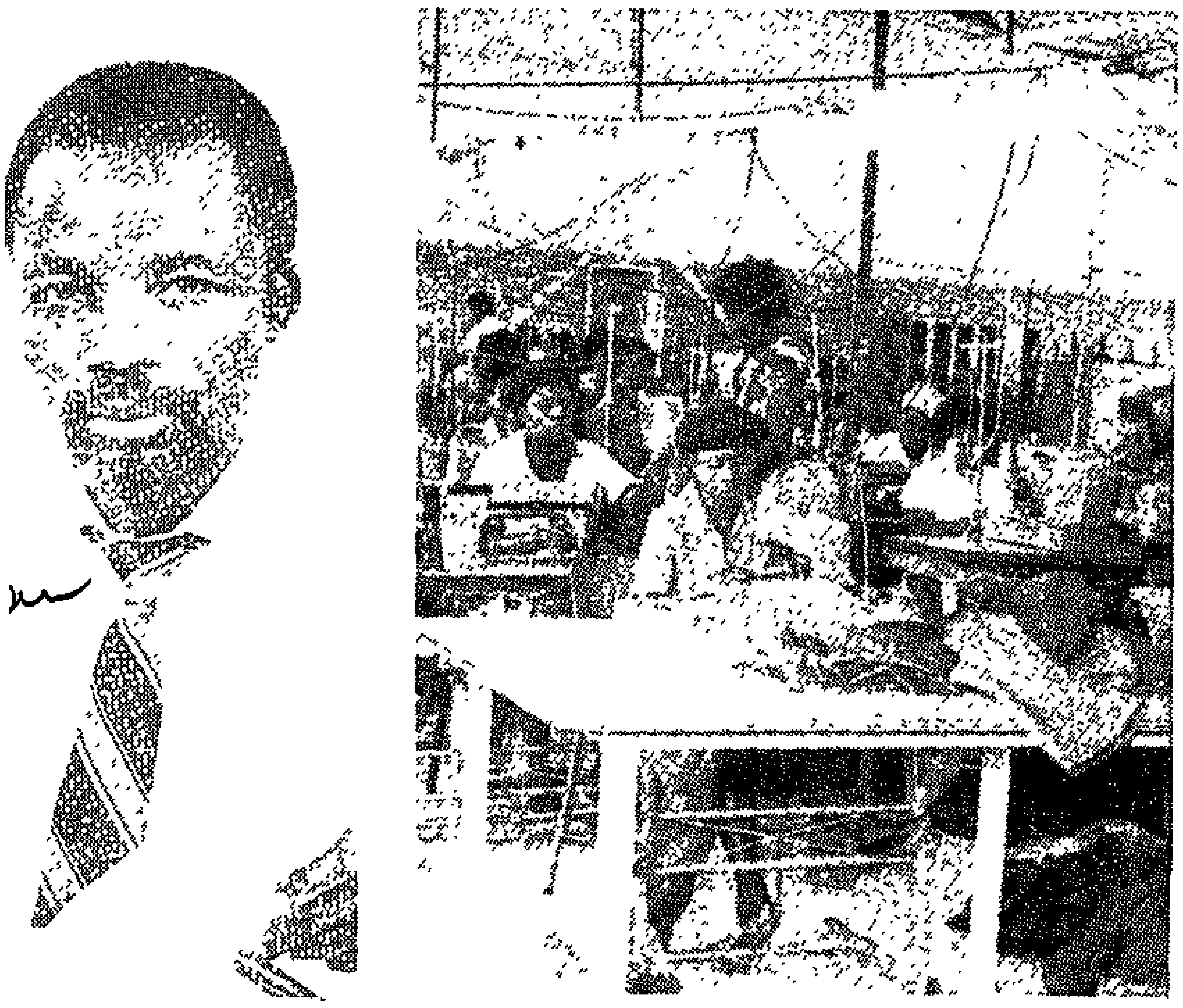

Motaung and (right) his factory.

SOWETAN BUSINESS

The townships need industries

(49)

Sowetan 14/11/89

according to

thami mazwai

DR Simon Brand of the Development Bank of Southern Africa last week hit the nail on the head when he asked for industrialisation in townships to improve their revenues.

Whew! The islands of poverty we live in DO want a massive injection of development strategies instead of the the political games being played by the powers that be.

The rise and development of towns was throughout history mainly influenced by commerce. Although politics or religion were responsible for some of these developments, economic factors lurked in the background.

With the introduction of South Africa's apartheid policies, a new phenomenon was ushered in. Development was made to conform to ideology to the extent of trying to make the river flow upstream.

Border area

The creation of "border industries" in the early '60s is one of countless examples. According to the then Prime Minister, Dr Hendrik Verwoerd, a border area is "a region which will be developed through white initiative and control, but is situated near a Bantu area so that the Bantu can maintain their homes and families there, travelling backwards and forwards daily, or if this is impossible, going home at weekends" (*Race Relations Survey 1961*).

Millions of rands were spent developing these industries. They provided jobs, and still do, but they are not developing homeland communities. When an industry, say the manufacture of motor vehicles, starts in an area, ancillary industries like the manufacture of tyres and batteries follow.

Service industries such as retailing and financial service also result. In no time the area becomes self-contained. In our example the thousands of homeland workers ended up using the bulk of their earnings in these border areas.

To put it simply, they received their paychecks with the left hand from Baas Pretorius and, using the same money, paid Baas Pretorius with the right hand.

Industries

How could there be development in their so-called homelands when their sweat and toil was for South Africa? In any case this is what arch-racist Verwoerd had in mind.

It was this type of diabolical thinking which on a smaller scale created the Sowetos and Mamelodis of this world.

To this day there are no worthwhile industries in most black townships and the quality of life is even deteriorating.

Dr Brand's blueprint could be the light at the end of the tunnel.

Black areas need developing and for this to happen they must have industries. In the 18th century Adam Smith asserted that "no large country ever did or could subsist without some sort of manufacture being carried on in it....". This also applies to towns.

Suburbs

The world's major and historic towns grew along waterways. From medieval times these waterways were the hub of commercial activity.

Towns along these waterways and trade routes developed because of the commercial traffic that passed through them.

Just 30 years ago Randburg and Sandton were suburbs in Greater Johannesburg. Today they are among the richer municipalities and at no stage of their development did they depend on rents and liquor sales for their revenues.

If the Government could in the sixties pump millions of rands into the border industries in pursuance of its revolting apartheid policies, let it invest the billions it makes from privatisation in black areas by helping develop industries. In doing so it would guarantee prosperity for future generations of South Africans.

JOE NELLY

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Tmes
16/11/89

48

NGK plea on death penalty

JOHANNESBURG. — The N G Kerk has added its voice to calls on the State President to consider reprieving security prisoners sentenced to death.

In the latest edition of the N G Kerk publication the Kerkbode, the church said it did not want to imply that the death sentence was unbiblical, but that it wished to plead for clemency in the light of the situation in South Africa.

It expressed concern at the number of executions and of capital crimes committed in the country. — Sapa

(49) Fmail 17/11/89

ECONOMIC CURBS

No need for hindsight

When he introduced import surcharges in August last year, Finance Minister Barend du Plessis told a press conference he hoped they would add not a cent to revenue, thereby proving their success in reducing imports. He predicted that, along with other restrictive measures introduced at the time, they would trim R1,5bn off the import bill.


Parsons


Durr

In the event, the surcharges contributed substantially to revenue. Income from this source, budgeted at R1,3bn this fiscal year, had already brought in R1,1bn in the five months to August.

The effect on imports was a rush of pre-emptive buying ahead of expected further restrictions, as is clear from the figures. September 1988's import bill was virtually unchanged from August's R3,6bn, after a fall to R3,3bn in July from June's R3,6bn.

By May 1989, imports were R3,9bn. In June they hit a record R4,4bn. As the *FM* reported: "Demand soared for machinery, consumer electronics, motor vehicles and aircraft." In July they fell to R4,1bn before picking up in August to R4,2bn.

The first meaningful reversal came in September, when imports dropped to R3,5bn.

Now, it seems, the futility of the exercise and damage it caused are clear to all — even some in Cabinet who favoured it. Expectations are high that both surcharge and the August HP restrictions will be abandoned.

Off-the-cuff remarks by Trade & Industry Minister Kent Durr last week reveal government is "reviewing" restrictive measures, including the surcharges. The measures are also the subject of discussions between Durr and the private sector.

On Tuesday he received an Assocom delegation. Says CE Raymond Parsons: "Modification of the import surcharges will probably not be looked at in isolation. It is likely to be part of a wider review of budget strategy. Assocom has strongly pressed for the surcharge to be removed as soon as possible."

The August package included:

☐ 10%-60% increase 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, leaving other funds to be channelled through the financial rand.

Durr does not want to be drawn but he has pressed for a review of the surcharge on capital equipment, parts and intermediate goods. "My views are well known," he tells the *FM*. "I am already on record."

Clearly, there are concerns at the impact on industry of surcharges of 10%-60% on many items, including those crucial to manufacturing. Industry has persistently argued the increased costs have an inflationary impact and reduce competitiveness abroad.

FCI executive director Ron Haywood says: "Importers of capital goods have to pay 13% GST and 15% surcharge, on top of a rand undervalued by about 20%. The compounded effect is that they pay over 50% more than global competitors for capital goods and imported materials."


Du Plessis

With local productivity already disadvantaging SA in world markets, industry now has a substantially higher cost base. Haywood asks: "How can we be global players in these circumstances?"


Haywood

The surcharges failed to curb imports, he says, because capital goods brought in were crucial to industry and, in many cases, destined for projects decided on long before.

So the measure did not achieve its aim and — apart from a massive contribution to State revenue — only further frustrated local producers and increased costs.

These consequences were, of course, pointed out at the time by the *FM*: "Import curbs distort resource flows, accommodate inefficiencies, restrict supplies and add to inflationary pressures." ■

PUBLIC DEBT REDEMPTION

Policy fulcrum

(49) Fmail 17/11/89

Management of public debt is an area in which monetary and fiscal policy overlap. In terms of monetary policy, the listing of Iscor last week and future reduction of government debt with the R2,9bn proceeds are two legs of the same operation. Time lags aside, says Reserve Bank Governor Chris Stals, they will neutralise each other.

Time lags, however, are not easily set aside and each stage of the procedure presents its own problems. The floating of the giant steel producer on November 8 sucked liquidity out of the markets, leaving partici-

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A SHIPPER'S ROUND TRIP

The *FM* learns a local shipping line, advised by a local merchant bank, is at the centre of yet another probe of a possible major exchange control contravention.

The interesting feature is that this scheme involves not financial rand as such, but buying at the current discount (about 30%) of foreign debt held inside the net by the Public Investment Commissioners (PIC).

The first stage involved the acquisition of foreign currency by the shipping company in the normal course of business, which should have been remitted to SA under regulation 6 of the exchange control requirements.

Instead, the foreign currency was used by a non-resident intermediary — without disclosure either to the PIC or the Reserve Bank of the connection with a resident company — to acquire debts inside the net then owed by the PIC. On the face of it, this was simply the substitution of one non-resident creditor for another, which is permissible.

Lastly, the new non-resident creditor advised the PIC that there was to be a substitution of debtor, too — the funds were to be re-lent to the shipping company.

The net result was a complete round trip, with the shipping company gaining the discount on foreign debt in remitting foreign earnings to SA. There were other incidental advantages normally only enjoyed by non-residents.

(49) Fmail 17/11/89

THE ECONOMY

Golden goose squawks again

Only a masochist could fail to gain pleasure — not to say relief — in the latest rally in the gold price. Nor is this the only light on the economic horizon. Platinum is also setting new highs. In the less tangible but no less important psychological area, President F W de Klerk seems to have launched a deliberate programme to reassure businessmen, and (so far, and *pace* the notorious forged Untag messages) the Namibian elections have been a triumph.

But in the short run, none of this will allow for a relaxation of economic policy. The regrettable but real domestic constraints on growth are unaffected. Indeed, in the short term a higher rand gold price can even make bringing money supply under control more difficult.

Longer term, the *FM* has argued for some time, it is folly to rely on a rising gold price to pull us out of trouble and that there is in any event no reason to expect any such phenomenon. This view is reinforced by an eminent economist's contribution this week (see **P32**).

Equally, a rising gold price is no excuse for deferring necessary actions. Scrapping the absurd import surcharge, accelerating deregulation and privatisation, curbing State spending and easing the burden of direct taxation are as essential now as they were a month ago.

What is important is that improved receipts from gold sales will not only improve our balance of payments directly, and smooth debt repayments: they will also enhance our international economic status, making our debtors less anxious to reduce their SA exposure, and possibly even encouraging a climate in which — *mirabile dictu!* — new lending might even be considered. ▨

Tough measures slow SA growth

BDay 17/11/89

(49) ([illegible])

GRETA STEYN

REAL economic growth has slowed down sharply in response to tough monetary and fiscal measures after reaching a peak in the third quarter of 1988.

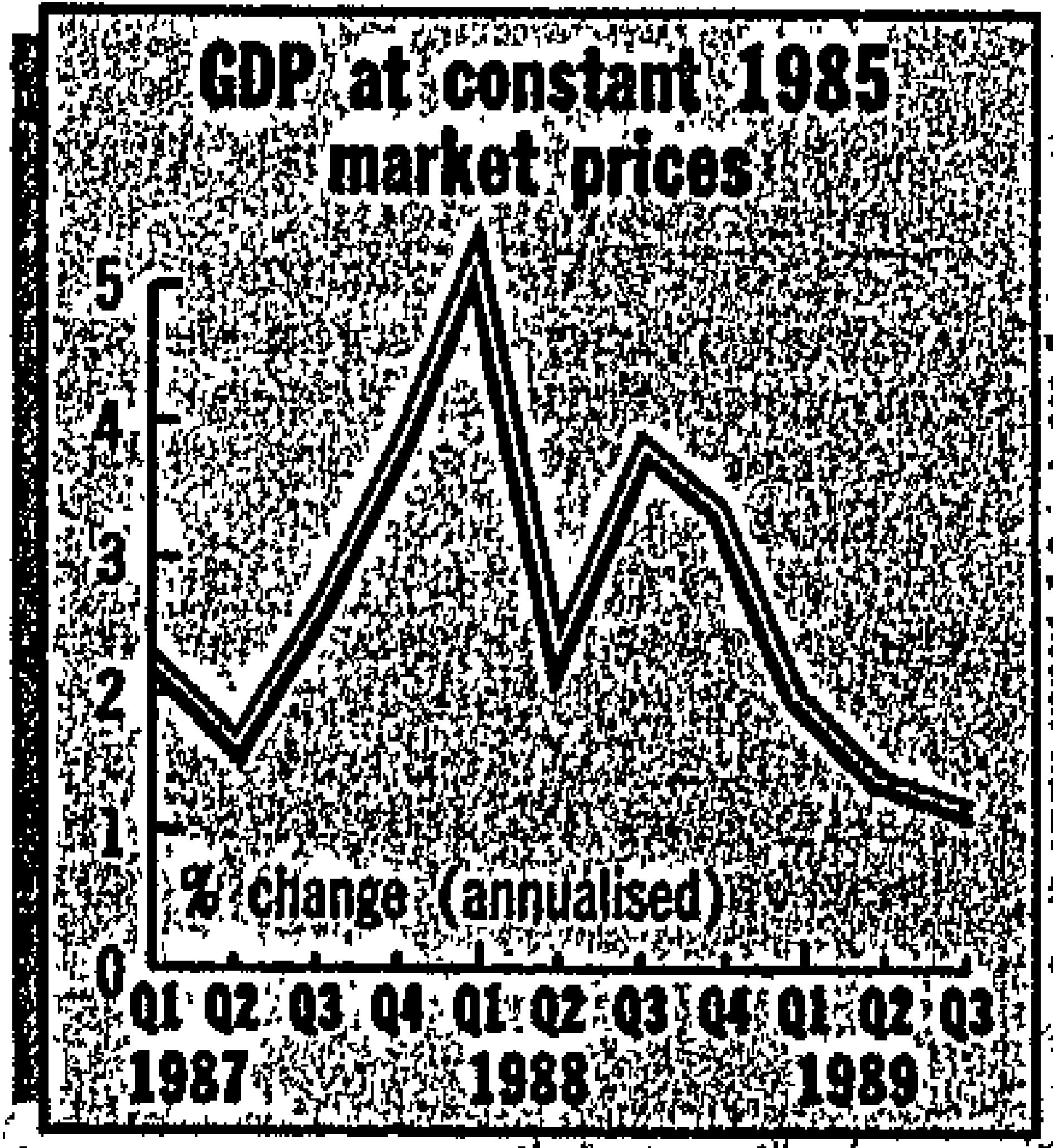
Central Statistical Services (CSS) figures released yesterday show the real rate of growth in Gross Domestic Product (GDP) slowed to 1,2% in the third quarter from a peak of 3,9% in the same quarter of 1988. All the figures provided by CSS reflect seasonally adjusted growth between quarters — annualised — and measured at market prices.

The slow-down in the third quarter was felt the most in the manufacturing sector, where output fell by 8,5%. But this decline was offset mainly by the surge in agricultural production — an annualised growth rate of almost 68%. In the non-agricultural sector, real GDP dropped by 2,8% — evidence of a sharp downswing.

Economists said the figures suggested SA could still achieve a 2% rate of growth for the year as a whole, but were divided about the outlook for next year.

TrustBank economist Nick Barnardt said: "The latest figures suggest there is a lag of 12 to 18 months between the implementation of restrictive policies and their effect on the real economy. Bearing in mind this lag, the slow-down could continue for a long time if the current level of interest rates remains in place, until the middle of next year."

FCI economist Roelof Botha said he still expected growth of 1,5%-2% for next year, but Econometrix's Azaar Jammine is less positive, expecting "virtually no growth" in 1990.



Graphic: FIONA KRISCH • Source: CSS

It was also disclosed yesterday that the level of growth was much higher than originally thought, although the trends remained the same. CSS announced sharp upward revisions: growth for 1988 as a whole was 3,7% (up from 3,2%), first quarter this year was 2% (1,6%) and second quarter growth was 1,2% (0,7%).

SA's population is growing at about 2,7% a year, and real GDP growth below that implies a reduction in per capita wealth.

SA trade surplus up

CME Trib 22/11/87 49

Own Correspondent

JOHANNESBURG. — The trade balance for October remains a healthy R1,38bn in spite of the sharp rebound in imports, which showed signs of falling in September.

Imports climbed to R4,1bn in October, shattering hopes that they may have entered a downward trend, after dropping to R3,52bn in September from R4,18bn in August.

However, the continued strong performance from exports, which still exceed import growth for the year, has held the trade surplus steady above the R1bn mark for the fifth consecutive month.

The cumulative trade surplus for January to October is 26% up on last year at R10,2bn.

Safto economist Bruce Donald says this should boost Reserve Bank hopes to achieve the targeted current account surplus of R4bn for the year, an amount sufficient to meet our debt payments, though leaving little over to build reserves.

Figures released by the Department of Customs & Excise yesterday show exports reached R5,48bn last month, the second highest level for the year after touching a high of R5,72bn in June.

Unclassified exports (mosltly gold) rose by under 3% for the 10 months to October, highlighting the importance of merchandise exports to the current account.

Higher international prices for many of SA's major commodity exports, such as coal and ferro-alloys, and bumber agricultural crops have contributed to improved export earnings this year, Donald says.

Old Mutual economist Andre Roux cautions a firmer rand could see export revenue declining in the next few months. The currency averaged R2,70 to the dollar in October, stronger than September's average of R2,79. He says an appreciation in the rand does not simultaneously lead to a fall in exports, although this does have a delayed effect.

Roux describes the strong resurgence in imports as surprising and calculates imports rose by roughly 14% in real terms in October, after dropping by 16% in real terms in September.

This illustrates demand for capital goods remains high, with the investment cycle lagging the slowdown in the general economy.

ADE heads for privatisation

Cape Times
22/11/89

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By BARRY STREEK

THE giant Atlantis Diesel Engine (ADE) company, which cost about R500m to establish at Atlantis, is likely to be privatised as a blue-chip company on the Johannesburg Stock Exchange.

This has been disclosed by ADE's MD Harmurt Beckurts, in an interview in the latest issue of Leadership.

He said ADE, which employs about 3 000 people, was working on a five-year capital expenditure programme and he anticipated a further R100m expenditure in 1990.

Asked if ADE would be a target for privatisation, Beckurts replied: "I hope so. It is certainly our ambition to become a blue-chip company on the JSE.

"That is our ultimate target."

ADE had not reached the level of profitably which would give it the return on investment that a normal investor would consider adequate.

ADE, which is 87,5%-owned by the government-controlled Industrial Development Corporation and 12,5% by Daimler-Benz, produces about 22 000 diesel engines a year with a local content value of around 55%.

In the interview, Beckurts said: "When we look at the local content of ADE, where we stand in 1989, we can say that, in terms of phase six (of the local content programme), we save a foreign exchange equivalent of R220m a year."

ADE was also exporting locally made components, worth "in the region of R25m a year".

It had to achieve a zero foreign exchange balance by 1997.

"In other words, any imports that we still need have to be compensation for by exports.

"So by 1997 we will probably have reached about 87% local content by value, but still not 100%. So the difference between 87% and 100% we have to make up with exports," Beckurts said.

Africa's peasant farmers are being starved of cash

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Star 27/11/89

ABUJA — Africa's peasant farmers, foot soldiers in the battle to feed the continent's booming population, are being starved of cash.

Bankers at a recent meeting of central bank governors in Abuja, Nigeria's planned future capital, acknowledged they had not been doing as much as they could to help.

"We are still paying lip service to giving agriculture more resources," Gambia's central bank governor Abdou N'Jie said.

Abdulkadir Ahmed, governor of the Central Bank of Nigeria, said two decades of efforts to boost resources for farming had not gone far enough.

"Unfortunately the agricultural sector in most African countries has continued to constitute the weakest link in national economic development efforts," he said.

Nigeria's President Ibrahim Babangida told central bank chiefs from 30 African nations that agricultural development was central to the success of economic adjustment programmes being pursued by most countries on the continent.

He said African farmers, mostly smallholders relying on primitive technology, were expected to increase food production to catch up with the continent's fast-growing population.

They must also provide raw materials for struggling industries and earn scarce foreign exchange through exports.

But high interest rates, urban bias and a preference for short term lending have denied most farmers affordable credit to invest for higher productivity.

"Commercial banks consider lending to agriculture too risky," said Thabo Motseki, director of loans at the state-owned Lesotho Agricultural Bank.

"At the end of the day banks are owned by shareholders who expect profits," added Abdul Turay, president of the Association of African Central Banks.

Govt bid to restore private sector faith

GRETA STEYN (49)

IN A bid to restore credibility to government's economic policy-making, President F W de Klerk and five Ministers held a three-hour meeting with representatives from organised commerce and industry in Pretoria yesterday.

Government wanted input from the private sector on next year's Budget and on ways to combat inflation, and it stressed private sector support for economic policies was regarded as vital.

De Klerk chaired the first part and Finance Minister Barend du Plessis the second of a discussion in which the main issues were government's determination to control state spending and its wish to regain credibility.

In a statement Du Plessis said: "Subjects which enjoyed special attention were the combating of inflation, economic growth, creation of job opportunities and the necessity for concrete co-operation between the public and private sectors for the healthy development of our country's economy."

The business organisations present expressed their support for government efforts to control state spending. The statement said it was agreed that success in maintaining monetary and fiscal discipline was a key to determining SA's growth.

At the meeting were Transport Minister George Bartlett, Manpower Minister Eli Louw, Privatisation Minister Wim de Villiers, Agricultural Minister Jacob de Villiers and representatives from Assocom, the Afrikaanse Handelsinstituut, the Chamber of Mines, the Life Offices Association and others. B/Day 28/11/89

The central bank needs independence from politicking

B Day 29/11/89

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STUART JONES

THE era of politically managed currencies dawned in 1917 with the triumph of the Bolshevic revolution in Russia; it burst into the midday sun in 1931 with Britain's abandonment of the gold standard; and it reached full splendour in 1933 when the US followed Britain.

At a stroke the burden of currency management was lifted from the shoulders of bankers and transferred to politicians. And the long-term consequence for us all has been inflation.

The world has not gained from supposedly democratic control of currency management, because elected politicians can seldom take a long-term view. Their views are invariably coloured by the next election, if they are democratic, or by cronyism and patronage if they are dictators.

Of all countries SA could have afforded to have taken a long-term view, because of the inflexible political situation that placed economic issues on the back burner. Yet this has not happened. The politicians were not up to the task, they remained politicians rather than statesmen, and the authorities at the Reserve Bank followed their lead.

Short-term considerations have as a result almost always taken precedence over long-term ones, particularly in the disastrous Botha years. The Botha government and the Reserve Bank have been primarily responsible for the inflation of the 1980s.

Government-controlled currencies have always led to inflation and the destruction of savings. Modern inflation is recent: it dates from 1933, when the US abandoned the gold standard and the discipline of that standard was removed from the banking system.

The effects of this decision were not experienced in the 1930s, because the power of the business cycle was strong enough to counteract the inherently inflationary tendencies of the new system. Central bankers were not alerted to the danger.

Nor, with the exception of Hayek, were economists. Keynesian ideas were triumphant and Keynesian policies applied at a time of underutilisation of resources did not lead to a buildup of inflationary pressures.

However, when the reservoir of unemployment had disappeared, the situation changed and inflation was built into the new international monetary order. This became clear within a decade of the commencement of rapid worldwide economic growth in the late 1940s.

It was in these years when inflation was disguised that so many of today's central banks had their constitutions moulded by politicians. Only a few escaped the inflationary trap — those of Switzerland, West Germany, the US and Japan. And their escape was the result of special historical circumstances.

Three of them were federal states in which political power was decentralised; and in two of these, the US and Switzerland, there was a long unbroken tradition of opposition to powerful, interfering central governments.

In a third, West Germany, not only was there the historical experience of decentralisation, but the dominant occupying power also favoured such policies and opposed giving politicians control of the Bundesbank. In Japan the US pursued similar policies, which there, too, ensured a degree of independence for the central bank.

In West Germany history had taught them terrible lessons about the damage inflation could inflict upon an economy and society; business, politicians and the bureaucracy were united in a determination to make the fight against inflation their number one priority.

The inability of the politicians of the US, Switzerland, Germany and Japan to control the day-to-day working of their central banks placed the burden of currency management where it should belong, in the hands of professional bankers. As a result, these countries have experienced the least inflation of any major industrial economy.

There is a direct correlation between central bank independence and the degree of inflation.

This has recently been shown by Alberto Alesina of Harvard University in his study Politics and Business Cycles in Industrial Democracies, referred to in the October 28 edition of the Economist. In an analysis of 17 countries between 1973 and 1986, he found the worst inflation took place in Spain, New Zealand, Australia, Italy and Britain, whose central banks had least independence.

The lowest inflation occurred in West Germany, Switzerland, Japan, the US and the Netherlands, whose central banks had the most independence. Moreover this lower inflation was not incurred as a consequence of above average unemployment.

Recently the resignation of Nigel Lawson as British Chancellor of the Exchequer highlighted this issue, for his efforts to change the constitution of the Bank of England and to make it more like that of the West German Bundesbank were thwarted by Margaret Thatcher.

SA has an appalling record of inflation in recent years and the Reserve Bank must be held primarily responsible. It has not been sufficiently independent of government and, not wishing to offend it, allowed negative interest rates to persist for a long time in the mid-1980s.

The consequences of this policy failure have been disastrous for SA. Negative interest rates made saving uneconomic and encouraged borrowing, so the savings ratio collapsed. More surprisingly the government did nothing and still has done nothing to stimulate domestic savings.

Because investment depends ultimately upon savings and these were not forthcoming from within the country, SA was forced to rely more and more on overseas borrowing, despite the obvious political risks involved. Both the Reserve Bank and government encouraged this foreign borrowing, which, even more ominously, was not long-term investment, but short-term loans that needed to be continually recycled.

When the day of reckoning came in 1985, the foreign borrowing of around R20bn was transformed into a debt of R60bn. The loss incurred — equal to the lost investment caused by sanctions — was entirely caused by mismanagement.

The solution to this persistent mismanagement of the currency by the politicians is to grant to the SA Reserve Bank the same degree of independence as the Bundesbank. It is in everyone's interest that this should be done, rich and poor, black and white — everyone, that is, save the politicians, who like to interfere in currency management, because an election is pending or because of their own special interests or their response to special interest groups.

An amendment to the Reserve Bank Act this year places an obligation on the Bank to pursue policies that ensure monetary stability and to present an annual report to the Finance Minister on monetary policy. This, however, is not an adequate check on monetary mismanagement; if the Bank is responding to ministerial pressure in its policies it would in effect be reporting wrongdoing to the real wrongdoers.

Further reform is necessary. The Governor should be appointed for a longer term than at present, say for 10 years not renewable, and all the directors should be appointed from the private sector. Perhaps half could be elected at the AGM and half nominated by the commercials banks.

The record of the politicians demands that reform should be effected and that they should lose this power to damage the economy. The record of the truly independent central bankers is worth emulating.

☐ **Dr Jones is with the Economic History Department at Wits University.**

LETTERS

Rising cost of GDP outlined

B Day 30/11/89 (49)

TANIA LEVY

IT TOOK twice the investment to make a contribution of R1 to the GDP after 1974, as it had between 1946 and 1973, Privatisation Unit adviser Eugene van Rensburg said in Pretoria this week.

He was addressing a conference for representatives of self-governing territories.

Measured against the capital output ratio, investment had not met requirements of the norm of return on capital, Van Rensburg said.

Between 1981 and 1985 the public sector made no contribution to net domestic savings.

Government "dissaving" had reached critical proportions, Van Rensburg said. In 1988 government spent nearly R3bn more than it earned, compared with R44m dissaved in 1981.

He said this led to an inevitable reduction in net capital available for productive investment. In 1988 net capital available contributed a mere 3,8% to GDP, in contrast to its 19,4% contribution in 1981.

Van Rensburg said privatisation was an economic rather than a political issue. Its main goal was to reduce the public sector's share in the economy. By increasing the private sector's involvement, the tax base would be increased. This would eventually lead to a reduction in tax rates.

He said a shortage of skilled labour was one of the constraints facing privatisation in SA. Only 6% of the economically active population in SA were skilled or professionals, as opposed to 26% in the US.

For the next decade or two, SA would have to concentrate on equipping its scarce manpower resources to cope with the demands of the economy, he said.

Other constraints were monopolies and the over-concentration of economic power.

Van Rensburg said there were enough obstacles in the privatisation process to discourage any government.

However, he cast his vote in favour of the free enterprise system and market forces to regulate the provision of goods and services through the price and market mechanism.

Business community will need strong nerves next year

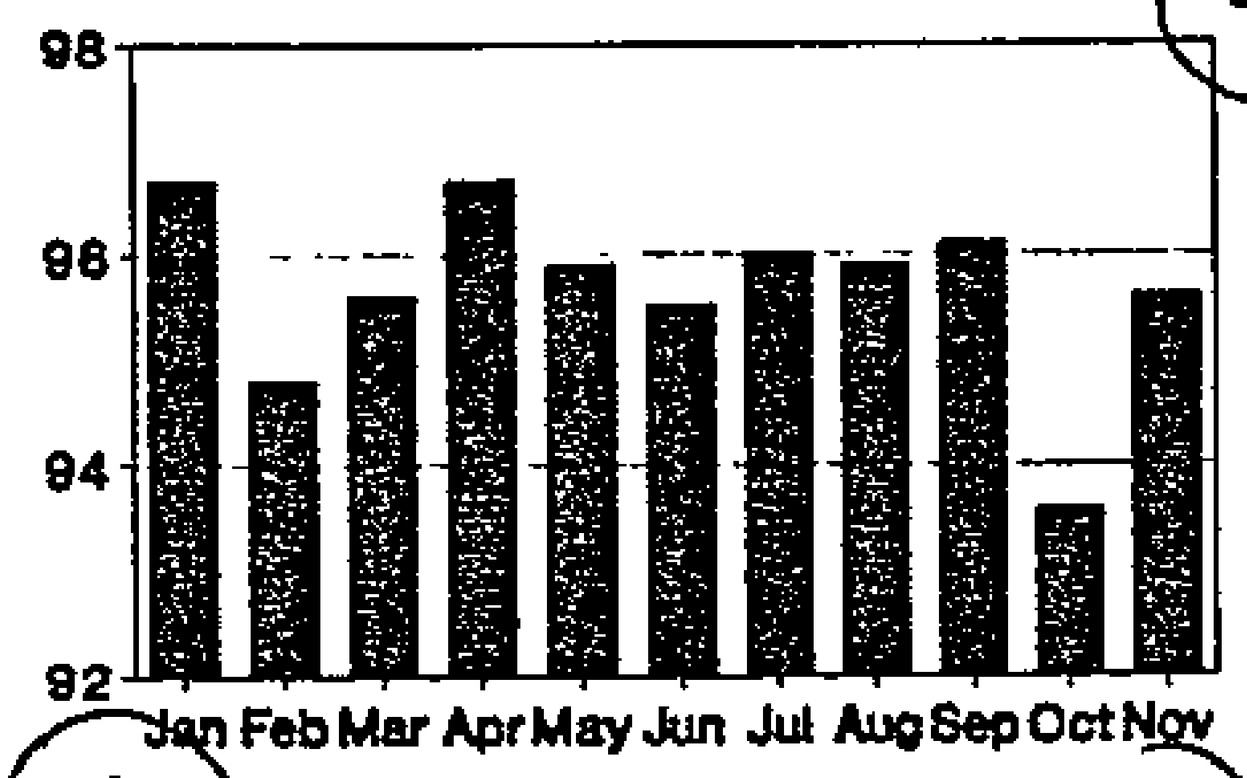
By Jabulani Sikhakhane

Favourable business perceptions of recent political initiatives by State President FW de Klerk helped lift business confidence in November although short-term economic prospects are dim.

After a sharp decline in October to 93,6 points, Assocom's business confidence index has recovered to 95,6.

Assocom says the improvement in the business mood in November in the face of largely cheerless short-term economic prospects illustrates the significant role political developments and the gold price play in shaping business mood.

However, it warns that the underlying trend is likely to be one in which business mood continues to adjust to changing economic realities.



Assocom's BCI (1983 — 100).

The present business mood is best described as one of growing uncertainty about prospects in the 1990s.

The balance of payments and the need to reduce inflation will determine business prospects for 1990.

(49)

Assocom says the current economic policy stance is unlikely to be reviewed until the Budget in March 1990 and thus wasxhaving a negative impact on consumer demand, especially for durable goods. Star 11/12/89

New private fixed investment is likely to level off in response to tougher economic circumstances. Insolvencies may also rise further, but many companies should be entering the current business downswing in a sounder financial position than in 1984-5.

Summarising, Assocom says 1990 will be a year of much lower growth, slightly lower inflation and a larger surplus on the current account of the balance of payments. "It will be a year of strong nerves for the business community."

Among positive factors that influenced the November BCI were a sharp advance in the JSE overall index, on the back of the firmer gold price, the strong recovery in merchandise imports and exports and a recovery in the volume of manufacturing production.

Inflation was also down from 14,9 percent in October to 14,8 percent, while the increase in the number of cars sold in November and a recovery in real retail sales were other positive factors.

Negative influences included the October increase in the prime rate to 21 percent and further rises in three months bankers' acceptances rate. Insolvencies were still up and building plans passed showed a decline in value.

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THE WORLD

While the socialist world spins, Fidel refuses to budge

Only one part of the old Soviet 'empire' remains untouched by perestroika: Cuba. And a key reason why Fidel Castro remains resolute is the continuing threat from the US, still determined to punish him for stepping out of line.

By **VICTORIA BRITTAIN**

ARMANDO Valladares, Cuba's most successful dissident, was given a VIP reception last week in Hungary and Poland, including a long talk with Lech Walesa.

No visitor could better illustrate the gulf that has opened up between Havana and the Eastern European nations.

Cuba's official media roared against the "insult and offence to our people" afforded by the reception of Valladares, a policeman under Batista prior to the revolution, and now Washington's representative at the United Nations Human Rights Commission.

In Havana itself, it is as though the turmoil of Eastern Europe had not happened: the old certainties are still venerated.

Children soldiers, old men and women and families dressed for a day out, walked through Havana carrying bunches of daisies, hibiscus or wreaths to throw into the sea. They were remembering Camilo Cienfuegos — the legendary revolutionary who disappeared in an air crash at sea 30 years ago.

By evening, the Malecon, the promenade, was covered with damp flowers as the waves splashed over and threw up anniversary flowers with the spray. With such romantic gestures Cubans relive their history and act out the ideology of today.

Isolated as never before in the socialist world, most ordinary people as well as officials seem as convinced as ever that the world is out of step with this tiny island.

"There will be changes in Cuba, but in our way. And never, as for instance you can see in the media in Eastern Europe, by opening the door to reaction," said Julio Garcia, president of the journalists' union.

President Fidel Castro has reiterated "faith in our principles, in our solid convictions, in Marxism-Leninism ... in the ideas of socialism and communism. The red banners of the revolution will never be lowered, or the white or yellow flags of counter-revolution substituted".

Such fighting talk comes as Cubans brace themselves for the start early next year of Television Marti — a new weapon in the siege by the United States which has gone on for 30 years.

"Our situation is completely different from Eastern Europe because of one factor — an aggressive enemy 90 miles away waiting for us to make a mistake," said one official. "US antagonism is the best defender of the revolution," said another.

For five years Radio Marti in Miami has beamed the lure of soap operas and consumer durables into Cuba, but has been a minor irritant compared with the Us base at Guantanamo and the blockade.

Cuba ... 30 years of tension with its enormous neighbour, the US

Satellite television is much more serious. "The power of images means we are facing a dangerous stepped-up offensive," said one member of the Central Committee.

Cuba is also still rocked by scandals over drug-smuggling and money-laundering tied to the Medellin cartel, plus black-market dealings by General Arnaldo Ochoa, the head of Cuba's troops in Angola, and other senior officials.

The corruption and high-living of those involved, though apparently widely known, is in stark contrast to the small flats and gruelling work which appear the norm for top officials.

As the army which Ochoa deployed in Angola comes home, it is easy to see where it is going: houses, roads and hotels mushroom in new Havana. Castro himself, a year ago absorbed in maps of Angola, is now a constant visitor to the elite building contingents where veterans work.

The buildings are desperately needed; queues are also everywhere. But they are also the stuff of jokes rather than bitter criticism.

And, watching the children go to evening dance classes, or the young couples eating ice-cream in the restored squares of old Havana, there is a different atmosphere from the tensions of eastern Europe.

Where else in the world does a hotel chambermaid kiss a guest goodbye, or a young driver give you flowers?

It is Cuba's paradox that the 30 years of tension with its enormous neighbour has created one of the most relaxed societies in the world. — The Guardian, London

DECEMBER • 1 • 1989
Financial Mail

(49) Fin Mail 1/12/89

ECONOMIC POLICY

Avoid sticky fingers

The enormity of the Reserve Bank's losses on providing forward cover for foreign exchange transactions has, deservedly, come under the spotlight lately. So has the fact that these will, eventually, have to be borne by the taxpayer, one way or another.

But what is not so widely realised is that this is a zero-sum game. Those billions have not just disappeared into a black hole; they represent profits in *somebodies'* hands. And, as it turns out, those somebodies just turn out to be importers who, rightly believing that the rand was a weak currency, flocked to hedge their positions.

Exporters, who could equally well see the trend, naturally saw little need to make use of the facility.

It is those same importers, of course, that the authorities thought it necessary to clobber last year by the notorious import surcharge.

This is an object lesson in what happens when the authorities try to interfere — or intervene — in the market mechanism. If providing forward foreign exchange cover was thought to be a profitable business, banks and others in the private sector would be only too happy to offer the facility. Trouble is, in recent years, guessing the course of the rand has been a one-way bet.

Those with longer memories will recall that, a couple more years back, many private-sector companies listened to the advice of SA's leading banks on the outlook for the rand — and got it spectacularly wrong. At least then the losses were carried by those whose judgment was at fault.

This time, the losses have been for taxpayers' account and it has, to boot, taken two lots of civil servants, one to administer the subsidy and another to claw back as much as possible through the surcharge.

And all because of attempts to manipulate the exchange rate of the rand at a level other than that which would be set by market forces and protect certain special interest groups against the harmful consequences.

Not that the damage stops there. There are also adverse spin-offs for interest rates and the whole pattern of demand (and thus resource allocation) is distorted.

Virtually any subsidy, or other attempt to interfere with the price-fixing mechanism (which is what subsidies amount to), has similar effects. Forward cover and the import surcharge are singled out only because the unhappy circle of cause and effect can be so clearly traced.

One of the arguments for a change of power in a democratic society is that it gives the opportunity to clear out all the distorting concessions made to special interest groups by the old government. Trouble is, a new government soon finds itself giving in to its own special pleaders — often with the best of intentions.

The only sensible long-term solution is that government should restrain itself from dabbling in the market and confine itself to ensuring that the market functions efficiently. Smooth out short-term fluctuations in the rand by all means, but do not try to buck the long-term trend. That's a recipe for disaster, as many Central Banks have found.

Don't try to dictate interest rates, which are determined by many forces, not all of them controllable. But by all means ensure steady growth in the money supply, which at a basic level can be controlled, at a rate related to the growth rate of the economy at large.

Don't try to control specific prices, which is inefficient and doesn't usually have the desired effect. If it is desired to assist particular groups thought to be under-privileged or needy, do so by direct subventions, whose cost is apparent and which can easily be modified or scrapped.

In general, as we have said so many times, remember that the best government is usually the smallest government. ■

(49) Finmail 1/12/89.

(88) Finmail

FINANCIAL RAND

Up against the ceiling

Despite large purchases of gold shares from abroad over the past few weeks, the financial rand (finrand) has remained stubbornly at around US25c-US25,5c — reciprocally expressed as four finrand to the dollar.

To date, overseas purchases of gilts could add up to a net R2,1bn, while overseas net sales of shares until the gold market started to rise were around R2,8bn (all according to JSE statistics). Since gold turned, however, the outflow on shares has reversed, with a net inflow since the last two weeks of October of perhaps R200m.

The market in finrand is difficult to interpret and its doings are not easily accessible to those outside the banking and, perhaps, the stockbroking world. But there are good reasons for stickiness in the finrand rate.

First, some large sums have been held, awaiting an opportunity to exit without seriously depressing the rate. This year has seen several major disinvestments, notably the sale of 30% of Gold Fields of SA to Rembrandt and other local parties (perhaps R800m in finrand) and, later, of a large parcel of Cons Gold's gold shares (around R1,5bn). Not to mention the sale of Mobil SA to Gencor (say R500m).

Then there are positions taken by overseas investors who earlier made large purchases of SA gilts and — more recently — money-market instruments as a way to speculate in finrand. Many were at levels well below the current US25c and tend to be liquidated when the finrand moves towards US25,5c.

Lastly, there is the important factor that foreign holders of debt inside the net are now permitted to exit via the finrand. This provision has introduced a linkage between the finrand and the discount rate (for SA debt in the net) on overseas markets.

This linkage in itself provides an independent ceiling for the finrand at around US27c, equivalent to a debt discount of 30%. At US25c, the finrand is at a discount of about 35%. So, even if other factors holding it down were neutralised, the finrand cannot really go better in any conceivable circumstances than a discount of 30%, equivalent now to about US27c. Any rise above this would be choked off through arbitrage by overseas investors who could acquire the unit at a 30% discount through buying debt in the net and then converting to finrand.

Finally, to an important extent the finrand discount simply reflects the discount between the prices of SA shares in Johannesburg and in London. Because prices of gold shares have risen strongly in both centres, this tends to dampen any movement in the finrand discount.

These factors add up to a narrow trading range of US24c-US25,5c, which seems likely to persist for some time.

What could change this stalemate? Obviously, any change in overseas sentiment would impact strongly on the finrand. Such a change could come about through improved political sentiment — or through economic circumstances alone.

If the gold price rises substantially, the impact on the trade and current accounts will be strong — each $50 on gold adds $1bn a year to foreign currency earnings. If gold improves enough, the obligation to repay vast amounts of foreign debt would become much more manageable, while the commercial rand might be allowed to rise modestly against a trade-weighted basket of currencies.

This chain would surely reduce the discount on the foreign debt, as well as the effective yield which overseas investors would require on SA assets. The finrand discount could well narrow in these circumstances.

By then, the overhang of finrand from large recent disinvestment transactions could be worked off. And a much stronger gold price also implies a continued inflow of foreign funds to buy gold shares.

In combination with a rise in the commercial rand, a reduction in the finrand discount could enable the finrand exchange rate to break out of its present narrow constraints. ■

HARMFUL BUSINESS PRACTICE

Stopped for life

An insurance marketing scheme, which offered participants the opportunity to earn more than R29 000 a month, with no capital investment needed, has been declared a harmful business practice.

Findings of the Business Practices Committee, chaired by Louise Tager, were published in a recent *Government Gazette*, after an investigation into a close corporation (CC), Set for Life Insurance & Marketing, and its MD John Francis Drinkwater.

Drinkwater, the only member of the CC, was marketing a monthly, renewable, group insurance scheme through an "ever-growing network" of policyholders. Each, having paid an initial premium of R300 and fee of R15 for an agent's manual, was allowed to market the same product. Policies were sold to groups of four — described by Drinkwater as "co-operatives." Six "generations" of groups were needed to accumulate enough commission to provide an agent with the target R29 000 a month.

The committee concluded that statements in a Set for Life pamphlet, read with references in the manual to monthly earnings of R29 000, led potential participants to "confidently expect" earnings of this order.

It examined the validity of the claim by calculating the premium income needed for only one of the existing 1 972 policyholders to earn more than R29 000 a month, as well as the income required if all were to earn this sum.

With R25 of every R100 in monthly premium income going to underwriter Standard General and R30 to Set for Life, R45 was available for commissions. On this basis, the committee concluded:

☐ For only one agent to earn more than R29 000 a month, premium income of R546 000 a month would be needed. Of this, the underwriter would receive R136 500, while commissions would amount to R245 700 — including the amount of R29 000 for one person — and R163 800 would go to Set for Life. It would take 5 460 transactions to generate this income. To enable only one of these new policyholders to achieve earnings of R29 000, a further 29,8m sales would have to be made; and

☐ For existing 1 972 policyholders to earn R29 000 a month, a further 10,8m policies would have to be sold, to produce total monthly premium income of R4,1bn. For all the new policyholders to earn R29 000, a further 58,8bn policies would have to be sold.

In a submission to the committee, Drinkwater argued:

☐ Participants do not risk loss, because they are paying for insurance cover "while at the same time (they) have the opportunity to earn an income";

☐ Saturation is theoretical — no business has ever saturated a market;

☐ The scheme is nothing more than a method of marketing life assurance; and

☐ No promises are made regarding commissions — the participant is merely made aware of the maximum he can earn.

However, the committee found Set for

1/12/89

And now for the good news on the economy

(49)
21/12/89

Money Matters

MAGNUS HEYSTEK

AFTER more than ten years of predominantly bad economic news it is hardly surprising that the business sector and general public alike have become very gloomy about the country's long-term economic outlook.

Good news is viewed as an aberration; a temporary hiccup from the economic low road we have mapped out for ourselves.

Talk to most business people, economists and consumers and the impression one gets is that there is nothing that can be done to turn this country around and back on to the high-road of real economic growth, lower inflation, a steady if not strengthening rand and lower taxes.

Part of the blame lies perhaps with the media.Good news is often treatedwith a great deal of circumspection. Journalists, are by nature, ready to question any and everything.

Take the inflation rate for example. The inflation rate has been steadily declining for several months now, much to the great surprise of some of our so-called top economists who have beenforecasting "shock rises in the inflation rate for 1989". Virtually all of them has been wrong.

But what does the media do? Instead of praising government for its efforts in keeping down inflation, reports by disgruntled and slightly whacko academics are splashed across our newspapers, seriously casting doubts on the veracity and accuracy of the official inflation figures.

We don't, it seems, want to hear the good news. We want to believe that things economic and financial around us is coming apart.

During 1988 the country experienced an official growth rate of 3,5 percent, which in real terms (that is, after taking into account the growth in the population of 2,7 percent) was a highly commendable performance. Did we see reports about that spread over the front pages of newspapers?

By the same token, of course, government has to shoulder most of the blame for instilling in our national psyche a perception of doom and gloom. Many failed promises about fiscal reforms and action against inflation has cast serious doubts about the credibility of government's commitment to greater economic welfare for all South Africans.

With the decade rapidly running out, the signs of a dramatic economic reconstruction, with significant long-term benefits for all, are there to see.

Government has already indicated that it intends cutting both personal and company taxes. Government expenditure — the outstanding economic failure during this decade — can be expected to be kept under firmer control by State President FW de Klerk. And more importantly, the Reserve Bank has given all the signs that monetary policy will be kept tight.

Money supply

New governor of the Reserve Bank Dr Chris Stals has shown that he is serious about controlling the growth in the money supply and ultimately the inflation rate.

This has two primary long-term consequences. Firstly, by bringing down the inflation rate to levels comparable with that of our trading partners, we can expect to see the rand's continual decline against most major currencies coming to an end and perhaps even firming if the gold price keeps on rising.

Exporters might scream blue murder, arguing that a declining rand is good for exports. But that would be shortsighted. Any benefit of a declining rand is very rapidly eroded by the resulting inflationary consequences.

Look at what has happened to the gold mining industry. In 1980 South Africa was the lowest cost producer in the world; today it is the highest.

And secondly, savers can look forward to a period of real interest rates on their savings. This also has very important long-term consequences for the country. Negative interest rates might be good for borrowers and people highly geared (a euphemism for debt), but a recent study by the World Bank has clearly shown that countries with positive interest rates generally also have the highest growth rates.

Unfortunately it will take several years for the full benefits of current developments to manifest themselves. But the signs are there for all to see.

I believe that the Nineties can be a period a high real economic growth rate and increased wealth for all its people if current developments are not offered on the altar of political expendiency.

Simply put, I think we are entering a decade where hard work, calculated risk-taking and diligent saving will be rewarded.

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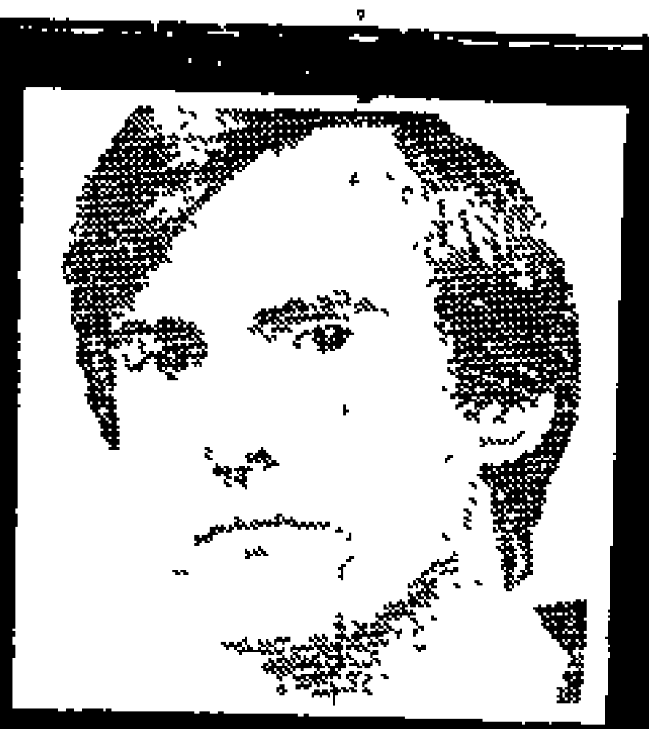
Nasty medicine promises an early cure

REX

Cees Bruggemans reviews the local and world scene



THE economy seems to be performing in line with policy intentions and the rising gold price is bolstering the strategic position. Barring surprises, SA's economic objectives may be achieved faster than intended, easing the position in later years.

A HUNDRED days into a new political and economic dispensation, and all appears well.

Market sentiment was rudely brought to heel by the October interest-rate increase. That shock communicated what had been spelt out in the Reserve Bank's annual report and the Governor's address.

The message was that stabilisation policy had acquired renewed urgency and a new style. It was important for all to realise the domestic and external objectives should be achieved relatively quickly because, politically, time remained of the essence.

In the event, markets overreacted, seeing demons where before there had been only angels. In November they worked themselves into a frenzy about further policy action to come.

That was not the intention of the authorities. It appears that there will be no more policy changes until the time is judged ripe.

As things stand, the economy appears to be on course for policy intentions to be achieved next year.

A steady course presumes no surprises — but there could still be many: on the political front, in the conduct of fiscal policy, in the gold price, and not least in the response of the economy to the current policy burden and the fast-changing environment.

Domestically, there remains a confusion of signals, although evidence of slowing is now strong. The rate of slowing, and its likely evolution next year, will determine when and if policy goals are met.

There is statistical evidence that manufacturing production and wholesale trade volumes have been falling for some months. Retail trade volumes seem to be catching yet another wind, especially in non-motor durables.

[redacted]

It would not be helpful if these statistics were wrong. If the recent past is anything to go by, the manufacturing statistics may be subjected to upward revision.

As it is, the economy is behaving ambiguously with weak upstream conditions in the goods pipeline when downstream things are holding up.

The overtaxed, overindebted and undersalaried individual has been under mounting pressure for more than a year. Judged solely by him, the economy should have been in retreat for some time. In addition, the high carrying cost of stock due to real interest costs, combined with a recessionary outlook, has prompted many businesses to reduce their orders and planned stock levels.

However, these contradictory forces have so far been neutralised by still-strong Government spending, a large current account surplus, robust fixed investment spending and the agricultural bonanza.

These stimulatory forces in the economy help to underpin employment growth and real wage improvements. In turn, these support the livelihood of a large class of consumers who have not been much affected by the formal policy actions of the authorities.

It is these consumers who are probably the main force behind buoyant retail sales, although hire-purchase financing has remained strong, suggesting even wider consumer support.

However, in many ways this is a last consumer "hurrah" as the financial sector consolidation marches towards recession. Money-supply growth M-3 may be taking time to decline and it may not get into the 14% to 18% target band before the yearend. But it may virtually collapse into that band in the first half of next year.

Home-loan demand this year is way below that of last year. Bank overdraft lending generally is also in retreat, if only because many companies are still cash rich and prefer that to expensive bank borrowing.

[redacted]

Although notes and coins in circulation have been showing near-record growth on a year ago, in turn suggesting that the cash sector of the economy continues unimpeded, the growth in the volume of bank debits has been steadly declining.

Given the policy emphasis on tax and interest rates, which burden the financially sophisticated sector, it may well be that the cash sector of the economy will be last to notice that there is a consolidation on the way, along with a certain class of consumers.

In contrast, the growth in bank debit volumes, which has nearly come to a standstill, suggests that financial transactions have in recent months responded to the policy measures of the past two years.

One may therefore conclude that the economy is now standing on skids, and that the coming slope looks steep. It is at this point, however, that the gold price decides to rise by 20%, with no inkling where it will all end.

Early indications are that import volumes are still holding up. The game plan of the authorities banks heavily on a general lowering of domestic spending next year, thereby inducing a drop in imports.

The current account surplus should then rise from slightly short of R4-billion this year to more than R6-billion next year, assuming that non-gold exports hold up.

The sudden gold-price rise may not last, but one can already see spirits perking up all round. The confidence factor may therefore not remain depressed for long, and business fixed investment, in particular, may remain strong, with implications for capital goods imports.

The authorities give the impression that they do not wish to repeat the mistakes of the 1980s.

Any gold bonanza is therefore supposedly to be raked off into the foreign reserves, and the rand proceeds injected into the economy are to be largely sterilised by way of open-market intervention until such time that it is judged appropriate to let the economy recover.

All of this assumes that the gold-price rise can be sustained, which is still far from certain, and that the authorities will religiously stick to their game plan, for which there is also no guarantee.

[redacted]

In addition, there is a lot of encouraging noise surrounding fiscal policy, but as in the case of the political game plan, it is the actual changes that will count.

The external cash flow has been in surplus since mid-year and the Reserve Bank has presumably been repaying borrowings as the net foreign reserves have started to improve.

SA's strategic position looks a good deal stronger than it did only three months ago. In turn, the strategic objectives may be achieved faster, lessening the need for a protracted economic adjustment beyond next year — barring any surprises, of course.

[redacted]

(49)

Nasty medicine promises an early cure

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REX

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Although many traders were happy with

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September 1989.

B/Day 5/12/89

New hotel for Randburg CBD

DAVE LOURENS [redacted]

THE Randburg Town Council has made land with a market value of R6m available to the developers of a R200m hotel and office complex in the heart of the Randburg CBD for a nominal amount, believed to be around R100.

In terms of the deal, development company Gulfcon International is required to provide a relacement for the 540-bay parking lot which will make way for the 29-storey, 117 000m² complex.

Management committee chairman Frans Lourens said the project "will not only fulfill a desperate need but will also stimulate further development in Randburg as a whole".

Present

The four-star, 200-room hotel will incorporate conference facilities for about 1 000 people as well as extensive recreational facilities.

At present there are only two hotels in the area.

Twenty-two storeys of the building are to be used to provide 32 800m² of office space.

Gulfcon director Rob Parker said a consortium of financial institutions would finance the project, but he would not identify them yet.

Bank probes figures for informal sector

(49) B/Day 5/12/89 [redacted]

DAVE LOURENS

TO ASSESS the informal sector's contribution to GDP and national employment, the Development Bank of Southern Africa has analysed 44 community-level studies.

Development Bank policy analysis director Stef Coetzee said there had been widely differing estimates of the importance and extent of the informal sector.

A Central Statistical Service's survey of the PWV area suggested the omission of informal activities from official statistics involved a 3% under-statement of the GDP in the region, while other surveys suggested as much as a 40% contribution to total employment nationwide and a 30% contribution to GNP.

Coetzee said the lack of a reliable figure posed problems for the formulation of economic development policies. An over-estimation could be as misleading as an under-estimation.

He said an over-estimation could lull policymakers into the belief that SA's economic dilemma, particularly the poverty problems of a large part of the population, was less serious than was actually the case.

To achieve greater clarity on the importance of the informal sector, Development Bank researcher Marie Kirsten examined 1975-1985 studies in SA, the TBVC states and the self-governing territories.

These studies, directed primarily at black participation in the informal sector, had the advantage of covering the full spatial economy of SA and the self-governing states.

The studies were analysed in metropolitan, squatter, urban and rural areas.

From this classification Kirsten found 22% (1,72-million) of the economically black population was involved in the informal sector.

Output

From the community level studies she calculated the average monthly income of people employed in the informal sector was R350, or R4 200 a year, representing an income of R7,2bn being generated in 1985.

The Bureau of Market Research says the recorded personal income of blacks was R20,6bn in 1985, indicating 25,9% of blacks' income went unrecorded. This represented 6,5% of SA's GDP for that year.

Coetzee concluded the true contribution of the informal sector to employment creation and output generation was impossible to determine in the absence of a representative survey for the country as a whole.

Maize crop will need R2,5bn investment

GERALD REILLY

PRETORIA — Farmers will make a huge R2,5bn investment in this season's maize crop, according to the National Maize Producers Organisation (Nampo). [redacted]

The bulk of the funds needed will be channelled from the Land Bank to the co-ops, but a substantial amount will come from commercial banks.

Some producers claim, however, that commercial banks have become less eager to finance the crop because of what they see as the high risk and the enormous debt burden of most producers. B/Day 5/12/89

Interest payments comprise a major segment of total production costs. This season farmers will pay more than 17% for the funds.

According to Nampo, about 3,5-million hectares will be planted to maize this season.

Last year's costs were about R600 a hectare. This year the figure will rise to near R700.

For the past two years, since the introduction of the land conversion subsidy scheme, Nampo has been pressing farmers on marginal land to switch to pastures.

In the two years the target of 25 000 hectares was passed. However, Nampo stresses this is not fast enough.

It is hoped the process will be speeded up after the increase in the subsidy from R90 a hectare to R130 a hectare in November.

Meanwhile the Maize Board's price scenario for the coming season is a price of R190 a ton on a 10-million-ton crop rising to R261 a ton on a 6-million ton crop.

This, says Nampo, is against an average production cost per ton of between R200 and R235 on yields of at least three tons a hectare.

BCI (49) Fmail 8/12/89

Facing 1990

"The business mood is best described as one of growing uncertainty about prospects in 1990," says Assocom. It "will be a year for strong nerves, a difficult year for many businessmen before the foundations are laid for the next economic upswing."

On a best-case scenario for 1990, Assocom predicts much lower growth (real GDP at 0,5%-1%), slightly lower inflation (CPI at 13%-14%), a larger surplus on the current account BoP (over R6,5bn) and gross domestic consumption expenditure rising 1%.

Meanwhile, a rising gold price, higher JSE share prices and rosier rand/dollar exchange rate, "underpinned by favourable perceptions of recent political initiatives," brought a two-point rise in November BCI to 95,6.

"The improvement in the face of largely cheerless short-term economic prospects illustrates again the significant role which the gold price and political perceptions play in shaping the business mood," it says.

Contributing to November's rise were lower inflation and rises in motor car sales, real retail sales and in manufacturing. ■

disease".

Cape Times 8/12/89

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Servicemen may get 'time off'

Cape Times 8/12/89

TROOPIES already doing their two-year call up are expected to get "time off" in terms of the one-year cut in training announced yesterday by President F W de Klerk.

Full details of the new arrangements are to be revealed today but it is understood that thousands of young men could be back on civvy street sooner than they thought.

The one-year cut has been welcomed by the Democratic Party's defence spokesman, General Bob Rogers, but the Conservative Party's Mr Koos van der Merwe accused Mr De Klerk of acting unilaterally without consulting the Parliamentary Standing Committee on Security Services.

Commerce and industry welcomed Mr De Klerk's announcement, predicting an economic boost, a major reduction of the national skills shortage and "material" tax cuts in next year's budget.

Assocom said that the reduction reflected the increasing stability in South Africa and would strengthen business confidence.

Minister of Finance Mr Barend du Plessis said the move would result in substantial saving on government expenditure and improve productivity.

Top business executives urged Mr De Klerk to go further and cut camps, citing this as the major disruptive force in the upper-level job market.

Economists, however, warned against euphoria,

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From page 1

saying the initial flood of manpower onto the market would make jobs scarce.

Mr Adriaan Mocke, an economist at the University of Stellenbosch, said jobs would be scarce for the first year as matriculants "overflowed" onto the market, stretching universities and technikons to their limits.

Mr Jerry Ferry, president of the Cape Town Chamber of Commerce, said special help would have to be offered to unskilled servicemen coming onto the job market.

Opening an Armscor building in Pretoria, Mr De Klerk said the easing conflict situation between the East and the West — as well as in Southern and South Africa — had had a direct bearing on the security situation.

The more relaxed atmosphere in Southern Africa had not simply "fallen from the sky". The well-equipped security forces had made it possible.

If the situation changed the new call-up arrangements would be revised without hesitation.

In a statement Minister of Defence General Magnus Malan said a signal he had sent to President Mikhail Gorbachev in March 1988 was now paying dividends.

He had told Mr Gorbachev that if he applied the same principles to Angola that he had applied in Afghanistan, it would be a signal to South Africa that "the process to end the conflict in Southern Africa could begin".

General Malan said he had set out game rules for interaction in the security field in Southern Africa. These were:

- Mutual respect for sovereignty and territorial integrity;
- A desire to have stable, prosperous and developing neighbours;
- A rejection of the export of revolution, and
- South Africa reserved the right to act against revolutionaries and terrorists according to recognised international law.

The End Conscription Campaign (ECC) has welcomed the one-year cut in military training.

The ECC added, however: "This reduction does not remove the huge dilemma facing conscripts who still have to choose whether to serve in an apartheid army."

The organisation called on the government, as a "sign of goodwill", to release jailed objectors, declare a moratorium on all objector trials and allow exiled objectors to return without fear of prosecution. — Political Staff and Sapa

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4. Denmark.

Denmark has given an ultimatum to Eternit to demonstrate that harmlessless

CNT Tms 8/12/89 [illegible] (49 [illegible])

Call-up cuts means boost for stock market

Own Correspondent

JOHANNESBURG. — Records tumbled on
the Johannesburg Stock Exchange yester-
day as improving perceptions of the situa-
tion in South Africa were given a further
boost by news of cuts in national service
and other military operations.
Fuelled by strong demand from over-
seas and local investors which left dealers
stunned and breathless, the JSE overall
index surged 2,1% to scale a fresh peak
and close at 3 053.
While gold held in a tight range around
$404,5 in London, the JSE All-Gold Index
climbed 2,3%, to 2 168 to surpass its No-
vember 27 closing high of 2 149 when gold
touched $420.
The further upward thrust to the firm
trend — which dealers said was the most
sustained bull run in golds they had ever
seen in such a short period — could have
been spurred by a growing feeling that the
metal had successfully consolidated
above $400.
But it was rocketing prices of blue chip
industrials which took most analysts by
surprise. They said there were no funda-
mental reasons for such gains, which
swept the index up 2,5% to 2 725 to bring
its rise to almost 5% in the past two days.
The strength of the market was reflected
in De Beers, regarded as a barometer of
the JSE. The shares approached the June
26 peak of R67,60 before easing slightly to
close at R67,30.
"It seems like a case of blind optimism
which has been overdone. Investors are
looking for miracles," a dealer said.
Others said nothing like the lifting of the
state of emergency had happened to justi-
fy such rises.

● **Call-up cuts send JSE up — Page 11**

State of emergency censorship restrictions apply to a wide range of reporting, comment and pictures

The communist road to nowhere

49

Desmond Colborne

Paris director of the South Africa Foundation, reflects on a recent visit to the Soviet Union

"WHEN the world ends, or when the communist world ends, go to South Africa — things always happen later there!"

This updated version of the old joke came to mind when I returned to South Africa from two recent trips to Eastern Europe.

There, the red stars are being removed from the buildings.

Is this the result of timely dumping, sharp trade in second-hand symbols, or just another sign of behind-the-times Rip van Winkleism?

Could our extreme left possibly be as bad as the extreme right in misreading the signs of the times? If the events of 1989 have shown anything, it is that the communist road is a dead end.

Symbols

This year's anniversary of the 1917 October Revolution that brought the communists to power was commemorated in Moscow by a protest banner which read: "72 years on the road to nowhere."

When one visits Moscow, one sees stirring symbols of the old hopes and ideals.

The view, for instance, from the 12th floor of my 2 500-room hotel was sensational; an enormous economic exhibition, a vast monument to the Russian conquest of space and a huge statue of the worker and the co-operative farm girl striding together into a shining future.

Underground too, there were pictures of progress. The statues, mosaics and chandeliers decorating the efficient subway system turn it into a palace of the people.

Red Square and the Kremlin also live up to expectations — ramparts, palaces, the gleaming domes of old orthodox churches. Space, order, continuity, power.

In some central parts of Moscow, such as the arty Arbat pedestrian area and the well-heeled residential district where Gorbachev keeps a private apartment, the city looks presentable enough.

In a few places the "Russian soul" is palpable — for instance, in Tolstoy's old house and garden, from where he corresponded with Gandhi in far-away South Africa.

Gandhi named the Tolstoy Farm Settlement, outside Johannesburg, after the great Russian writer.

But if you look beyond the tourist showpieces and move further afield on a more personal walkabout, Moscow becomes an increasingly depressing place.

Shops with no stock, endless queues, drably dressed people, potholed streets, cracked pavements, ramshackle buildings, grimy courtyards, broken machinery and deplorable service are everywhere.

"We pretend to work," say workers, "and they pretend to pay us."

Pretence in the Soviet Union had become a way of life as management from above and motivation from below dwindled.

Pretence, window dressing and bluff were at their worst in the nearly 20 years under Brezhnev.

During his Czarist-style tours of the country, special accommodation, toilets and creature comforts were set up en route and the stores were filled with luxuries.

It was a make-believe world. But now unpleasant realities, ignored under Brezhnev, have been boldly faced by Gorbachev, surely the most remarkable leader in the world today.

The lights have been switched on and the problems are debated. This is what glasnost or openness is all about, but perestroika, restructuring — finding new ways of doing things — is increasingly difficult.

The latter is like trying to overhaul a jumbo jet in mid-flight. And now the Russians say: "We can criticise everything, but change nothing."

For their current woes, lengthening queues, emptier shelves — many people blame four years of Gorbachev rather than 72 years of communist mismanagement.

Like Smuts, Churchill and many past leaders, Gorbachev is undoubtedly much more popular abroad than at home. Many Russians are confused, bewildered and don't know which way to turn.

This confusion is illustrated by a current Russian joke about Gorbachev's problems, similar in a way to those of President Bush and President Mitterrand.

Bush has 100 bodyguards. One is an assassin, but Bush doesn't know which one he is. Mitterand has 100 cooks. One is a poisoner, but Mitterrand doesn't know which one he is. Gorbachev has 100 economists. One of them is right and knows the answers, but Gorbachev doesn't know which one he is.

According to a Russian saying: "Drowning men must save themselves." Up to their necks in difficulties, the Soviets have given up telling other people how to solve their problems.

Force

Formerly, under the Brezhnev doctrine, the Soviets claimed the right to intervene forcefully in the affairs of satellite states.

Now, according to the Russians, they have the Sinatra doctrine, a reference to the song My Way, which allows the satellites to do it their way.

The result in Eastern Europe has been the "great escape" from the Stalinist system, even if creeping capitalism is often disguised as socialist renewal.

Eastern Europe is less backward than the Soviet Union. Communism, more recently introduced in the satellites, has not ground down all the remnants of old commercial cultures.

But, wherever introduced, communism has turned out to be a formula for falling behind.

Anyone who looks closely at Soviet society recognises that there is some truth in the cold, cruel warrior description of the Soviet Union as "Upper Volta — with rockets."

And now Eastern Europeans say that communism has "Africanised" their economies — depressed them to Third World levels.

All this means that the Soviet model is no longer in any way exportable. For what can be learned from a superpower where, according to Sakharov, fewer than half the rural hospitals have running water and patients are lice-ridden because of the lack of soap and hygiene?

To get it out of a Third World morass, there is talk of massive Marshall Aid projects for Eastern Europe. This, incidentally, makes similar projects in southern Africa more unlikely.

Eastern Europe, after all, is believed to offer better economic opportunities, or at least has a prior claim to Western charity.

However, southern Africa, or more specifically South Africa, compared with Eastern Europe, does have one immense advantage.

There might be parallels between Gorbachev and De Klerk, what with Pretoriastroika, boereglasnost and so on. Ideological strait-jackets have had their effect on South Africa's economic performance as well as on that of the Soviet Union.

But, if ideology has held us back here, over there it has completely suffocated economic development. Our economy might need reform and relaunching, but the moribund economies of Eastern Europe need mouth-to-mouth resuscitation.

To breathe life into the Soviet and satellite economies, Gorbachev needs the help of the West. And the West, for its part, has established a link between economic development and political liberalisation.

This link, applicable to Eastern Europe, is somehow not considered applicable to South Africa. The same kind of people who want to strengthen the economies of Eastern Europe as a basis for political progress, want to change South Africa's politics by weakening its economy.

Balance

In the opposite camp are those who point out that it is not so much a question of giving De Klerk as well as Gorbachev a chance, as of giving economic development a chance in southern Africa as well as Eastern Europe and preserving a balance between political and economic liberation.

Meanwhile, if South Africa's far left — picking up the clothes discarded in Eastern Europe — were to be in a position to put its ideas into practice, this would be a surefire formula for turning South Africa, too, into Upper Volta — without rockets.

SATURDAY DECEMBER 16 1989

Cash mop-up squeezes SA dry

w/k news 16/12/89 49

From CLAIRE GEBHARDT

JOHANNESBURG. — The Reserve Bank is squeezing the nation's liquidity dry in the biggest mop-up operation in South Africa's history.

Rising and unprecedented levels of government balances, which peaked at R12,2 billion in November, reflect the authorities' determination to reduce liquidity and excessive credit creation by the private sector.

And although this tougher monetary stance means a lot of belt tightening for the average South African, the good news is that one or two years down the line the country could be looking at single-digit inflation for the first time in 15 years.

According to the Reserve Bank's latest Quarterly Bulletin, government deposits with the Reserve Bank stood at a massive R11,7 billion at the end of November, having peaked at R12,2 billion on November 8 as the Iscor share issue transferred an extra R2,9 billion to the Exchequer.

This follows progressive month-end rises during August, September and October of R10,4 billion, R10,8 billion and R10,8 billion respectively.

Extracting liquidity from the private sector has made bank rate policy more effective by increasing the market shortage, says Nedbank economist Edward Osborne.

And with the cutting edge of monetary policy being the market's need for accommodation, the bulletin indicates that the banks' "window" debt to the Reserve Bank rose from a low of R0,5 billion on June 10 to a new record of R4,9 billion on October 28.

The average daily level of accommodation rose from R1 billion in the second quarter to R3,3 billion in the third quarter and to R4 billion in October. No assistance in the form of repurchase agreements has been extended by the Reserve Bank since March 7 1989.

Rising with the increase in the market shortage is the cost of overnight cash. Costly overnight loans from the Reserve Bank at interest rates exceeding the prevailing prime overdraft rate are designed to punish banks that need excessive amounts of central bank credit.

According to the Bulletin: "The market's tightness in combination with the Reserve Bank's refinancing conditions occasionally caused the rate on overnight funds, as taken in by banking institutions, to rise above the clearing banks' prime overdraft rate."

Governor of the Reserve Bank, Dr Chris Stals, stresses that the fight against inflation will take top priority in 1990 and beyond as a prerequisite for sustained economic progress.

"The changing balance of payments situation, changing political environment, and the full and determined support of the Cabinet and the Minister of Finance makes this a most opportune time to fight inflation."

He says it was necessary to increase Bank Rate on October 11 to convince people that "we meant business".

(See page 5)

Cash mop-up squeezes SA dry

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(From page 1)

"In retrospect we had ~~our~~ doubts about whether it was the right thing to do but it was important for the psychological effect."

Another important anti-inflationary step was the arrangement with the Minister of Finance that government would continue to issue stock beyond the needs of the Exchequer.

"The funding requirements for the current fiscal year have already been made, but we will continue to pre-fund, selling government stock quite superfluous to the Treasury's needs."

An additional R1 billion of government stock had already been generated and the proceeds credited to the stabilisation account, says Dr Stals.

"We do not underestimate the problems of 1990 as our measures begin to take effect but if it doesn't hurt, it doesn't work."

The liquidity crisis for the banks is expected to reach a peak this month — from about December 23 to January 1 — when the note issue will soar.

Bankers are hoping the Reserve Bank will act tolerantly as it did after the Iscor flotation, when the shock of the transfer on the money market was alleviated by the recycling of R1,6 billion of short-term bills.

However, Dr Stals says the Bank is not keen to add to liquidity at this stage.

"We are taking a long-term view to February, when there will an outflow of maturing goverment stock totalling R2 billion. At that time banks will be in a position to reduce this liquidity. If we do open market operations now we will have to do opposite transactions in a month's time.

"However, it depends how the situation develops. If there is a substantial shortage in excess of R5 billion we could act."

(49)

WM 15-20/12/89

BUSINESS

Is the foreign interest thanks to FW? Or thanks to Finrand?

Is the foreign interest in South Africa a show of confidence in reform ... or is it thanks to the gold price and the dual exchange system?

By KURT JENSEN

WHILE South Africans are generally sceptical of State President FW de Klerk's reform moves, the programme seems to have been given the thumbs up by foreign investors.

Or has it? Over the last two months foreign investors have emerged as the major players on South Africa's financial markets, pushing Johannesburg Stock Exchange prices to new highs and sending yields on long-term government stock on the capital market to two-year lows.

The resurgence in foreign interest, after years of capital outflows, has been enthusiastically welcomed by government officials and in business circles, who have interpreted it as a sign that foreign confidence in South Africa's political and economic future is returning.

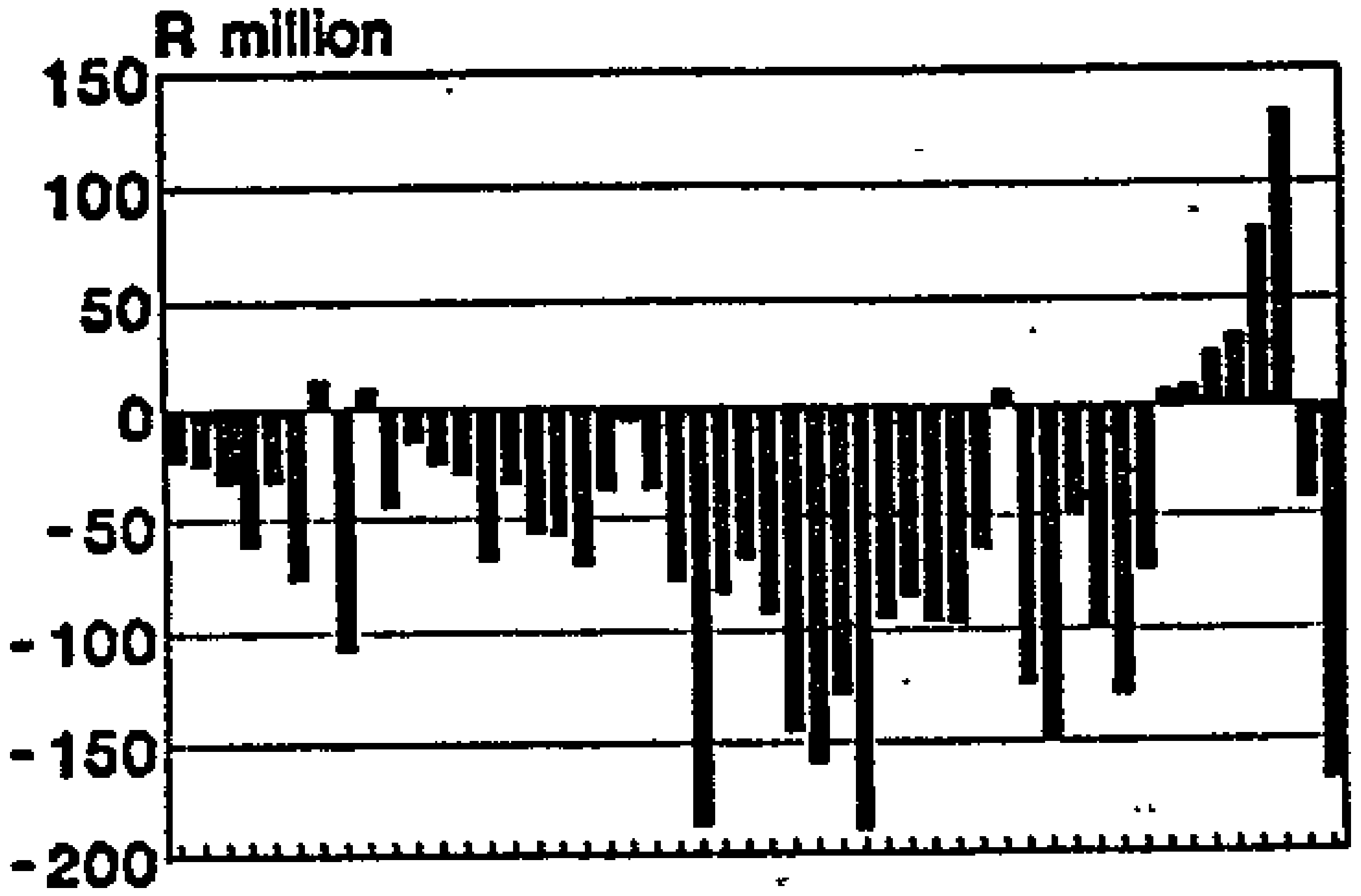
However, a number of analysts are countering that the reasons for the renewed interest can almost exclusively be ascribed to the renewed rise in the gold price as well as the advantages foreigners receive from the dual exchange rate system.

JSE weekly trading statistics show that soon after the rise in the gold price in mid-October non-residents emerged as net buyers of equities through the financial rand.

The value of purchases has soared rapidly since then and in the week from November 20 to 24 foreigners bought R329-million worth of shares and sold R199-million, leaving net purchases of R130-million — the highest in more than five years.

Non-resident transactions accounted for about two-thirds of the total value of shares traded on the JSE during that week and it is estimated that during the whole of November transactions by foreigners amounted to R2-billion.

Since then many foreigners have taken profits on those shares and over the last two weeks non-residents were once again net sellers. However, the JSE points out that their weekly statistics are by no means comprehensive as the figures only represent that portion of the financial rand market where non-resident transactions are executed through the stock exchange.



Weekly non-resident transactions on the JSE in 1989

In the wake of foreign buying JSE share prices have surged to record highs.

Before the recovery of gold in mid-October overseas net sales of shares were around R2,8-billion — following on sales of R2,5-billion last year and R3,4-billion in 1987 — but this trend has been radically reversed.

Since the mini-crash in mid-October the JSE overall index has risen by 35 percent to a new record level of over 3 100 points, boosted mainly by the staggering rise in gold share prices.

The surge in the bullion price from a low of $355 in mid-October to around $417 this week has pulled up the JSE all-gold index by over 60 percent to about 2 250 points.

Keith Bright, gold analyst at stockbrokers Frankel Kruger Vinderine, says that most gold mines have benefited from the buying wave, but adds that the better rated stock in particular has been doing well.

Another analyst points out that, apart from the fact that the dividend and earnings yield on South African mining shares outshine those of comparable shares in Australia and North America, foreigners benefit from the dual exchange rate system. They can buy shares through the lower financial rand but receive their divident payments via the commercial rand.

In contrast to the share market, foreign involvement on South Africa's capital market has remained fairly consistent and non-residents were net purchasers of gilts every single week this year. The average weekly net purchase was between R70-million and R80-million.

The pace, however, has picked up substantially over the last few weeks and yields on long-term stock have subsequently fallen to two-year lows.

Official statistics show that at end-July more than R2-billion worth of gilts has already been bought by overseas investors.

Local gilts are particularly attractive to foreign buyers, who are able to pay for them with financial rands. Dividends are remitted through the commercial rand.

Rumours, later denied by the Reserve Bank, that the financial rand mechanism was to be disbanded, prompted overseas buyers to increase their gilts on international financial markets because of conservative budgetary policies pursued in Western countries.

Moreover, a recent report by the Bank of Lisbon, points out that the scrapping of the 10 percent non-resident withholding tax on gilts last year, also held significant tax advantages for foreigners.

Foreigners are likely to continue to benefit from the anomalies of the dual exchange rate system.

Further, more substantial steps by De Klerk, possibly the lifting of State of Emergency and/or the release of African National Congress leader Nelson Mandela, will boost foreign confidence, but if the economic climate is not right the current flood of investment could slow to a trickle.

Black buyers move into the driving seat

The black consumer is well on the way to winning the fight for buying power.

BRUCE ALLEN reports

BLACK consumers are emerging as the future driving force of the South African economy.

Witness advertising campaigns

Economy given good rating

49

NEIL YORKE SMITH

THE economy performed far better than expected in 1989, says Econometrix economist Azar Jammine.

Jammine said in an interview that factors like high interest rates and import surcharges had been offset by much higher than usual government spending.

BDay 20/12/89

"It was possible to predict the high interest rates, although the resulting economic slowdown was much longer in coming than expected."

This was mainly because government spending had surged to record levels in the first half of the year, Jammine added.

"In the first half government spending as a percentage of gross domestic product (GDP) remained above 30%, higher than ever before," he said.

Jammine said a sharp tailing off in government spending towards the end of the year had allowed for some cooling in the economy. This was expected to continue in 1990.

Current policy was in contrast to past "boom-bust" economic policies where government expanded and contracted the economy using essentially short-term instruments.

"Rather than play the economy like a puppet on a string, policy makers seem determined to instil fundamental economic stability," he said.

Jammine said the main highlight of the 1989 economic year had been the change in leadership of both the Reserve Bank and government itself.

"These changes have been vital in creating new perceptions regarding the direction of future economic policy, as well as political policy," he said.

Neither capitalism nor socialism is the answer

129

Star 20/12/89

A leading trade unionist has slammed the "war of slogans" in the debate on South Africa's future economy, hinting at an important shift in union thinking. **DREW FORREST** reports.

Behind the often strident socialist rhetoric of the trade unions, a crucial rethink on South Africa's economic future is taking place.

The shift is away from Marxist orthodoxy towards a more flexible view which accepts the need for market freedom and the role of business in a post-apartheid economy.

A key straw in the wind was the much-discussed paper by the Congress of SA Trade Unions education officer, Mr Alec Erwin, at Mrs Danielle Mitterrand's recent Paris indaba.

This calls for an end to the "war of slogans" between dogmatic Marxists and free marketeers, and argues that the solution to South Africa's daunting economic problems lies "neither in free market capitalism nor in centrally planned command economy socialism".

All must benefit

Mr Erwin says the unions want mass participation in framing economic policy and "inclusivist" programmes of benefit to all, and to that extent remain broadly socialist.

The aim is to avoid minority affluence amid mass poverty, which can only lead to "renewed oppression and bitter conflict".

But state intervention need not take the form of nationalisation, Mr Erwin stresses. He quotes the example of South Korea, which influences the investment decisions of business in order to sharpen its competitiveness and gives educational, training and research support.

"There will have to be social control over production through a range of ownership forms, where the market plays critically important roles," he adds.

While attacking the current privatisation/deregulation thrust in South Africa as reflecting "the narrow interests of capital and the state", Mr Erwin concedes that the process can improve management practices.

There can be no doubt that events in Eastern Europe and the Soviet Union, where the ideas of worker dictatorship and central economic planning have been substantially discredited, have influenced local trade unionists.

Mr Erwin admits as much by saying that the experience of nationalisation in both capitalist and socialist countries compels a new approach to the issue.

Coupled with the policy rethink is a more pragmatic union line towards sections of big business.

Sources indicate that the Mass Democratic Movement, which embraces Cosatu, played a decisive role in settling the recent beer strike and that one of the MDM's concerns was not to alienate "progressive capital", which includes SA Breweries.

Wits University sociologist and labour watcher, Dr Duncan Innes, believes the MDM is seeking business allies to bolster its position in readiness for broader political negotiations.

He points out that the Consultative Business Movement had observer status at the recent Conference for à Democratic Future.

Dr Innes believes the union shift may be at the level of leadership rather than the rank and file, and predicts vigorous debate on economic policy within Cosatu.

An underlying influence, commentators say, is the recognition by more sophisticated unions that no post-apartheid government can meet workers' welfare needs unaided, and that negotiations between labour and capital have a key role to play.

In the huge metal trade, for ex ample, unions and employers are already debating welfare issues such as health and housing at industry level.

In his paper, Mr Erwin deplores moves by certain major corporations — he refers specifically to Barlow Rand — to undermine industry-wide bargaining.

"National platforms such as industrial councils will be central to an economic future," he comments.

Anglo American's Mr Bobby Godsell believes that although local politics remain "in a moralistic phase", there is a growing sense in union circles that a partnership with business is both desirable and inevitable.

Joint management of pension and provident funds in the post-Wiehahn era have contributed to a new realism, he says.

"The unions have become empowered," he comments. "And with power has come an acceptance of limitations and a sense of costs."

Mr Alec Erwin . . . aim is to avoid affluence amid mass poverty.

dressed as a matter of urgency.

● Comment: Page 4

since Highveld's 1989 second quarter contract price of $7,50/lb. — Reuter.

Money supply still out of target range

BDay 22/12/89

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HAROLD FRIDJHON and NEIL YORKE SMITH

GROWTH in the money supply, SA's stock of money, as measured by the M3 aggregates, slowed down to 24,55% in November compared with the sharply upward-adjusted numbers for October.

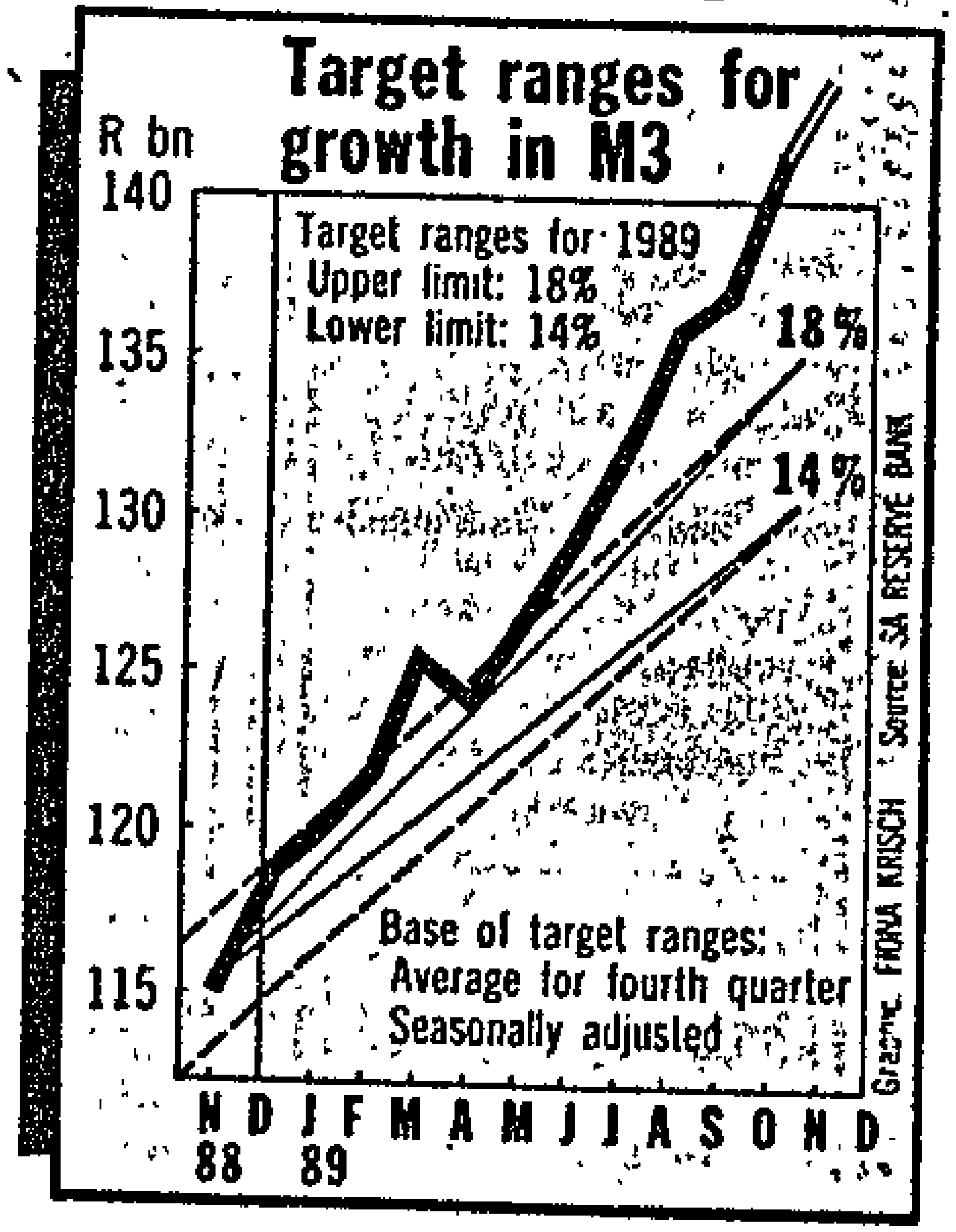
According to Reserve Bank figures released yesterday the percentage growth in the seasonally adjusted M3 for October soared to 24,70% compared with the preliminary estimate of 21,65%. The September growth was 22,87% adjusted from a preliminary 22,05%.

M3 is the broad measure of money supply, consisting of notes and coins in circulation plus all deposits with banks, building societies and the post office, which reached a total of R143,682bn at the end of November. The comparative figure for November 1988 was R115,364bn.

Encouraging features of the November returns are: the increase in the net gold and foreign exchange reserves added to the growth in money supply, and more significantly, the velocity of circulation continues to decline.

With only the December figures to come — and there is little hope of the rate of increase reducing over the holiday season — money supply once again will fail to reach the targeted range of 14-18%.

Senior deputy governor Japie Jacobs said yesterday that the Iscor flotation was the reason for the sharp upward adjustment in October. He indicated that most figures in the preliminary calculation of M3 always required some adjustment.



Adjustments become necessary because of inaccuracies in the data supplied to the Reserve Bank by banks and other deposit-receiving institutions.

There are many margins for error, such as estimates made by the Land Bank or, provisional bank returns which do not identify whether negotiable certificates of deposit are held inside or outside the banking system.

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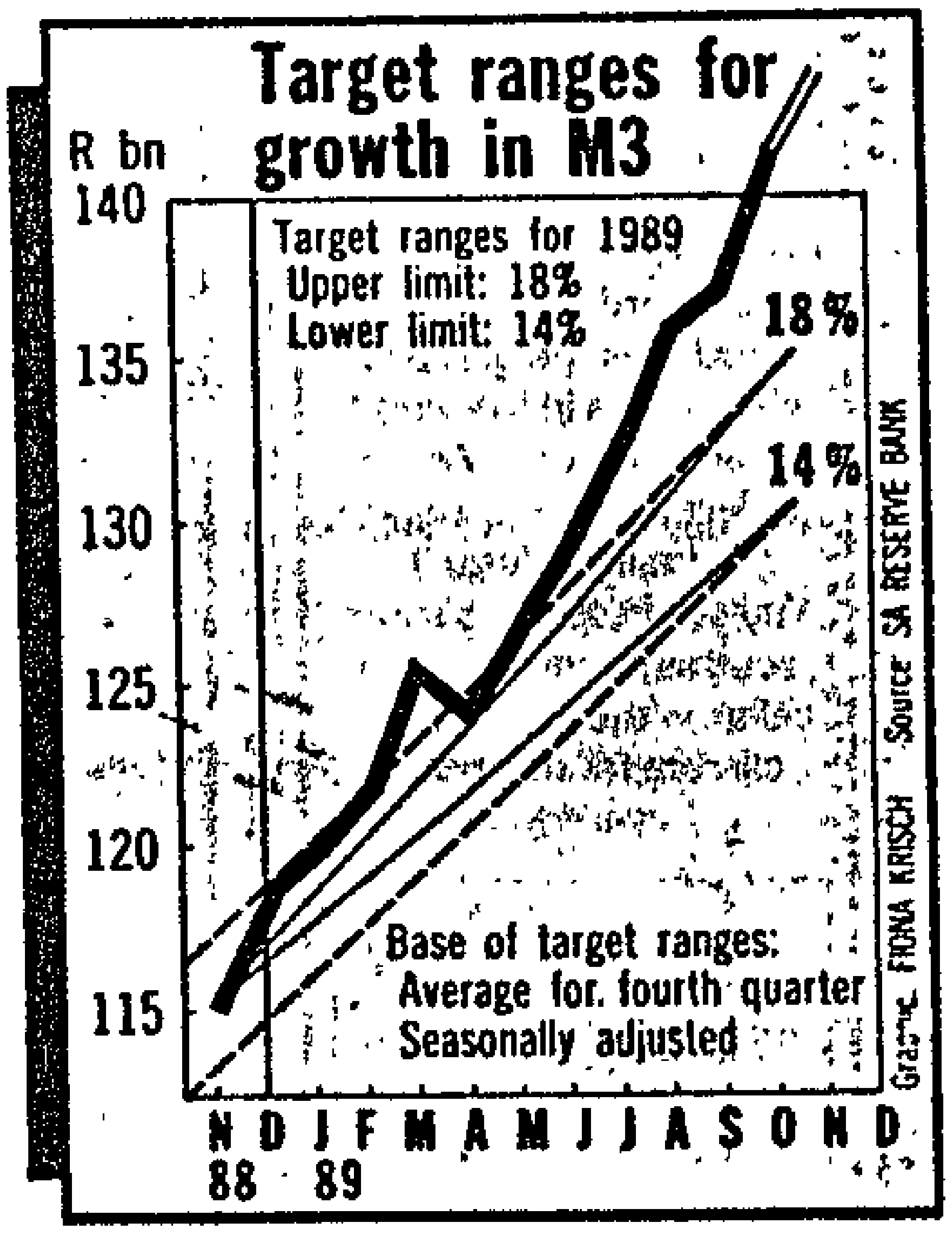


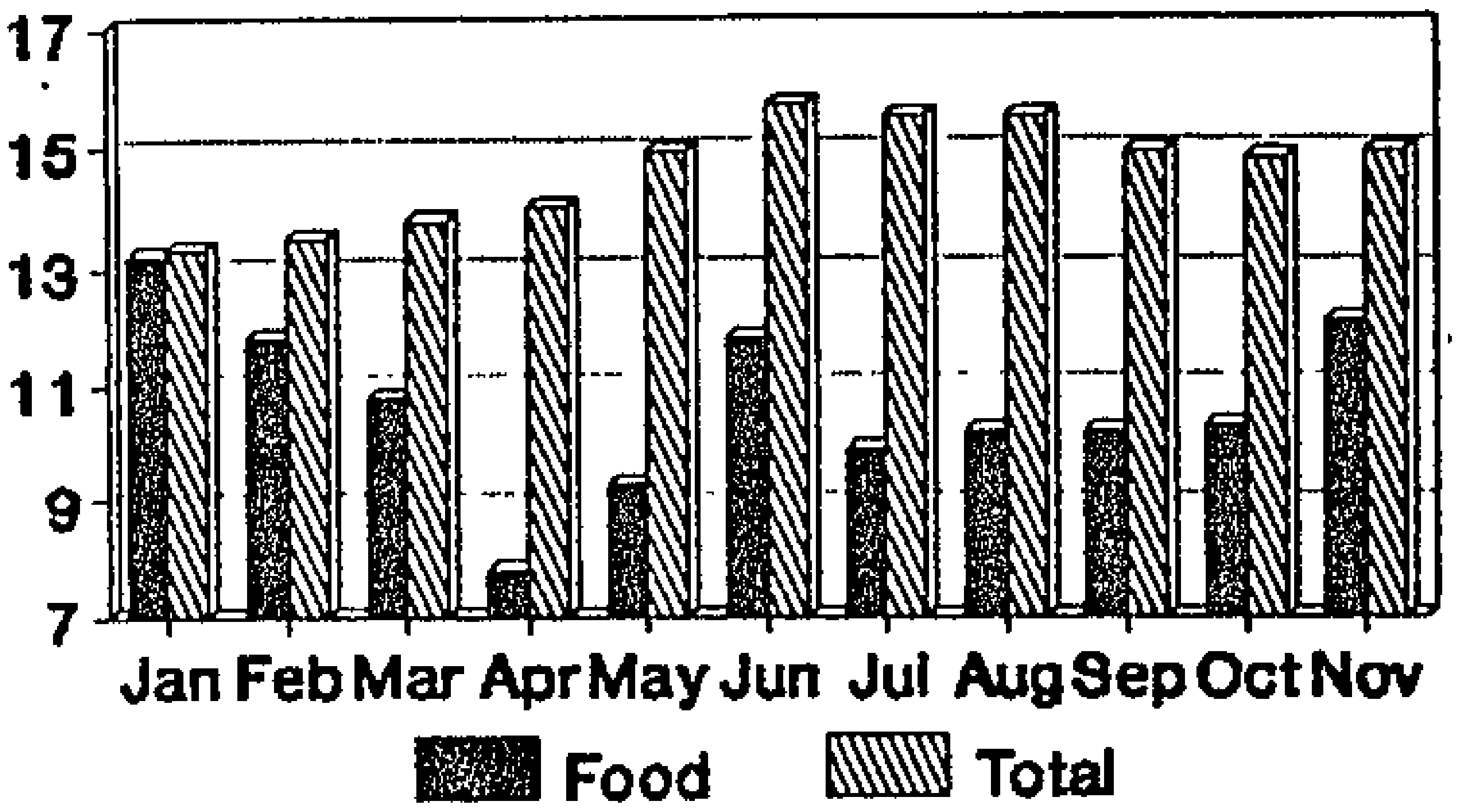
Target ranges for growth in M3

Graphic: FIONA KRISCH · Source: SA RESERVE BANK

STAR 22/12/89 (49)

Money supply growth bodes ill for inflation

By Sven Lünsche



Annual percentage rises in the overall CPI and the CPI for food.

In a dramatic reversal of recent trends, money supply, as measured by growth in the broad measure, M3, surged by an annual 24,5 percent in the year to November.

The soaring figures could seriously thwart the intensified efforts by the financial authorities to bring inflation under control in the years ahead.

Reserve Bank figures released yesterday show that M3 rose by a provisionally estimated 24,55 percent to R143,68 billion.

This follows on increases of 24,7 percent in October, 22,87 percent in September and 25,55 percent in August.

Significantly, the October M3 figure was revised from the initial estimate of R138 billion to R142,07 billion — further evidence that credit extension by financial institutions is still proceeding at a high rate.

Further setback

In what could prove a further setback to the anti-inflation campaign, consumer price index (CPI) figures released yesterday indicate that food prices are once again escalating.

However, the lagged effect in the high growth rate of money supply is generally regarded as the most serious impediment to a lower inflation rate.

The extent to which money supply is running out of control is seen by the fact that the November M3 figure is 5,5 percent higher than the target set by the Reserve Bank for the month.

It already exceeds the December 1989 R137,7 billion value of the upper boundary of the target range.

The main factor underpinning the rise is credit spending.

Reserve Bank figures show total domestic credit extension rose from R137,19 billion in September to R140,1 billion in October, with both HP and leasing finance increasing moderately.

Other loans and advances by banks rose from R73,97 billion to R77 billion in October.

Latest BA9 returns by commercial banks show that credit extension on their balance sheets rose by nine percent from March to September, with Standard and Bankorp showing credit growth of over 15 percent.

While economists doubt that the continued surge in money supply will lead to a tighter monetary policy in the form of higher interest rates, they say it could rule out any easing of monetary measures in the months ahead.

The Reserve Bank also announced that M2 money supply in October increased 30,56 percent to R114,215 billion, while the narrowly defined M1 increased 18,15 percent to R47,24 billion. These compared with revised increases for September of 27,44 percent in M2 and 12,84 percent in M1.

A further, albeit less significant trend, which could undermine efforts to bring inflation under control has been the recent rise in food prices.

Central Statistical Services figures released yesterday show that inflation in November was running at 14,9 percent, slightly up on October's 14,8 percent.

But food prices once again increased at a steeper rate than in previous months.

After rising by an annual level of around 10 percent in each of the previous six months, the year-on-year increase in the CPI for food climbed to 12,1 percent in November

On a monthly basis, food prices increased by 1,7 percent from October to November, contributing 40 percent to the overall one percent monthly rise of the CPI.

Over the four-month period from August to November, food prices rose by an annualised 17,5 percent — well ahead of increases in other sectors.

Food prices rose over a wide spectrum, led by the price of grain products, which soared by 5,6 percent in the month.

Meat prices rose by one percent, but indications are that, they will not increase sharply over the festive season.

While food prices could slow down the intensified efforts by the authorities to curb inflation, economists are still optimistic that price increases will be lower next year.

Stricter policies

Against the background of a declining growth rate and stricter fiscal policies, Volkskas' Adam Jacobs expects inflation could decline from 15 percent in early 1990 to about 13,5 percent by the end of the year.

Sanlam's Johan Louw concurs with this forecast, arguing that the recent strengthening of the rand will eventually lower producer price inflation for imported goods, which hit a peak of about 20 percent in June, but has tended appreciably lower since then.

DECEMBER • 22 • 1989

Financial Mail

㊾ Fmail 22/12/89.

THE ECONOMY

Don't count chickens, but . . .

Most economic projections for 1990 are conservative. The recent meeting of the *FM* Board of Economists, for instance, envisaged inflation of 13,5%-14% and GDP growth of, at best, 1% (*Leaders* December 1).

Such conservatism is certainly justified by the historic fundamentals. But things could be changing so fast as to render all such forecasts out of date even quicker than usual. And though the forces for change are imponderable, for once they all seem to be positive. Broadly, there are three:

☐ The strengthening gold price;

☐ The impact of the "De Klerk factor" on domestic confidence; and

☐ Signs of an improved international climate, both political and financial.

While the gold price is external and uncontrollable, the other two factors are closely linked and we can, to some extent, influence them. The turmoil in eastern Europe must in any event divert some international attention away from southern Africa and less doctrinaire Marxist governments may downgrade the importance of supporting organisations like the ANC. But, if we are to capitalise on this, we must take the initiative too.

Fortunately, F W's new approach seems to be matched by a new realism abroad. Even the United Nations is no longer calling for whites to hand over to black majority rule tomorrow. Unlike the experience that must have added to P W's deepening cynicism, the goalposts are no longer being shifted further away; if anything, they're coming closer.

There is growing feeling, here and abroad, that simply the start of meaningful talks with credible black leaders could reopen many international doors — not least to bankers.

Even without this, the financial outlook is improving. The latest Reserve Bank *Quarterly Bulletin* was able, for the first time in many issues, to report a positive net capital inflow. The strengthening (or just bottoming) of the gold price will both stabilise the rand and ease the debt repayment burden.

Now none of these factors can be built into formal projections. Gold could turn bearish again; F W could prove unable (or unwilling) to sustain his early momentum; and in that event, the international mood would quickly sour again. Nor do they contain a quick fix: early 1990 will still be tough.

But just as recent months are proving a turning point in world geo-politics to an extent that would have seemed lunatic to predict at the start of this year, so we may be going through a similar phase. If so, by this time next year, the economy could be regaining a health now unimaginable. A return to the 6% growth rates of the Sixties and early Seventies might even be in reach.

It may be too early to count chickens, but that's what we should be striving for. It could well be our last chance. ■

Economic as well as political targets in FW's first 100 days

49

B/Day 22/12/89.

MIKE ROBERTSON

AS HE approaches 100 days into his presidency F W de Klerk has already irrecovably changed the nature of government in SA. And, while he still has a long way to go in breaking down the mistrust incurred by the NP in its 40 years of apartheid rule, the 100 days to December 28 could well become seen as the period in which the foundation of a new SA democracy was firmly put in place.

Government's twin refrains in this period have been "normalising political debate" and the "correct application of scarce capital resources".

Central to achieving these aims has been a third, and no less important, aspect of De Klerk's first 100 days — restoring the Cabinet to its rightful position as the foremost policy-making body in the country.

To achieve this De Klerk has wielded the axe to dismantle the National Security Management System (NSMS) and downgrade the State Security Council which usurped the authority of Cabinet in the final years of his predecessor.

Although steps taken to normalise political debate have dominated the headlines, in a much less publicised manner more progress has been made towards achieving the second goal of fundamentally restructuring the management of the economy.

The turning point as far as this aspect is concerned came when the Cabinet went into the Transvaal countryside at the end of October for the first of its two-day "think tank" sessions.

There, Administration and Privatisation Minister Wim de Villiers delivered a series of papers which bluntly stated that, unless government slammed the brakes on spending and sorted out its priorities, the country's economic future was bleak.

Among the decisions which flowed from the two-day session were:

☐ Agreement that each department — in particular those concerned with security, health and education — would re-assess priorities.

☐ The appointment of senior businessmen as financial managers in spending departments.

☐ Restricting the Additional Appropriation — the amount by which government overspends the Budget — to only emergency measures like disaster relief, thus ensuring that departments stick to their budget estimates.

☐ The tightening of control over spending on homelands.

Defence was the first department to implement these decisions — agreeing at a follow-up meeting with De Villiers to cut its spending by R1,5bn.

This will be achieved by the cut in military service and savings flowing from the ending of SA involvement in the Angolan war and the scrapping of the NSMS.

More significantly, it will be achieved by restricting arms manufacture to only those weapons deemed necessary to defend the country in the light of the ending of the Angolan war.

DE KLERK ... wielded the axe

De Villiers is now reviewing health expenditure in conjunction with the relevant Ministers, and an investigation of education spending will follow.

In the meantime other departments have begun taking seriously De Klerk's commitment to cut expenditure to the bone. An example of the extent to which this is being carried out is that some civil servants have been told in future they will have to buy their own newspapers.

Government's second stated aim of normalising political debate was also the subject of a two day "think tank" session.

According to one Minister at the meeting, Cabinet "came to conclusions on long-outstanding matters that we needed to get to grips with".

He would not elaborate but senior officials say decisions taken included the need to remove impediments to negotiations like the state of emergency and the continued imprisonment of those people seen as leaders by opposition groups.

There was apparently also agreement that if negotiations were to get underway, the ANC and other organisations would have to be unbanned.

According to Ministers, government sees the removal of restrictive and apartheid measures as the easy part of its attempt to create a climate in which negotiations can take place.

What is more difficult is getting opposition groups to accept its bona fides.

Here, De Klerk and his Ministers missed a golden opportunity to demonstrate to the country their commitment to undoing the wrongs of the past in not appointing a judicial commission of inquiry to investigate allegations of police death squads.

Ministers need little persuasion that aspects of the security establishment have grown rotten through lack of accountability.

But, as yet, they have shown little public inclination to return the country to the rule of law. However, some are prepared to admit in private that not appointing a judicial commission was a missed opportunity to demonstrate that their stated committment to negotiating a new SA is more than just words.

MANDELA ... talks a way off

De Klerk has repeatedly called on opposition groups to accept his government is serious when it calls for a negotiated settlement. Suspicion about the police is an integral part of the mistrust felt by opposition groups towards government.

Government is still a long way off sitting down at a table with the leaders like Nelson Mandela and Mangosuthu Buthlezi, but in deciding to meet with labour, church, political and cultural groups across the entire spectrum it has embarked on a process that it hopes will eventually result in this.

If, when he returns to work in January, De Klerk can maintain the momentum built up in the first 100 days by scrapping the emergency and releasing Mandela, there will no doubt be others like Walter Sisulu who will be prepared to begin talking — at least about other preconditions to negotiations.

One aspect of any future negotiations which government has already begun to address is the fate of the homeland system.

Ministers agree that with government stating it has abandoned apartheid the homeland system must go.

But they are finding that even those homeland leaders who say they see themselves as part of a future united SA are reluctant to see any dismantling of their power bases. Even those members of government prepared to give a commitment that no future incoporations affecting people will take place find themselves being accused by homeland leaders of betraying past commitments.

Trapped by the mistakes of the past, government's thinking on homelands is veering towards seeing them as future regions, or even new provinces.

But, as yet, this thinking is far from clear and is unlikely to become so until negotiations get off the ground.

It will be a while before that happens, but if De Klerk and his team display a similar boldness towards negotiations as they have in restructuring economic management, they will improve the chances of fulfilling their wish of having the broadest possible poliical spectrum represented at the negotiating table before the end of 1990.

LETTERS

'Frustrating' decade waiting for reform

(49)

Star 25/12/89

Johannesburg Stock Exchange president Mr Tony Norton believes the 1980s were "a period of waiting — a period in which time seemed endless." **KAIZER NYATSUMBA** spoke to him.

Johannesburg Stock Exchange president Mr Tony Norton (50) is a modest man. It takes some gentle coaxing to get him to talk about himself.

"The type of work I do does not leave me much spare time. Whatever little time I have I spend with my family. I don't play golf or anything. My family is my hobby," said the father of three sons aged 19, 20 and 22.

In his broad assessment of the decade Mr Norton said: "The 1980s have been a period of waiting — a period in which time seemed endless. From my point of view it has been a period of waiting for social and economic reform in this country.

"In the early '80s we in this country became very, very aware of the need for reform. In the mid-Eighties we had the promise of reform, and towards the end of the decade we have had the denial of reform. Right at the end of the decade we had a return to sensibility.

"While the '80s were in many ways frustrating to me, I never gave up the firm belief that our society and economy are redeemable and hold promise. That belief in the future was founded in an awareness that increasingly South Africans are sharing common values and refusing to be impressed with what I call the grand abstractions."

Mr Norton said since he joined the JSE in 1985 the stock exchange had invested heavily in the future, in people and their training.

Professionally the decade was not a bad one for Mr Norton. In 1980 he was the managing director of C G Smith Sugar in Durban.

In 1981 Barlows took control of C G Smith Sugar and the following year he was moved to Johannesburg. In 1983 he was appointed chief executive of Tiger Oats, and in 1984 was recalled to Barlows's head office, where he became executive director and chairman of the Foods Division. He was still in these positions when he was appointed president of the Johannesburg Stock Exchange in 1985.

He said there was no "significant achievement" attained by the JSE during his tenure, but they were moving towards such an achievement. His job was to re-organise the JSE, and he felt he had succeeded in doing so.

Any major setbacks?

"Always," he said. "I think if one is optimistic one will always have setbacks. I have had my share of them and these are challenges one encounters.

Mr Tony Norton ... waiting for economic and social reform.

1980: Managing director of C G Smith Sugar, one of the big sugar companies in Durban, since 1977.

1981: Barlows purchases C G Smith Sugar, but Mr Norton stays on as managing director.

1982: Barlows acquires Tiger Oats, and Mr Norton is moved to Barlows's Johannesburg office.

1983. Appointed chief executive of Tiger Oats

1984: Appointed executive director of Barlows and chairman of Foods Division at head office in Johannesburg

1985: Appointed president of the Johannesburg Stock Exchange (JSE).

1985 to

December 1989: President of the JSE.

Director of Safto and Shell South Africa

Member of the Economic Advisory Council of the State President.

Member of the Competitions Board.

Member of the Standing Advisory Committee on Company Law.

Member of the Securities Regulation Panel.

Member of the Financial Markets Advisory Board

Market slide

"The most frightening thing was in 1987 during the big market slide in October when we nearly lost control of the market. Fortunately we were able to rebuild it. That was very, very touch and go."

On the economic front, Mr Norton said the decade started with a strong gold price "but that slipped away very quickly, so we have had a decade without a strong gold backing." He said given "the hangover of bad policies of the past" and economic sanctions against the country, the economy had done quite well.

He said the fact that the economy did in fact grow by between one and two percent in the decade was very encouraging, and meant that the economy had the potential of growing by between six and eight percent in the 1990s.

"I am very impressed with the new leadership of President F W de Klerk. It looks like we are going to get down to business now.

"I am very optimistic about the 1990s, and I think that any person who emigrated from South Africa now needs to have his head read. The 1990s will be a tremendously exciting time. I can see South Africa becoming a regional economic superpower, because we have the infrastructure," he said.

He said that on the political front there was not much to write home about. It was, he said, a period of "start-stop reform which has been very dislocating and has given the far right and the far left opportunities they should not have had."

Significantly, however, it was also a decade in which former State President Mr P W Botha "had the courage to split the Afrikaner volk," and the NGK declared apartheid un-Christian.

On the positive side, Mr Norton said the 1980s were also a period in which South Africans of all hues started to find each other, "irrespective of the politicians". One such evidence, he said, was the fact that industrial relations had "settled down".

He said politics in the 1990s would be very exciting but remain "potentially dangerous".

Said Mr Norton: "I believe there is enough goodwill and common interest for a negotiated settlement to be reached. People will move more and more towards each other."

Government finances in the new fiscal year

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OUTLOOK 90

Star 29/12/89

By Mike Daly, economist, Southern Life

As the last quarter of the fiscal year is reached, private sector pencils are being sharpened in the annual exercise of trying to second guess the government's major statement on economic management and tax policy in the forthcoming Budget.

At this early stage not much is known about government's specific intentions, frustrating as this is for some sections of the community who will, inevitably, gain or loss after Budget day.

All that can be attempted is to outline the major issues that concern the fiscal planners as they try to frame a budget they judge to be appropriate for the economy at this juncture.

The issues could be arranged in the following stylised way

Firstly, how large a rise in overall, expenditure should be aimed for?

With the ongoing private sector's concern (and increasingly the Cabinet's) with the high absolute level of government expenditure and the need to keep it from growing in real, inflation-adjusted terms, the past few Budgets have proposed a spending increase in line with the expected inflation rate.

The forthcoming Budget will be no exception. Inflation will be estimated at around 13,5 percent and the Minister's proposed spending increase will be no higher, with assurances that this time even more strenuous efforts will be made to keep spending from growing at above that rate.

This would put budgeted expenditure at some R74 500 m after this year's expected R65 000 m. In practice however, spending inevitably grows at more than the rate of inflation, as the accompanying graph indicates.

This year, spending will have grown at some 17 percent, above both the budgeted 15 percent and the expected inflation rate of the same amount.

Of concern is the fact that the budgeted increase could be restricted only by allowing a minimal rise in capital expenditure, implying a sizeable real decline, which involves a running down of the public sector capital stock.

Secondly, the size of the deficit before borrowing must be decided upon. Official policy has for some years been to bring it down to 3 percent of gross domestic product (GDP), the last time it was that low being 1982-83.

The current fiscal year should see significant progress in this regard, the deficit falling to around 3,2 percent of GDP compared with the previous year's 4,4 percent, due to a massive revenue overrun.

Next year's deficit will probably be pitched at the 3 percent level, or in money terms some R8 300 million, with the need for austerity in a year of heavy foreign capital outflows being cited.

Thirdly, assuming the budgeted spending increase is 13,5 percent, it follows that revenue must be R66 200 million, which is 15 percent up on this year's probable outturn. The issue then becomes what tax cuts are possible or tax increases necessary to achieve this total revenue growth?

Many socio-political considerations come in at this point. In this regard the Minister's comment in the last Budget that the tax burden on the individual is already too high, and but for economic stabilisation considerations he would have granted tax relief, is important.

The graph shows that in inflation-adjusted terms the burden on individual taxpayers has risen inexorably this decade. The exception was fiscal 1985-86 when recessionary conditions hammered personal income growth and therefore the income tax take.

The Minister is almost certain to adjust the tax tables to offset at least some of the effect of fiscal drag. Without this, the increase in direct tax on individuals would be in the order of 30 percent — another exorbitant increase and one not necessary for the required 15 percent total revenue growth.

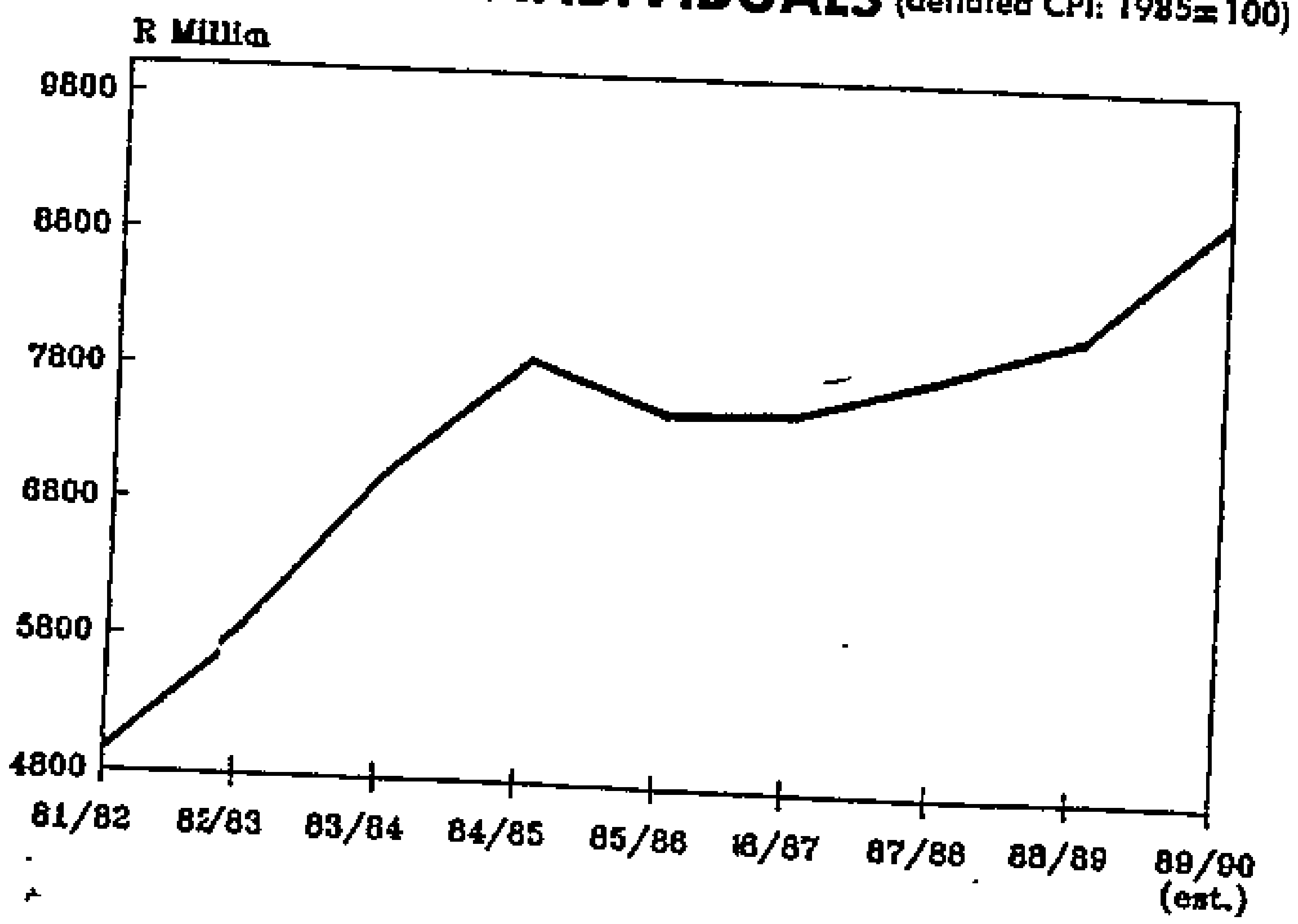
However, there will be little room for other tax cuts. The important surcharge, which has been responsible for most of the revenue overrun this year, will bring in less next year as import volumes decline and a partial lifting of the surcharge occurs.

GST, now as large a contributor to total revenue as direct individual tax, will increase only at around the inflation rate, given that consumer expenditure will show minimal real growth.

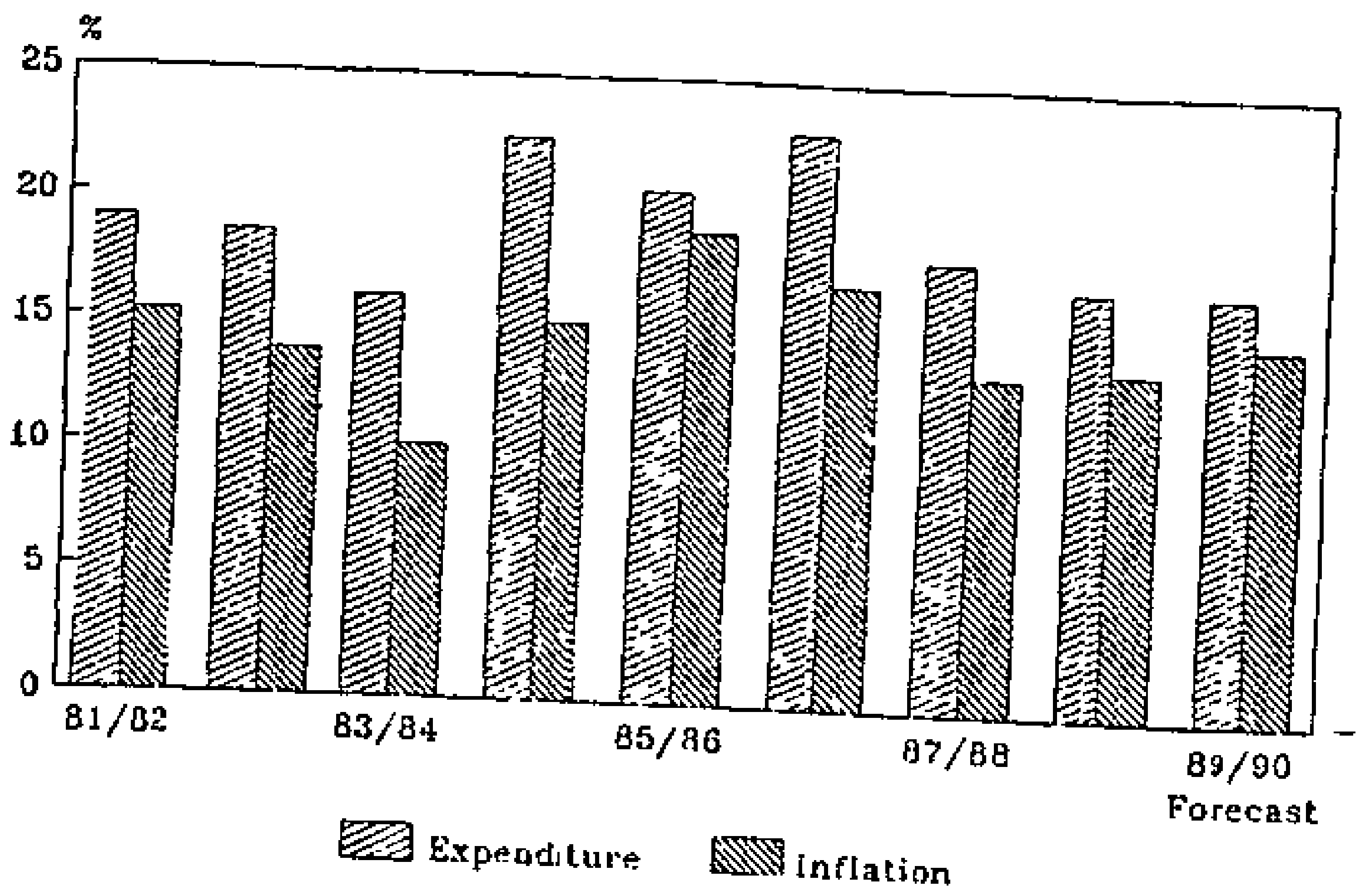
In addition company tax (non-mining) will not match the 17,3 percent estimated this year, due to the business cycle downturn.

Only the historic achievement of a real fall in spending growth will allow tax cuts of any significance to be announced.

DIRECT TAX ON INDIVIDUALS (deflated CPI: 1985=100)



GOVERNMENT SPENDING VS INFLATION



Rand limps to the end of the decade

Star 29/12/89

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The economic outlook for South Africans at the end of the 1980s does not look bright, with many families facing massive debt problems amassed by buying on credit and turning to bank loans to keep pace with inflation. MICHAEL CHESTER reports.

The South African rand bounded into the 1980s on the crest of a gold boom that seemed to promise economic miracles — but limps to the end of the decade on crutches.

At home, the buying power of the rand on shopping expeditions has shrunk by more than two-thirds. Even the state mandarins at the Central Statistical Service admit that the R1 coin of 1980 is now worth less than 33c.

Abroad, the slump in the rand's exchange rate versus every single major foreign currency has made overseas holidays no more than a dim memory even for many relatively affluent families.

And economists have sounded repeated warnings that South Africa's inflation rate, already on average at least three times bigger than in most industrial nations, threatens to climb yet higher in the year ahead.

The dilemma is underscored by growing evidence of a widescale slide in standards of living as more and more families confront massive debt problems amassed by buying on credit and turning to bank loans in a vain battle to keep pace with inflation.

The Econometrix research unit estimates that average living standards will drop by at least another three percent over the next year as income tax takes bigger bites out of wages and salaries.

To add to problems, families are wrestling with repayments on their debts and home loans at a moment when interest rates have risen to 20 percent and more.

Mrs Sheila Lord, vice-president of the Housewives' League, heads a team of shopper sleuths recording price movements.

In a recent tabulation of the havoc, she found that the average bill for 26 items — toothpaste and toilet soap to margarine and cake flour — had more than trebled compared with 10 years ago.

Sharper perspectives can be unearthed from the regular quarterly bulletins issued by the Reserve Bank. Here one discovers from a recent count that a food basket that cost R53,10 in 1980 now costs over R193. A piece of furniture that was tagged at R55,70 now costs R179,40.

Among the worst shocks: a new small car that one could buy for around R5 060 in 1980 is now likely to cost R25 250.

The especially alarming sharp increases in car prices is blamed by motor manufacturers not only on domestic inflation by also on the fact that so many components have had to be imported from Germany and Japan — and been forced to run the gauntlet of the worst movements of all in exchange rates as the rand has weakened.

How have actual pay packets countered the conflagration of inflation? All of them have suffered a roasting.

In the gold boom bonanza at the start of the decade, most workers thumbed their noses at inflation. Consumer prices rose 13,8 percent in 1980 — but white wages jumped 16,9 percent and black wages climbed on average by 21 percent.

The ugly toll of inflation was on full display, however, by 1987, the latest year covered by a similar set of comparisons.

Consumer prices rose by 16,1 percent in that year. Average increases in white pay packets limped behind at 11,5 percent. Black wages also trailed behind, despite the flexing of more union muscle power, with average increases of 14,2 percent.

"The basic source of the cause of rising inflation and a falling rand," contends Dr Azar Jammine, director of the Econometrix think-tank, "can be traced back to the relentless growth in government spending.

"To foot the bills, the government demanded higher and higher taxes, relying on inflation to increase revenues by taking bigger slices out of bigger incomes and forcing everyone to climb the tax ladder to higher marginal rates.

"Families have been forced to borrow, in loans and credit, to compensate for the erosion of disposable incomes — and in turn the government has used the printing presses to cause an explosion in the money supply and so give another twist to the inflation spiral.

"But inflation has been fuelled by other sources, too. Inflation and high taxation has in turn driven investors and corporations into chasing paper assets, causing more and more concentration of industrial and financial power that has exacerbated inflation pressures.

"Worker reaction has been to increase trade union power. Sometimes, unfortunately, the result has been wage increases that have not been matched by productivity increases.

"Longer term, however, inflation and the decline of the rand will not be reversed until first there is evidence of a reversal in government spending patterns."

ECONOMY— 1990

JANUARY — FEBRUARY

Worst is over for interest rates

By Dr AZAR JAMMINE,
chief economist,
Econometrix

Star 3/1/90

OUTLOOK 90

No single factor has played a more significant role in cooling off the South African economy in recent months than the high level of interest rates which has prevailed over the past year.

The boomlet experienced by the economy in 1988 and the first half of 1989 took place mainly as a result of people's willingness to borrow to buy homes, appliances, TV sets and the like. However, interest rates hovering around 20 percent for most of the year have sapped the ability of the man-in-the-street to keep borrowing and spending the way he was doing at the beginning of the year.

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Indeed the major fear among consumers and home owners alike at present is that interest rates might rise still further.

The good news is that it is unlikely that they will do so, the bad news is that one should not expect rates to fall too far in the year ahead.

To understand the rationale for this prognosis one needs to examine the main determinants of interest rate movements in South Africa.

The country needs to accumulate sufficient foreign exchange reserves with which to repay the large amount of foreign debt falling due next year and manipulation of the level of interest rates is one of the key policy variables which can be used to influence the amount of foreign exchange available.

Three main factors influence the country's ability to accumulate foreign exchange reserves. These are the level of overseas interest rates, the gold price and the level of domestic economic activity.

The level of overseas interest rates is a vital determinant of our domestic interest rate structure because the gap between domestic and overseas interest rates affects the extent to which capital flows in or out of the country, thereby influencing the amount of foreign exchange which the country possesses.

At present, overseas interest rates are high, as the world's leading nations try to prevent their inflation rates from rising further. As a consequence, South Africa's rates have to remain high.

However, there are signs that overseas rates might start coming down gradually in the year ahead as overseas inflationary pressures begin to recede. So pressure on South Africa's rates to remain high might also begin to recede.

The gold price is an important variable in the interest rate equation as it is the country's biggest single earner of foreign exchange. When its price falls, the country has to earn its foreign exchange from elsewhere, either by increasing its non-gold exports or by reducing its imports.

Conversely, when the gold price rises, the imperative to keep interest rates high diminishes, since the increased foreign exchange earnings from gold remove the need to earn that foreign exchange by keeping imports down.

Therefore, with the outlook for a rising gold price looking quite positive, upward pressure on interest rates should recede from this source as well.

The third determinant of interest rates, the overall level of demand in the economy, also points to a reduction in rates.

With people increasingly feeling the pinch of the high rates of the past year, the demand for credit is beginning to tail off significantly and with it the overall level of economic activity.

As a consequence imports are already beginning to decline significantly and so the imperative to keep interest rates high so as to depress the demand for imports is not as acute as it was a few months ago.

The scene is therefore set for a decline in interest rates.

However, the new Governor of the Reserve Bank, Chris Stals, has committed himself to keeping interest rates above the inflation rate in his fight to bring inflation down in the long term. But inflation will not come down sharply in the year ahead as too much money has been created out of thin air over the past two years to allow for a sharp fall.

Therefore, Stals will not allow overdraft and mortgage rates to decline below 18 percent or 19 percent in the year ahead. So although the worst may be over in regard to rising interest rates, there is little cause for rejoicing.

Capital inflow critical for domestic gr

Star 5/11/90

By AUBREY DICKMAN
Senior economic consultant, Anglo American Corporation

Unprecedented boldness in economic and political reform is transforming the outlook for potential development. For the near future, however, consolidation is still essential.

The South African economy is in a downward phase which is likely to persist through this year. This means that domestic demand will decline in real terms in 1990.

In spite of a slowdown in the world econony, export performance should be positive, and total GDP growth should be around one percent, compared with 3,3 percent in 1988 and an estimated 2,0 to 2,5 percent this year.

Interest rates will remain relatively high in nominal terms in the early part of next year, but could start coming down after that.

The prospect of a good agricultural season is a positive factor on the export front and in helping to temper the adjustment.

The outlook sketched here is typically mainstream one and implies the soft landing scenario — much less severe than that of the 1983-84 period.

If the gold price holds above $400, this could bring a renewed turnaround somewhat nearer but would not permit us to wriggle out of the recessionary net.

Gold averaged $437 in 1988 and only $379 last year. Apart from this, depletion of the reserves, the debt obligations, inflation and the effects of international slackening demand conservative policies.

Unpalatable though it may be in the short term, the firm stand taken by Reserve Bank Governor Chris Stals and Minister of Finance Barend du Plessis is encouraging, especially since the gold price recovery has typically introduced some euphoria which could be overdone.

The complexities of monetary and fiscal policy issues, and the vital questions of government spending and taxation, will be addressed in other articles in this series.

Debt repayment

I shall not pursue these except to note that the task of curbing inordinate spending and avoiding excessive swings in liquidity and money supply, are crucial to medium-term stability and confidence.

Steering a course between the Scylla of debt repayment and other malign sanctions effects and the Charybdis of recession and unemployment is the unenviable — and, as Stals has put it, frustrating — task of official policy.

There is, however, a broader dimension to these problems. South Africa's development has been externally driven: first by diamonds and gold but later, and especially in the post-war pre-oil crises years to 1973, by the demand for raw and semi-processed materials for a burgeoning world economy.

The inflow of capital that accompanied the various phases of exploitation of our comparative advantages enabled industrial diversification to take place. Indeed, foreign capital was attracted by the potential offered by the domestic market.

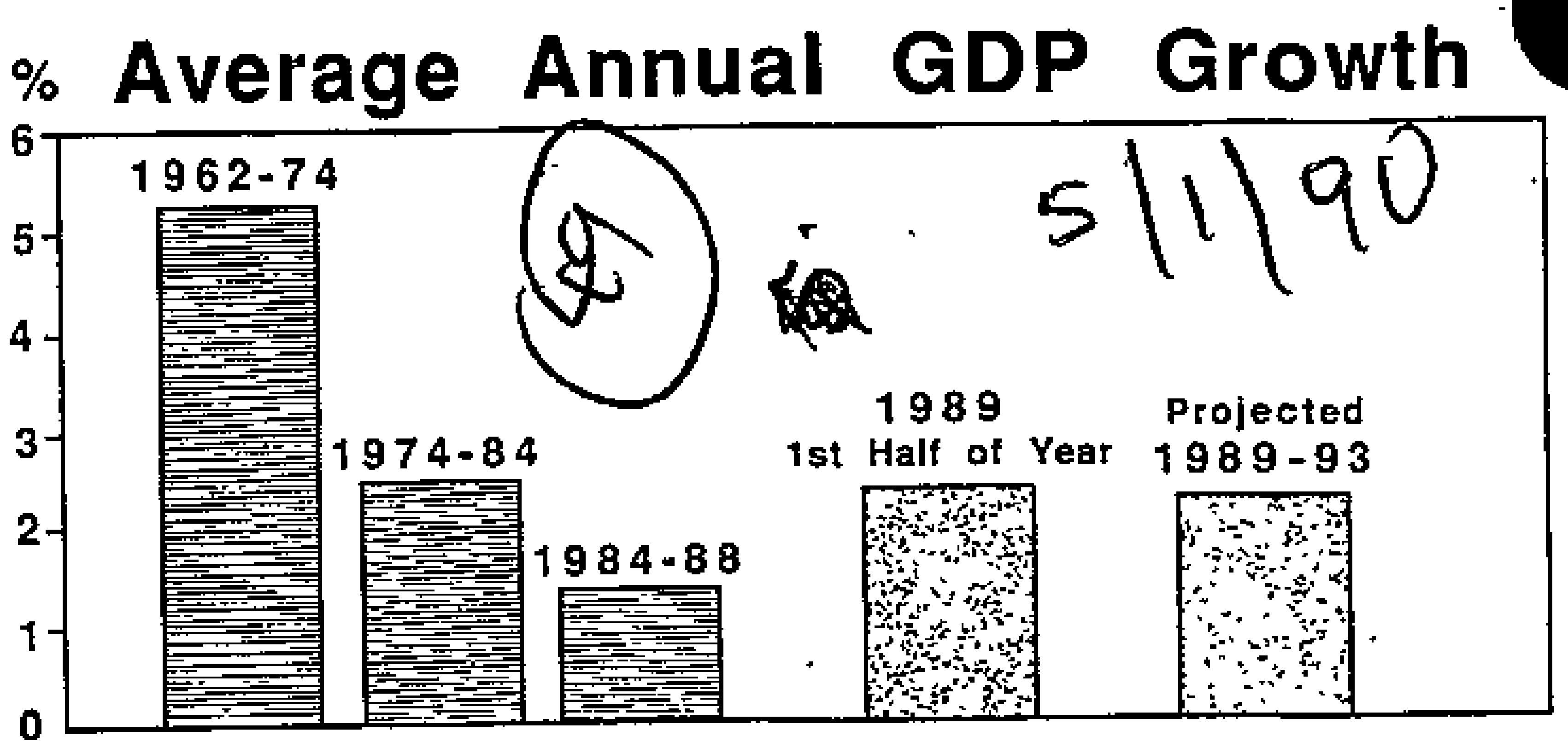
But the world changed after 1973, and more rapidly after 1979 when the follies of excessive state intervention were increasingly recognised in the early Thatcher and Reagan years.

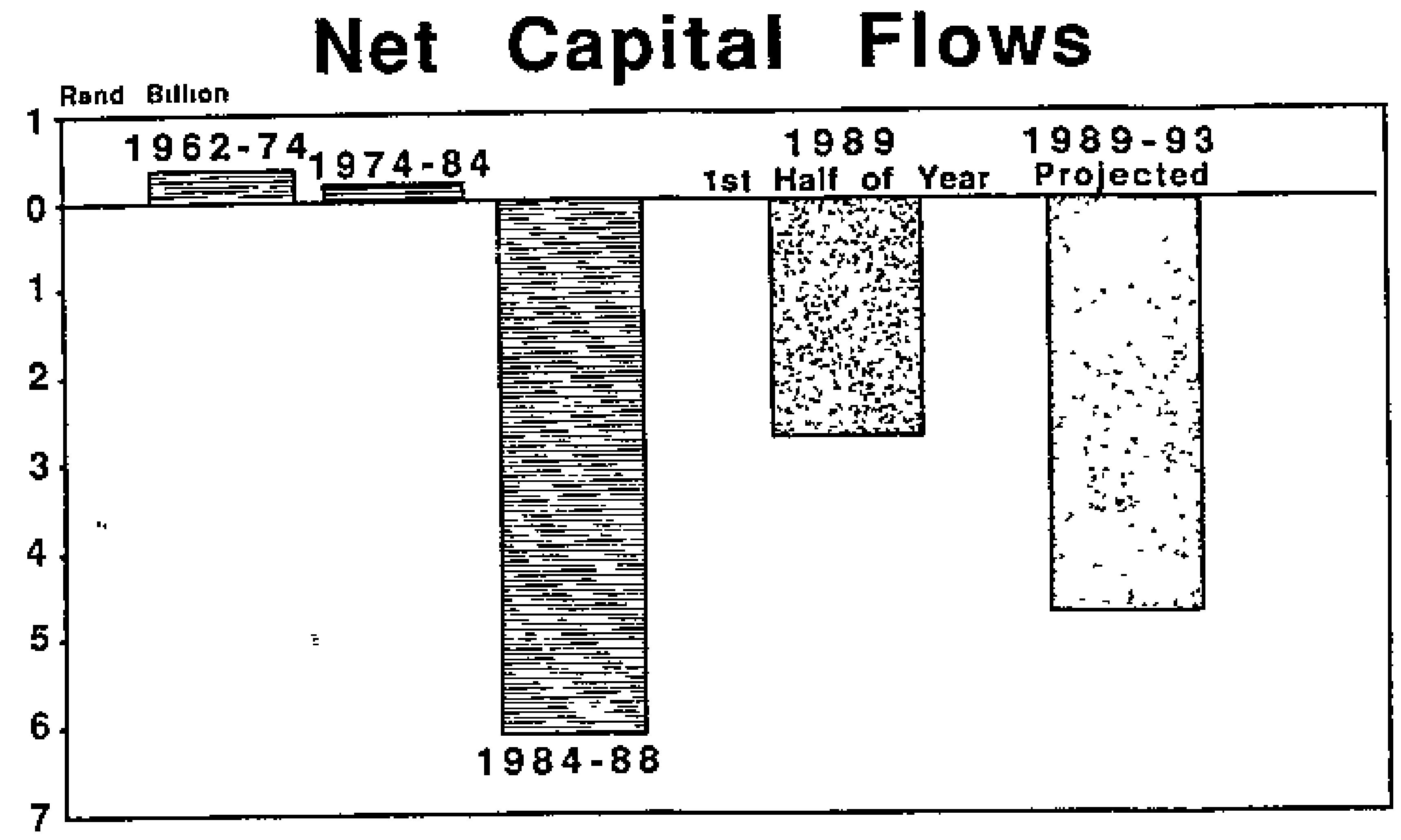
Dirigist policies in South Africa, and failure to make the best use of human resources, caught up with us just as we were trying, late in the day, to make amends.

The post-1973 oil-induced slowdown in the East, among many other adverse factors, was uncomfortable for a country trying belatedly to adjust to world realities. They left us vulnerable to international recession, technological change and a dubious attitude to developing country debt.

Bad luck, heightened competition from the East, poor policy management and deep-seated socio-political resentment culminated in the capital flight of 1985.

The accompanying chart illustrates the critical role of capital flows until 1984. Although not directly causal (among other


Average Annual GDP Growth


Net Capital Flows

demand that SAAWU be recognised as a union." Another short-term plan rested on the claim that chairmen of the Chambers of Industry and Commerce as well as Afrikaanse Sakekamer were "attending meetings where the aims of SAAWU are being explained to them as well as the necessity of uniform action by industry in East London against SAAWU," and that these chairmen would call meetings of ~~xxxxxxxxxxxxxxxxxx~~ representatives of different industries where "they would press for uniform action of

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to destroy SAAWU by this low level attrition. In spite of ~~xxxxxxxxxxxxxxxxxxx~~ denying that the Department of Man-power had called in the police to act against unregistered Unions(28) the minister cannot ~~xxxxxxx~~ absolve himself from the responsibility of ~~xxxxxxxxxxxxxxxxxxxxxxxx~~

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things, the mature of the capital inflow had altered), the association with domestic growth is clear enough.

The huge R25 billion outflow in the four years from 1984 to 1988 limited GDP growth to a mere 1,2 percent a year. This still meant running reserves perilously low.

The melancholy consequences were that the latest modest recovery had to be aborted once international trends turned adverse and the pernicious capital outflow persisted.

Reduced outflow

Looking ahead, the worst-case scenario of an $8 billion or roughly R21 billion capital outflow over the four years to 1993 has given rise to official rough projections of a mere two percent annual growth rate, woefully inadequate given demographic needs.

Yet this is relatively better than recent experience, and implies that even with an egregious burden of debt repayment the fresh approach to further economic reform can make us relatively more productive.

Amazingly, a vibrant ecocnomy survives, as Chester Crocker put it recently, despite the best efforts of party politicians, sanctioneers and marxist intellectuals to kill it off. But the germ of survival contains the possibility of a re-awakening.

We can and must do much better than the outcome postulated in the chart. On reasonable assumptions about the world environment, a reduced capital outflow means higher growth. It is as simple as that.

This brings us to the essential interdependence between politics and economics and perceptions about future stability and progress in a truly democratic society.

Yet, to cite Crocker again, there will be no Marshall Plan. We are on our own.

This means that our open economic links with the world have to be buttressed with an open commitment to participate in the success of the market economies which has decisively exposed the grotesque fallacies of marxism.

That we have made a hopeful start is unquestionable, and ongoing initiatives carry great promise. But the world is a relentlessly competitve place. The winning nations have succeeded in restructuring their economies through austerity, the right kind of investment and appropriate wage-productivity relationships.

Inflation is recognised as self-defeating. We have to confront the isses head on, but we have made a remarkable start in establishing a basis for improved capital output ratios.

It is understandably difficult to convince those who have suffered the deprivations of years of ethnic social engineering to accept that a form of state socialism is no longer the answer, as it was for the Afrikaners in the thirties.

No more the luxury of a benign external environment. Nor will international capital flow to countries which embrace discredited socialist goals.

Despite the events in Eastern Europe, the apparent appeal marxist rhetoric still holds indicates how deeply ingrained is the mendacious contention that capitalism and apartheid are bedfellows. The sanctions onslaught, perhaps deliberately, makes it that much more difficult to alter these notions.

Of course, sound macro-economic management is essential to steer the economy through the difficult period of debt repayment. But the real challenge is to promote the acceptance of liberal values.

The new direction we are taking can bring forth astonishing opportunities and development. This will reinforce the fundamentl truth that economic and political freedoms are two sides of the same coin.

De Klerk can end economic isolation

Stw 6/1/90

(49)

CHRISTOPHER WILSON

PRESIDENT FW de Klerk has begun to strip away the layers of apartheid race laws but analysts say more reforms are needed if he is to end South Africa's economic isolation and restore growth in the 1990s.

"The most powerful threat to De Klerk this year is the challenge of the economy," said Robert Schrire, professor of political science at the University of Cape Town.

Gold and politics remain crucial determinants of South Africa's economic future and prospects for both are uncertain.

With bullion, the country's biggest export, hovering around $400 and foreign debt repayments draining billions of dollars from the economy, analysts say De Klerk has little option but to step up the pace of political change.

"De Klerk realises that the status quo cannot continue. The dilemma he now faces is how to get the economy moving again. If it continues to stagnate, he will face enormous pressures in the next election," Schrire said.

Political and economic analysts agreed that only a determined programme of accelerated political reforms would persuade Western nations to roll back sanctions and encourage a return of overseas investment to the siege economy created by De Klerk's predecessor PW Botha.

Botha quit last August after a decade of rule. His refusal to dismantle apartheid and his heavy reliance on the police and army to enforce it left a disastrous economic legacy.

Foreign banks, under anti-apartheid pressures, cut off credit lines to South Africa in 1985. Scores of foreign companies, mostly US multinationals, disinvested. The United States, the European Community and a range of individual countries imposed trade sanctions against Pretoria.

Average annual growth in gross domestic product (GDP) — the value of goods and services produced — of six percent in the 1960s and four percent in the 1970s shrank to about one percent in real terms in the 1980s.

Unemployment among blacks soared to an estimated 35 percent and inflation jumped to around 15 percent, three times the average of South Africa's main trading partners.

The value of the rand — now worth about 39 US cents — dropped by about two thirds against the dollar during the 1980s, halved against sterling and plummeted against all other major currencies.

South Africa hopes to have achieved two percent real growth in GDP for 1989. But most economists predicted this would shrink to less than one percent in 1990 because Pretoria has been forced to brake growth and generate a large surplus on its balance of payments current account. That surplus would be swallowed up by heavy repayments on its $20 billion foreign debt, they said.

"If a continued drain on economic growth is to be avoided, South Africa must strive to re-enter international capital markets," said Standard Bank, the country's biggest bank, in an economic review.

De Klerk's limited political reforms recently prompted some cautious foreign investment in shares on the Johannesburg Stock Exchange for the first time in years.

Political barriers

But analysts said only the scrapping of bedrock apartheid laws and the start of serious negotiations between the white government and the voteless black majority about power sharing could bring about an end to the country's financial isolation.

"Political barriers remain the key issue and it is therefore crucial that the current increasingly positive foreign perceptions of this country be strengthened," said Standard Bank.

The release of jailed black nationalist leader Nelson Mandela is widely regarded as a minimum requirement if sanctions are to be eased.

"Mandela's release would help stop disinvestment by US companies operating here and possibly lead to the lifting of other sanctions. But it would not help if he is released into a political vacuum so it must be followed by negotiations with black leaders," said Wayne Mitchell, executive director of the American Chamber of Commerce, which represents about 130 US firms still in South Africa. — Reuter.

THE WEEK ON THE JSE

De Beers still a sparkler

STimes (49)

7/1/90

By Julie Walker

GOLD see-sawed around $400 an ounce and ticked up enough on Friday to push the JSE to new highs.

De Beers added 6% to 6 515c in spite of Central Selling Organisation sales easing by 2% in dollar terms in 1989. The sales were worse than expected, but rose by 13% in rands.

De Beers was on offer in London after the CSO figures were announced, and Friday's strength could have been caused by short covering.

The financial rand strengthened to below 360c, but did not hamper the blue chips. The dollar took a smack against the mark, and the rand strengthened on Friday to 254,7c.

Capital-market rates plunged again after rising on Wednesday. From 15,41% on long-dated Eskom stocks at the end of 1989 the rate dived to 15% as gold climbed above $400 at the week's end.

Profits taken on gilts could have found their way into equities. Top-quality stock was wanted and turnover high. Although some are nervous about the fundamentals, one dealer said he had never seen the JSE so bullish.

Golds dropped off during the week as the metal price dipped, but rallied on Friday. Foreign selling of heavyweights was evident.

Vlaks shed 50c to R3 on notice of its closure.

SPLIT

Mining houses regained or breached their recent highs. Anglo American surged from R108 to a peak of R120. Market talk suggests a 10-for-one share split in Anglos, probably because many of the other majors have done so.

Anglovaal added R20 to R550, Johnnies R2 to 5 625c — both tops.

Platinums picked up on Friday when the metal rallied from an oversold position. Rusplats gained 150c to 8 475c, Lebowa 50c to 1 070c and Barmines 35c to 675c.

Exploration counter Barnex put on a quarter to 575c against the sector's trend. Freddev shed a quarter to 1 050c, then jumped to R11. South Murch and SouthWits shares and options all eased.

Allied Group gave up 15c to 135c, but regained 140c, on talk of employee fraud. BOE loan stock gained 40c to 600c, and GDM Finance jumped from 86c to 105c, returning to 100c.

NBS continued its charge, up another 10c to 580c, Nedcor added 10c to 1 160c and Stanbic hit R30.

Liberty Life gave up R7 to R205, but Metpol added 25c to R6, Southern 60c to 1 080c and Mutual & Federal 50c to 1 275c.

Industrials were in demand, and good-quality scrip was in short supply. CG Smith added R4 to R72, Hunts was up 100c to 1 025c and Richemont gained 95c to 1 870c. Safren put on R2 to R41.

SA Breweries effervesced to a new high of 3 225c and SunBop and Transun settled back to normal at R23 and 275c respectively.

Times Media picked up 75c to 675c. Remgro rallied above R14.

Downturn will lead to tax cuts

Star 10/1/90

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By Derek Tommey

The Budget — just about the biggest economic event of the year — is a little over two months away. This means that the Department of Finance still has a fair amount of hard thinking to do if it is to resolve by Budget Day some of the financial matters bothering business and the general public.

People would obviously like to see some reduction in taxation in the March budget. But they will also expect announcements about the lifting of the 60 percent import surcharge, clarification on what constitutes capital gain and when Value Added Tax is to replace GST.

Latest tax revenue figures remain extremely buoyant, apparently much to the surprise of the authorities.

In the '89 Budget the Minister of Finance, Mr Barend du Plessis forecast tax revenues of R55,2 billion, which was some 25 percent higher than the previous year's estimates but only 11,1 percent up on the previous year's actual collections.

In the eight months ended November collections totalled R41,8 billion. This was 38,4 percent more than the Treasury received in the same eight months of 1988-89 if the R3 billion received from Iscor's privatisation is included, and 28,5 percent up if this money is excluded.

What this suggests is that total tax collections this year could exceed R60 billion and provide room for some reasonable tax cuts in 1990-91. Such cuts are badly needed. Even Government officials admit that income tax rates in South Africa are excessively high and that the ordinary South African has been having a raw deal.

Fiscal drag

However, a decision to cut taxes and the level to which they should be reduced appears to hinge on how the economy performs in February and March. If the economy shows signs of running down some reasonable tax cuts are likely.

But the cuts will be limited if the economy shows signs of being overheated — although some reductions will obviously be needed to counter fiscal drag.

The Minister of Finance, Mr Barend Du Plessis, has promised to make a statement on the import surcharge around budget time. While the import surcharge has not had much apparent effect on curbing imports — the job for which it was intended — it has turned out to be a prolific source of revenue, bringing in some R2,5 billion to R3,0 billion a year.

It is likely the Treasury will not want to lose such a large cash inflow at one fell swoop so there is a possibility that the surcharge will be reduced only in stages over the next two years or so.

The uncertainty about capital gains and how they should be taxed has led to considerable criticism of the tax system recently and has also led to calls for the clarification of these matters.

Currently, it seems that the Treasury is considering determining what is a capital gain and liable for tax by the length of time the investment is held — which is the position in the United States. In addition capital gains taxes are likely to be levied at a much lower rate than income and company tax rates.

If the Treasury decides on this route it would seem a sensible solution to ticklish problem.

However, there are still apparently a few problems surrounding the introduction of Value Added Tax and it is a question of wait and see whether these can be cleared up in time for the Budget.

The Third World as the architect of its own failure

B/Day 11/1/90

49

ROBERT GENTLE

AS THE new decade begins amid the ruins of socialism's failed policies, the view that the Third World has largely been the architect of its own underdevelopment over the past 40 odd years is gaining credibility.

Following on the South American research of Hernando de Soto, a recent World Bank report brought into question the conventional Third World wisdom that poverty was the result of Western exploitation. The same conclusion is reached in another work, this time by leading French economist Guy Sorman.

His three-year study, La Nouvelle Richesse des Nations (The New Wealth of Nations), is directly inspired by Adam Smith's original work, An Investigation into the Nature and Causes of the Wealth of Nations. Sorman visited 18 countries in South America, Africa and Asia, meeting heads of state, poets, philosophers, ecohomists, farmers and the man in the street.

His findings are a devastating indictment of how Third World governments have systematically undermined their economies and impoverished their peoples.

Thus, in Mexico, government officials decide on the size, location and farming rights of parcels of land, which has led to agrarian development being mired in endless bureaucratic conflict.

The plots are rarely greater than half a hectare; they cannot be merged; productivity gains are impossible; government crop prices are too low. "The farmers . . . are therefore, in their own way, perfectly logical in not working a lot. They prefer to watch television or emigrate to the US," says Sorman, who notes that the same "idle Mexicans" have only to cross the US border to become hard-working and industrious.

In Argentina, whose national income before the Second World War was comparable with that of Canada and Australia, exports (like beef) are at historic lows because of taxes, government deductions, inflation and general economic uncertainty.

Sorman also quotes IMF statistics showing that about 70% of the $50bn lent by Western banks was never used but simply re-exported to private accounts in the US and Switzerland between 1975 and 1983.

"On all continents, money has a natural tendancy to leave countries that are badly managed and to escape from political folly. The originality of the Argentinian case is not that the capital left, but that it did not come back." (The quoted IMF figures for the "disappearance" of money from Venezuela, Peru and Mexico are 50%, 35% and 33% respectively.)

Further north lie the extremes of wealth and poverty of Brazil, the result of skewed development orchestrated by the state at the expense of small business and the broad mass of the population.

Public funds are poured into grandiose projects (the biggest dam in the world, the longest highway in the Amazon, the first nuclear reactor on the continent — the whole orgy being financed largely by international debt and inflation) while basic infrastructure, education, health and agriculture languish unattended.

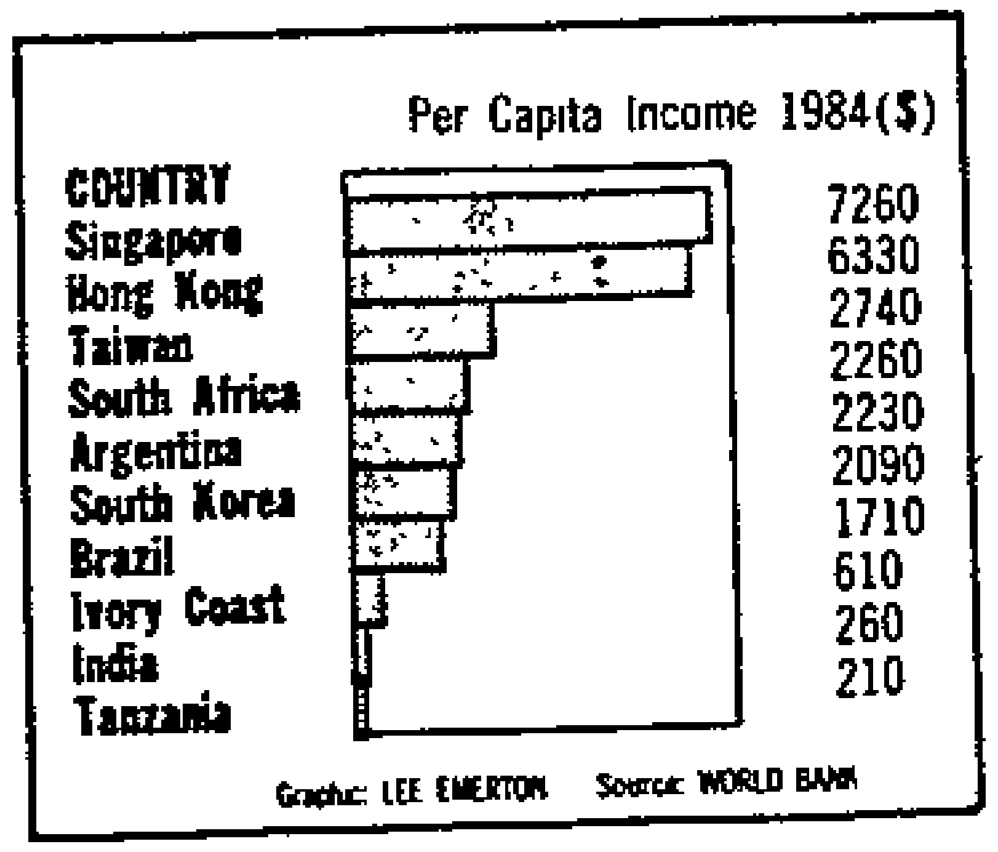
A state bourgeoisie of military personnel, technocrats, big businessmen and politicians holds sway while an estimated 75% of Brazilians are economically marginalised.

"Contrary to Marxist theory, which explains development by exploitation of the masses, Brazil's masses have not been exploited. They have been ignored — and that is worse," says Sorman.

In India, every business is subject to a licence, while the output of large industries is limited by law ("to leave some business for small companies").

The result? Licences can take up to four years to obtain, corruption is rife, industry has no incentive to expand, products are expensive (no economies of scale), technologically backward (no innovation) and few new jobs are created. At the antiquated Jessop heavy engineering factory, a shocked Sorman discovers the average age of the workers is 50 — Jessop has created no new jobs in over 10 years.

But it is Tanzania that emerges as the ultimate basket case, the result of African socialism, or Nujaama — forced collectivisation, the destruction of local business and the expropriation of agricultural surplus at derisory prices by the state.



Graphic: LEE EMERTON Source: WORLD BANK

Thus while world prices of cashew nuts, a traditional Tanzanian export crop, rose 350% from 1970 to 1981, its farmers only saw 91% of this rise as the state cashed in on the difference. The Tanzanian farmer, displaying the same logic as the Mexican or Argentinian farmer, simply stopped producing for export and turned to subsistence farming.

In Cancun in 1981, Nyerere remarked that whereas Tanzania needed to sell only four tons of coffee in 1965 to import a tractor, the figure was now 20 tons. But, Sorman says, while it is the same coffee, it is by no means the same tractor.

Meanwhile, thanks to Nyerere's international reputation, Tanzania has been kept afloat by international aid. Sorman says Nyerere is the only Tanzanian product that has, over the past 20 years, exported itself with any degree of success.

Sorman then looks at Southeast Asia where countries like Hong Kong, Taiwan, Singapore and Korea have deliberately fostered an enterprise culture and tuned their economies to providing constantly differing products to changing world markets.

Korean Vice-Prime Minister Kim Man Je is quoted as saying that Africans have not understood the world market, which "is not a system of social security that guarantees each country a constant revenue stream".

These Asian countries, Sorman shows, escaped from mass poverty in barely 25 years, bringing their huge populations into the wealth-creating process instead of marginalising them. Their overall distribution of salary is consequently more equal than that of Sweden.

They formulated fiscal policies to encourage saving, monetary policies to promote exports, invested in a ruthlessly meritocratic education system to promote productivity and attended to basic infrastructure.

Taiwan's agrarian revolution, with its emphasis on private property and high crop prices, is a world success story. The ruthlessly businesslike approach to state management by the Singapore government prompted an embarrassed Milton Friedman to describe the country as a gigantic free enterprise company with 3-million employees.

Ironically, socialists today often use the experience of these countries as proof of the superiority of state planning.

Quoting Nobel prize-winning economist Arthur Lewis, Sorman says that both the peasant farmer and big industrialist are ultimately entrepreneurs. If they are not assured of a stable and predictable institutional framework in which to operate, they stop taking risks, attend to their immediate needs, and create neither wealth nor jobs.

On an encouraging note, Sorman concludes that this message is finally being accepted — with varying degrees of enthusiasm — in the corridors of power of the Third World. The recent upheavals in Eastern Europe, which even Sorman could not have anticipated, can only hasten the process.

References to financial and commercial rand were transposed in a paragraph of the article by Graham Boyd on this page yesterday. The relevant sentence should have read: "The attraction SA gilts hold for foreign investors derives mainly from the excellent rate of return enjoyed by foreign investors when they use finrands to purchase gilts and receive interest payments in commercial rands."

Downturn gathering momentum — OM

Ster 11/1/90

49

By Derek Tommey

South Africa's self-induced economic downturn is gathering momentum, says David Mohr, chief economist at Old Mutual.

He expects the process to continue this year, probably at an accelerating rate..

But unpleasant though Mr Mohr's forecast may be, be believes the situation has resulted in some lessening in inflationary pressure and that it could lead to a drop in long-term interest rates.


Mr Mohr

Mr Mohr reports a sharp contraction in the value of goods and services, other than farm goods, produced between the second and third quarters.

Manufacturing, in particular, felt the cold wind of recession.

Output in the third quarter dropped at an annual rate of 8,5 percent.

On the other side of the coin, South Africans have been cutting down sharply on spending.

They spent 7,3 percent (annualised) less in the third quarter than in the second quarter of 1989. Spending on items such as cars, fridges, radios and TV sets dropped throughout the year.

Although spending on clothing and footwear rose slightly in the first half, it fell sharply in the third quarter.

Mr Mohr says this reduced spending is characteristic of the onset of a downturn and, in this instance, is the result of a tight-money policy, high inflation and smaller wage increases and salary adjustments.

This is necessary if South Africa is to be a position to repay all its debts that fall due this year.

In the next 12 months South Africa will probably have to repay foreign debts amounting to $2,0 billion to $2,4 billion (R5,2 billion to R6,3 billion at current exchange rates).

In order to pay to its foreign creditors these huge sums South Africa will need to earn from overseas 2,5 billion more than it spends there.

This will require a special effort as in 1989 South Africa had a balance of payments surplus of $1,6 billion.

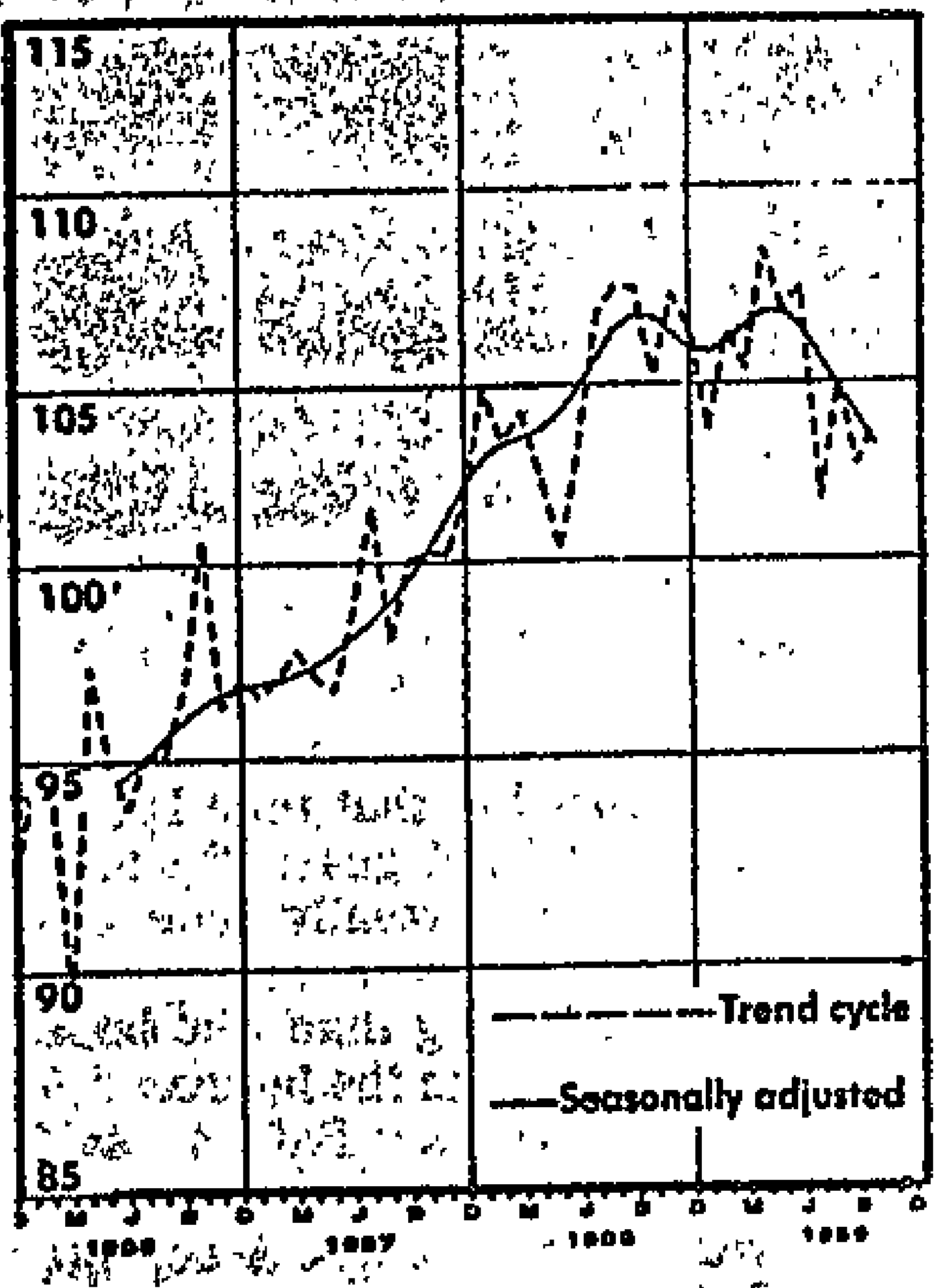
If South Africa is to achieve this $2,5 billion surplus, domestic spending has to be held down so as to limit imports and the amount of money being spent overseas.

However, year-on-year inflation as measured by the consumer price index moved downwards in the third quarter of 1989 after reaching a high of 15,7 percent in June. By November, the year-on-year rate had fallen to 14,9 percent.

Mr Mohr says this is partly the result of a slower rate of increase in food and housing costs. But other items in the consumer price index are showing reduced price increases.

However, there is a danger that food prices could accelerate in the first half of 1990, he warns. This could limit the downward trend in the inflation rate or even reverse it.

As the economy might require further cooling, and as little progress has been made in replenishing foreign exchange reserves, Mr Mohr says that montary policy is likely to remain stringent for some time.



Total manufacturing index, base 1980: 100

He does not expect a significant decline in the prime overdraft rate before the second half of 1990.

The long-term interest rate has droped from around 17 percent to below 16 percent. This is the result of optimism in the capital markets arising from the rise in the gold price in the fourth quarter, clear signs that the real economy is cooling, the levelling off of the inflation rate, smaller government borrowing requirements and signs that government spending will be restricted.

Mr Mohr believes interest rates willd decline further this year as the underlying bottlenecks in the economy — the current account, foreign exchange reserves and inflation — ease more.

Keep economy tight — Old Mutual

B|Day 11|1|90

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LINDA ENSOR

THE economy needs to be cooled further and a premature and/or excessive relaxation of economic policy would be imprudent in spite of "the rising wave of political and economic optimism that has emerged since the third quarter of 1989".

That is the view of Old Mutual's economic research unit, which says in the latest Economic Monitor that a strict economic policy must be maintained in spite of the fact that economic growth is decelerating.

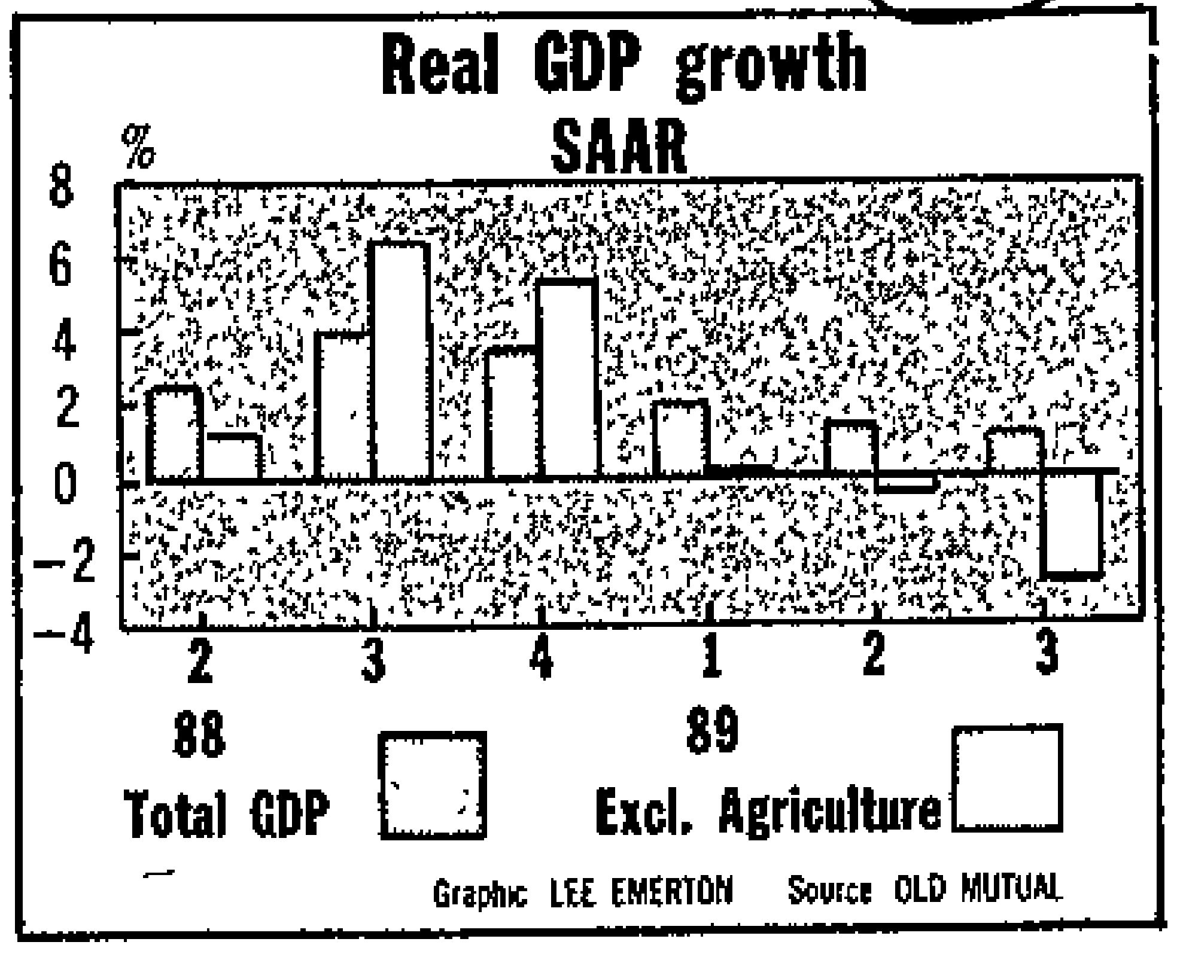
Gold and foreign exchange reserves, the report says, "are still at a disturbingly low level".

Chief economist Dave Mohr says the government has the correct policies in place to handle the economy and should "stick to its guns".

The unit does not foresee a meaningful lowering of the prime overdraft rate before the middle of 1990. Long-term rates could decline during the year because of the expected easing in underlying bottlenecks in the economy.

Mohr feels it unlikely that short-term rates and inflation will decline significantly before mid-year. "A high interest rate policy is required by the balance of payments situation. And as food prices are on an upward trend, a decline in the inflation rate is unlikely."

Real GDP growth
SAAR



Graphic LEE EMERTON Source OLD MUTUAL

To curb the growth in import volumes and thereby achieve a current account surplus of more than $2,5bn — necessary in order to repay SA's foreign debt and improve reserves — domestic spending will have to be curtailed. This will be even more crucial in view of the fact that exports are likely to be weaker in 1990.

Pressure on consumers' real disposable incomes will result in a decline in private consumption expenditure, most significantly on durables. The fall in gross domestic fixed investment will be contained to some extent by public sector investment.

The effect of government's tightening of policy in 1989, says Mohr, was clearly demonstrated by the real decline in non-agricultural gross domestic product during the middle two quarters of 1989 by an annualised 0,3% and 2,8% respectively (see graph). Indicators point to a continuation of the slowdown in the fourth quarter.

Gross domestic expenditure, which fell by an annualised 2,7% in the first three quarters of 1989, is expected to decline further in 1990. Mohr suggests a figure of 0,5% for growth in gross domestic product.

Prospects for the industrialised nations this year are for a lower, but still positive growth, which will mean weaker, but still good exports for SA.

As regards gold, the report states that the gold price should remain above the $400 level on the back of a weaker dollar.

Socialism's collapse a challenge to SA's free market liberals

B/Day 15/1/90 (49)

KEN OWEN

ON HIS recent visit Chester Crocker observed, with characteristic percipience, that the choice facing South Africa was essentially the same as the choice before Eastern Europe: liberalism or nationalism?

In the Balkans, Turkish citizens are fleeing from Bulgaria rather than accept forced integration of language and religion, Moldavia is again a source of tension, and the entire region is re-embarked on the ancient act of balancing between Russian and Prussian.

In South Africa, we are so concerned with virulent white racism that we are not perhaps sufficiently sensitive to the underlying racism, for example, in the argument that "the whites stole the land" and "blacks will take it back". Tell *that* to the owner of a mortgaged eighth of an acre in Parkhurst!

If racism or ethnic politics is the new threat, what then of liberalism's old enemies, the socialists?

Frankly, that is yesterday's war. Not until I visited Paris as the guest of the Mitterrand Foundation last year, and saw members of the South African Communist Party struggling to adjust their thinking to the collapse of their ideology, did I begin to grasp the momentous implications of what has happened in Central and Eastern Europe.

Even now, after a month of so of assiduous reading, I can only gape. If Gorbachev's book, Perestroika, was a confession of political and economic failure, the book on economic reconstruction written by his economic adviser, Abel Aganbegyan (Moving the Mountain), is a new Alice in Wonderland.

The failures of a command economy are every bit as bad as we free marketeers (I'm tempted to wear the pejorative title as a medal) used to say, and worse. It is hard to improve on an anonymous verse from behind the Iron Curtain titled The Eight Wonders of the Socialist Economy.

"There is no unemployment but nobody works.

"Nobody works but the plan is fulfilled.

"The plan is fulfilled but there is nothing to buy.

"There is nothing to buy but you can find anything.

"You can find anything but everybody steals.

"Everybody steals but nothing has been stolen.

"Nothing has been stolen but it's impossible to work.

"It's impossible to work but there is no unemployment."

Dont' take my word for it. Ask Gorbachev. Ask Aganbegyan. They tell, in damning detail, what went wrong, and they explain, albeit unconsciously, why (according to the Eastern European expert Jacques Rupnik) the monetarist theories of the Chicago school of economists are often preached more fervently in Poland and Czechoslovakia than in the West.

The same sort of enthusiastic overstatement, of course, often afflicts free marketeers in this *dirigiste* economy, since we too have suffered the interventions and oppressions of insolent bureaucrats and social engineers.

Such overstatement is no longer necessary. The argument has been won. The South Africans who know Eastern Europe best — the exile members of the SACP and the ANC — also know that socialism has created catastrophe in the proportion in which it has been implemented.

Most (former) socialists are trying to scramble onto the nearest passing ice floe, which seems to be the Swedish model of social democracy, complete with private ownership of property, independent businesses, profit motives, fabulously rich aristocrats like the Wallenbergs, and so forth.

In this the European Left is merely following Aganbegyan, who talks glowingly of the leap in productivity that occurred when Russian farmers were permitted to lease patches of soil and farm on their own account, and expounds the virtues of markets on every page. As Crocker also observed, only in out-of-the-way places like South Africa does one still find real, live Marxists talking drivel about class warfare.

Of course, to think that the collapse of socialist ideology might terminate conflict in South Africa would be naive. The conflicts, whether between black and white, or rich and poor, or labour and capital, are real; all they lack now is a theoretical base to replace the crumbling theories of socialism.

As Crocker has perceived in southern Africa, and Rupnik in Eastern Europe, the danger is that the substitute for class theories will be nationalist theories, whether race or ethnicity. Gorbachev, trying to mollify the Lithuanians in the northwest, and to preserve the border that separates Soviet Azerbaijanis from Iranian Azerbaijanis in the south, knows the danger. South Africa, caught between the resurgent Pan-Africanist Movement and the AWB should be similarly aware.

The obvious alternative to a divisive recrudescence of nationalism, here as in Eastern Europe, is the liberal idea that the free individual is the basic building block of society and that rights vest in the individual, not in the collective.

In South Africa liberalism can, however, succeed only if it begins visibly to meet the legitimate demands of black South Africans, and to do so on a scale that transforms black society. It won't do free marketeers much good to point to growth in GDP; people must feel the change in their fortunes.

The situation is not without hope. For the first time in decades the government is applying sensible economic policies which, once we are through the necessary recession of 1990, should enable President de Klerk to operate from strength. In a year or two, foreign debt is likely to be generally perceived as under control (which indeed it already is) and the futility of sanctions may become plain even to Americans.

At home, rising prosperity does have the power to alter attitudes. The latest issue of Indicator SA, published by the Centre for Social and Development Studies at the University of Natal, includes a fascinating survey showing quite high or rising levels of satisfaction among coloured people as their community breaks out of historical poverty — in contrast with high, rising levels of dissatisfaction among the highly stressed black communities.

President de Klerk is under great pressure to begin serious negotiations; he is under much less compulsion to conclude those negotiations. Time is on his side as the Soviet empire unravels, and as socialist theory around the globe falls into disrepute. The longer he talks, the better his chances.

There is no longer much need to quarrel with socialism — it's foolish to wrestle with defeated foes, and nothing is quite so boring as the last war — but there is a great need to come up with answers to the immense social problems bequeathed to us by four decades of apartheid.

South African liberals — and that includes the liberal end of the business community — still have a little time to demonstrate both the efficacy and the benevolence of a free market system. But they had better get on with it.

SA's debt position is improving

Star 17/1/90

(44)

Finance Staff

South Africa's foreign debt position has shown a dramatic improvement over the last few months, Reserve Bank Governor Dr Chris Stals said last night.

Speaking at a meeting of the Pretoria Afrikaanse Sakekamer, Dr Stals indicated that the country's debt payments this year could well fall short of the official published figure of R7 billion.

In his address, which was reported in a Johannesburg business daily newspaper this morning, Dr Stals said that as much as R3 billion of this debt could be rolled over, as 70 percent of this year's debt repayments consisted of maturing bearer bonds and trade credits.

He added that the country would also have less difficulties in repaying the debt, as the current account of the balance of payments could show a surplus of up to R7 billion during 1990.

This follows on an expected levelling off in gross domestic expenditure, which already showed no substantial growth last year, and estimates that the trade balance would continue showing a substantial surplus in the year ahead.

At the same time, Dr Stals said capital outflows would continue their sharp downturn, which started this year.

In the first quarter of 1989 total capital outflows were R1,9 billion.

In the following two quarters this figure fell to R1,1 billion and R245 million respectively, as foreign perceptions about South Africa's political future improved dramatically and non-residents emerged as net buyers of gilts on the local capital market.

The balance of payments position had improved to such an extent that the Reserve Bank has boosted the country's reserves by R1,5 billion since the beginning of the year by buying dollars in the foreign exchange markets, Dr Stals said.

Govt to bring in 'sweeping' measures

COM 7/1/15
18/1/90
49


Mr Durr

By MIKE ROBERTSON

THE government is set to introduce sweeping deregulatory measures affecting 'all areas of commerce and industry, Trade and Industry Minister Mr Kent Durr said yesterday.

"There is nothing that we will not deregulate," Mr Durr said in an interview yesterday.

He declined to give details of actions that the government will undertake, but promised "a few dramatic announcements" in coming weeks.

Mr Durr said his entire department was undergoing major restructuring, while the activities of bodies like the Board of Trade would undergo rationalisation.

Plans were being drawn up to computerise the Companies Office to make it more efficient.

Detailed investigations into the activities of the various boards and statutory bodies falling under the department were under way to identify and eliminate areas of double jurisdiction and duplication, Mr Durr said.

He said the underlying philosophy behind the envisaged changes was that the government wanted to promote economic growth through a process of co-operation rather than by regulation and intimidation.

Mr Durr said that while he was not yet in a position to give accurate figures, the one major deregulatory measure he had already announced — the scrapping of the Travel Agents Board — had saved "an enormous amount of money".

Mr Durr said the entire decentralisation policy, which his department took over in December, was under review.

"There are large amounts of money involved and when one spends public money you want to do so thoughtfully and efficiently. It is appropriate that we take a hard and critical look at what we are doing."

Mr Durr said South African exporters had sought and found new markets in Asia, Africa, Eastern Europe and South America.

Exports to African countries were rising particularly rapidly.

On South Africa's growing trade with Eastern Europe, the minister said: "We want to develop markets and assist them to our mutual advantage just as we are doing in Africa already."

Asked about the possibility of establishing new South African trade missions abroad, Mr Durr said: "We are in the process of opening them. There is a great degree of normalisation taking place."

Mr Durr said South Africa's export growth path and profile of what it was exporting was very encouraging.

"An export culture is taking root. The great opportunities for industrial growth now lie in the export field."

He added that while in the past the government might not have pursued policies that were conducive to promoting exports, there was now extremely close co-operation between the Board of Trade, the Reserve Bank and his department. "Exports are central to our thinking."

Managing our future as pressures mount abroad and at home

D/Day 18/1/90.

49

KARL HOFMEYR outlines the challenges facing young business managers in the 1990s

POLITICS and political change will be important features of our lives in the next few years. National and international pressures and tensions will continue as the country looks for legitimate and democratic political structures.

The business world will not be able to isolate itself from the political environment and increasingly individuals, companies and organisations will need to consider the implications of political developments.

They also will have to decide what their role should be in the change process.

As Peter Searle, chairman of Volkswagen SA, wrote recently: "The primary role of business is business and not politics or matters of a socio-political nature. However, in the circumstances in which we find ourselves today, it is not possible to ignore political and socio-political factors."

The economic reality is a sobering one. Sampie Terblanche argues that the economy is still on the decline that started in 1974 after the oil crisis. Our average growth rate has been less than 2% annuallly and per capita income has declined by 0,5% annually and by more than 1% since 1981.

He observes that the economy would have to grow by at least 5% to accommodate the 350 000 (or more) people that will enter the labour force annually during the 1990s, otherwise largescale unemployment is inevitable.

Furthermore, there is a grave shortage of skilled and management people in the economy.

It is estimated, for example, that job openings at the skilled manpower level will exceed supply by no less than half a million in the next decade.

Another structural aspect of the economy is what Clem Sunter calls its "dual-logic" nature in which a relatively sophisticated economy exists alongside a much less developed, informal sector.

The informal sector is growing at approximately 15% per annum and has to be recognised as an increasingly important component in our economy especially as a provider of entrepreneurial opportunities and employment.

Social factors and demographic trends are powerful forces in our environment. About 3 500 children are born in SA every day. Nine out of 10 are black.

At present whites comprise approximately 14,4% of the total population, by 2000 it will be 12,2%. SA's urban population was 15,2-million in 1980; it will double to about 30-million by the year 2000.

John Kane-Berman refers to a "silent revolution" which is changing our society: by 2000 blacks will outnumber whites in cities by three to one; employment generated by black taxis is as much as is provided by 10 gold mines; R7 out of every R10 spent in downtown Johannesburg is spent by blacks; by 2000 blacks will account for 57% of disposable income, vs 32% in 1970; estimates of the number of blacks unlawfully resident in white areas vary between 100 000 and 250 000.

The interplay of political, social and economic factors has led to gross inequalities in our society.

The second Carnegie Inquiry into Poverty and Development in Southern Africa (1989) highlighted the inequality between the country's rich and and its poor.

This ratio compared the relative poverty in 57 countries and found SA to have the worst rating.

According to Operation Hunger, as many as 1,5-million people are on the verge of starvation. Some rural hospitals report as many as 60 hunger-related deaths a month.

This "darker side" of our society has to be confronted by the private sector.

Business is seen by many, especially in black communities, as an accomplice of government, and capitalism has become discredited.

Consequently, to undo its negative image business will have to be seen to be tackling the problem of redistributing wealth, power and opportunities while it is engaged in generating wealth.

The education statistics paint a very gloomy picture: 51% of our adult population is illiterate (compared with 1% in Japan and 13% in America); fewer than 10 African pupils, and fewer than 20 coloured pupils out of every 100 who start school, matriculate; 87% of African teachers are underqualified; of the thousands who matriculate each year only about 500-800 African pupils matriculate each year with higher grade maths and science.

On the qualitative side, since 1976 many black schools have been in turmoil with frequent boycotts, violence and in some cases an almost total breakdown of any meaningful education and the will to learn. There is talk of "lost generations" of black schoolgoers.

If Clem Sunter is correct that a "winning nation" is built on a foundation of sound education, this area present us with enormous challenges.

These realities — political change, economic decline, powerful social forces, inequality, and an education crisis — represent a context that you as managers have to be aware of and try to influence positively in whatever small way you can.

In SA it is not sufficient to be a "good manager" looking after one's own interests.

Our environment demands that we take an interest in the realities around us.

I recently asked 240 South African middle managers what would be the most important challenges facing them in the next five years. Almost half identified human resourses issues as the most important. Economing challenges were second, political challenges third and technological issues fourth.

The effective SA manager in the 1990s will above all need to have stong human resources management and people skills such as communciation, conflict management, human relations and coaching skills.

He will also have to be staunchly anti-racial, politically aware, be willing to commit his time to what I would call "individual social responsibility commitment", be willing to cross racial barriers and learn about others, remain committed to lifelong learning and want to be part of the "active future".

☐ **Prof Hofmeyr is associate director of the School of Business Leadership at Unisa. This is an extract from his address at this week's Joint Management Development Programme diploma ceremony.**

FORWARD COVER (49) FM 19/1/90

Economy to the rescue

The Reserve Bank's massive forward cover loss is starting to dwindle. The cumulative loss peaked at R17,5bn in October before falling to R16,7bn in November, the first monthly drop since March 1988. In December the loss receded again, to R15bn.

The reason is, fairly obviously, the improving rand. It has gained almost 9% against the dollar since June.

But the Bank is still deeply mired in the forward cover mess and has no clear plan on how to extricate itself, despite repeated promises to do so. It also has no clear plan on how to cover the loss, which would equal 25% of the entire Budget if it had to be repaid in one year.

The Bank seems willing to sit tight and hope tough monetary and fiscal policies will lead to higher real interest rates — through lower inflation — and a further strengthening of the rand.

The Bank doesn't believe the time has come to withdraw from the forward market and let commercial banks hold full responsibility for forward cover, says Deputy Governor Jan Lombard. For that to happen, real interest rates would need to be still higher, compared with our major trading partners.

This strategy has support from local economists. Azar Jammine, of Econometrix, does not expect much exchange rate volatility in the immediate future and thinks the Bank can afford to wait for the effects of the anti-inflation drive.

United's Hans Falkena agrees that the Bank can await foreign and local economic developments before it decides how to withdraw from the market. For example, a cooling down of the US economy should lead to a decline in US interest rates. Slightly higher US inflation also could push real interest rates more in line with ours.

The Bank, however, says it will not simply "sit back and wait for better days" but take "very firm action" to ensure that commercial banks take over its role in the forward market. But the Bank won't say what kind of action it's contemplating. It's ruled out raising interest rates, largely for fear of sending the fragile economy into a recession.

The Bank got into this mess because for years interest rates were set at artificially low, politically expedient levels. When the rand was stable and capital inflows strong, the forward cover loss was minimal. At the end of 1983 it totalled R910m but in 1985, when international concern at the unrest in the townships sent the rand plunging, backing up the commercial banks on forward cover became a very expensive business.

The business became more expensive in December 1988 when the Bank began offering a preferential forward rate for businesses that secured offshore loans. The Bank feared that excessive local borrowing would put upward pressure on local interest rates and hurt efforts to bring in capital from abroad to rebuild foreign reserves.

The preferential rate encouraged foreign borrowing but also subsidised imports at a time when SA was trying to increase the surplus on the current account. (Since October, when the forward cover loss began to decline, the Bank has no longer subsidised imports.)

The loss doubled in 1988 — last February it topped R10bn — and forward cover was suddenly a controversial topic.

Falkena says that given government's refusal to raise interest rates, the Bank had to back forward cover or importers would have had to pay cash on the nail, putting unbearable pressure on depleted foreign reserves.

The question is whether the interest rate policy was valid. Jammine believes it was not: interest rates should have been allowed to rise and then the Bank could have stayed out of forward cover.

Even if favourable economic conditions limit the loss in future, the Bank will be left with an enormous bill on Treasury's behalf.

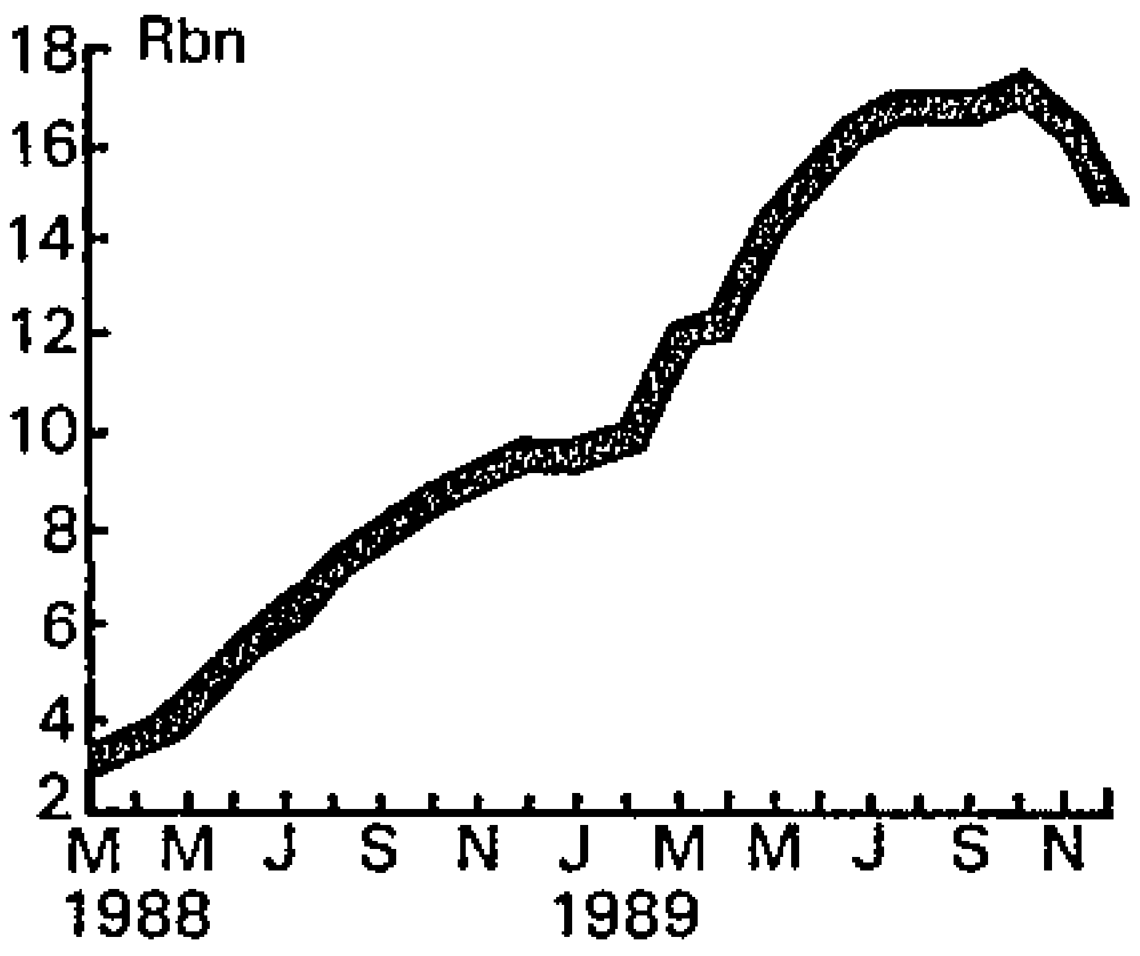
Nedbank's Edward Osborn believes the entire amount could be written off. Or, he says, past appropriations and the Bank's accumulated profits — even privatisation proceeds — could be used to reduce the amount.

He argues that the taxpayer should not be forced to suffer the deflationary effects of paying off the loss. Even were government to borrow the necessary funds over a number of years, shifting the obligation to the national debt, higher debt-servicing costs would still be passed to the taxpayer.

"This prolongs the agony for no apparent purpose," he says. "The real price has already been paid in the greatly increased money supply and resulting inflation." ▣

A sigh of relief

Cumulative forward cover losses incurred by the Reserve Bank



The losses bottomed out in March 1988, then soared before receding in November 1989

Source: Reserve Bank

INTEREST RATES FM 19/1/90

Pulling in the reins

The Reserve Bank has indicated that it won't let banks raise prime. But banks are mooting the possibility of raising lending rates to customers who borrow at prime or below. They are being forced to look at this option by the extreme and unabating money market illiquidity that has persisted all month.

Banks say it's difficult to raise some lending rates without raising prime because of intense competition. Some say that if liquidity eases soon they could sit it out and accommodate prime clients.

But the squeeze could continue for a while — maybe into March. In the face of longer-term tightness, banks might reassess the interest charged on new and existing loans, especially overdrafts and HP agreements. "But it's unlikely we'd raise rates on home loans," one banker says.

The Bank has used market illiquidity as an opportunity to follow up its pleas for banks to curb credit by letting the tight liquidity continue. The window shortage, the amount the market owes the Bank, was still as high as R4,3bn this Monday.

Part of that represents overnight loans. Because of a shortage of rediscountable bills, banks borrow overnight against long-term RSAs and Eskom stock at penalty rates of 22,75% — 1,75% points above prime. So with the liquidity squeeze, banks find they are often lending at rates lower than those they are paying the Bank.

Another example of how banks are being squeezed is the rates paid for repurchase agreement tenders, a form of direct Bank aid to the market provided at rates determined by the demand from banks. The Bank has been lending at rates exceeding the 21% prime rate. On Friday banks paid 21,46% — 0,5 percentage points above prime. On Monday the rate fell slightly to 21,43%.

Bank Senior Deputy Governor Japie Jacobs argues that policy is aimed not only at curbing demand for credit, which is determined by lending rates, but also at curbing the supply of credit by banks. "It is unacceptable for banks to continue to expand

CAUTIOUS OPTIMISM OVER SA'S BALANCE OF PAYMENTS (49)

W/Mail 19/1/90 - 25/1/90

NEW car sales dropped by 14 percent in the year to December while South Africa's trade surplus rose by almost 10 percent.

These two sets of figures, released this week, capture the likely shape of the economy in 1990: a moderate recession which provides a basis for South Africa's balance of payments position to improve.

And there already has been improvement, as Reserve Bank governor Chris Stals reportedly stressed at a meeting of the Pretoria Afrikaanse Sakekamer this week.

In off the cuff remarks at the meeting, which was supposed to be a closed one but was reported on by a Johannesburg morning newspaper, Stals admitted just how bad the country's position had been 18 months ago. He disclosed that published gold and foreign exchange reserves in June 1989 consisted almost entirely of borrowed money and reserves had been barely sufficient to cover a few days' imports, the report said.

But Stals said South Africa's reserves had increased by R1,5-billion over the past two weeks. The surplus on the current account of the country's balance of payments for 1990 could well be R6-billion to R7-billion and South Africa is unlikely to have to pay the full R7-billion due in foreign debt repayments this year because it was likely much of this debt (he mentioned a figure of R3-billion) would be rolled over, Stals said.

But in projecting a current account surplus of R6-billion or more, Stals was assuming no growth in domestic spending and exports considerably greater than imports.

The December provisional trade figures published by the Commissioner for Customs and Excise this week, already show the trend. Exports were R4,6-billion, two percent up on December 1988, while imports were R2,97-billion, eight percent down on the previous December.

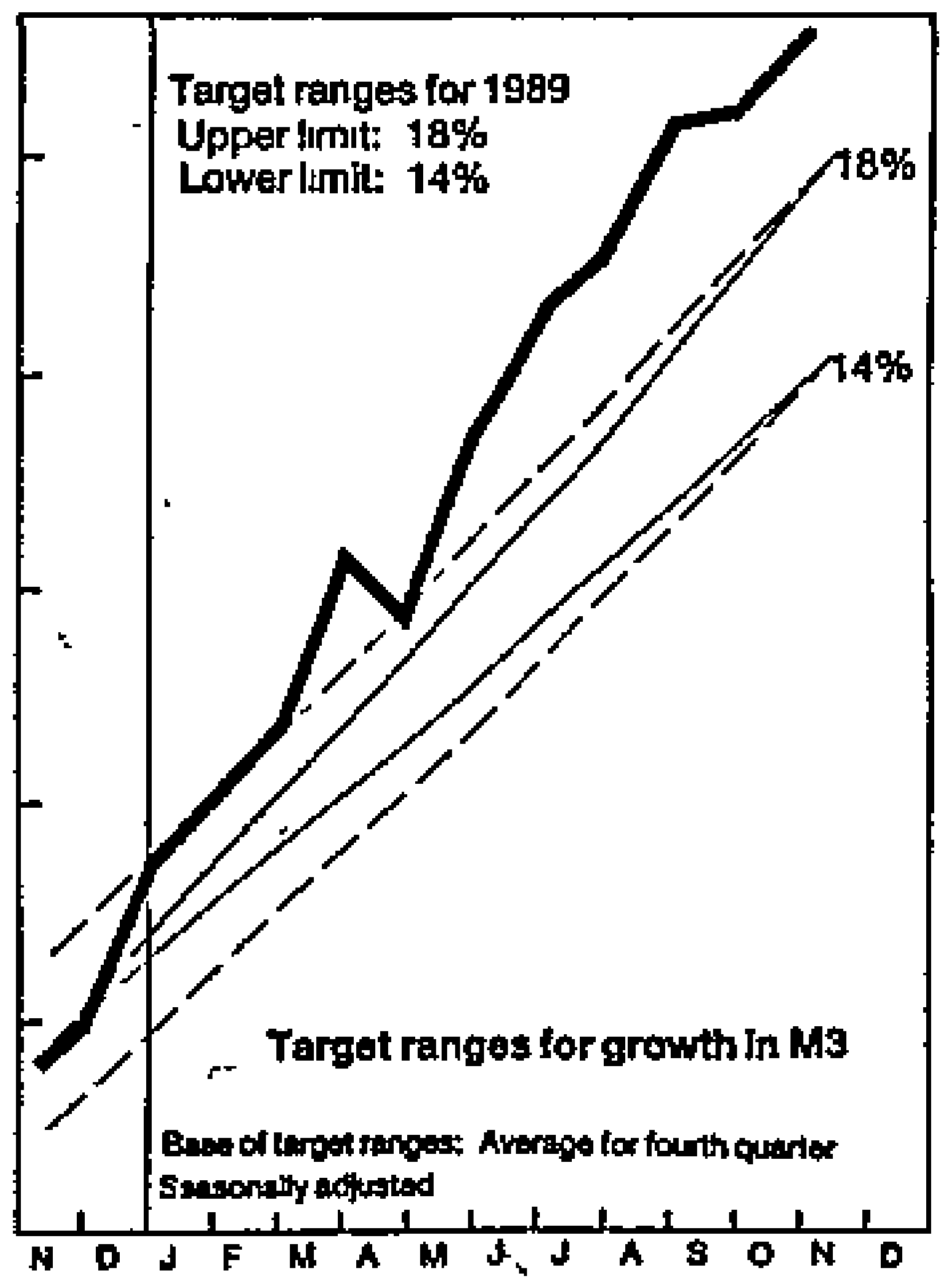
The decline in imports reflects some success in the financial authorities' attempts to cut South Africa's spending — by raising interest rates and imposing measures such as increased import surcharges — which had some success last year, reflected in gradually slowing economic growth.

Figures for the full year are not yet available but Reserve Bank statistics show growth in gross domestic product in the third quarter of 1989 was running at an annualised rate of just over one percent — compared with nearly four percent in the same quarter in 1988. Most economists estimate a growth rate for last year of around two percent, compared to 3,7 percent in 1988.

Real gross domestic expenditure is estimated to have fallen by about 7,5 percent in the third quarter, with declines recorded in real government consumption spending, fixed investment and inventories, according to the Reserve Bank.

Although fixed investment (in factories and buildings, for example) rose slightly in real terms through last year, by the third quarter it was still at a level in real terms six percent below that of the end of 1985.

Policies aimed at cutting imports tend to have a negative impact on investment: the bulk of South Africa's imports are of capital, rather than consumer goods.



Money supply growth ... still too fast.
Graph: SARB

And static or falling investment levels tend to mean rising unemployment. Latest official figures show black unemployment falling from 1,2-million in July 1986 to 744 000 in September last year. The September figure of 13 percent unemployment was down on the August figure of 13,1 percent. But economists are sceptical about official unemployment figures, since the formal sector of the economy is not producing enough new jobs to accommodate new entrants to the labour market — and has not done so for most of the 1980s.

Economists' hopes for this year are of a recession which is only a moderate rather than a severe one, but the downturn is expected to continue into next year.

Apart from their emphasis on improving the balance of payments position by "cooling" domestic spending and hence imports, both Stals and Finance Minister Barend du Plessis have made clear their determination to fight inflation this year.

While spending has slowed down, it has not slowed enough, as evidenced by money supply figures which show M3 — the broad measure of money in circulation including both cash and bank and building society deposits — still growing at well over 20 percent, as bank credit continues to be extended to individuals and businesses.

The big question this year will be who bears the burden of the economic slowdown the financial authorities want to see. There are three broad components of domestic spending: private consumption expenditure, government consumption expenditure and fixed investment, by the public or private sectors. Ideally it would be the current, consumption spending which would be cut rather than the investment spending which affects jobs in the short and long term.

The signals from the government are that it will bear at least some of the burden, by limiting its spending. That too has negative effects for the mass of the population, if it means cuts in already underfunded health, welfare and education budgets.

A moderate recession — some economists still think the economy could grow by two percent this year — will not see the levels of unemployment and hardship seen in the hard days of 1985/86. But on the government's priorities and the policy measures it pursues will depend how the difficulties of this year are distributed among the population.

No tax relief likely this year

B/Day 9/1/90

Barend plans 'real cuts' in new Budget

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MIKE ROBERTSON

CAPE TOWN — This year's Budget would see the beginning of a process of real cuts in government expenditure, Finance Minister Barend du Plessis said yesterday.

The Budget would reflect work being undertaken by Administration and Privatisation Minister Wim de Villiers, who had been charged with "identifying where we can cut spending and how to achieve better utilisation of manpower".

Du Plessis warned in an interview that tax cuts should not be expected as "there will be a lag in the time it will take some of the expenditure cuts to materialise to their full extent".

The Budget would, however, pave the way for tax cuts in the following financial year as government began moving towards its stated aim of reducing marginal rates to a maximum of 40% at the income level of R100 000 as opposed to the present 45% at R80 000.

Another reason why tax cuts should not be expected in this year's Budget was that government was committed to reviewing import surcharges, Du Plessis said.

"While they were not intended for revenue purposes, the revenue was used. So when you start reducing them, the loss of that revenue must inhibit your ability to cut taxes."

Government's spending priorities in the Budget would be:

☐ Education geared towards SA's manpower needs;

☐ Primary health care and preventive medicine and;

☐ Housing.

The coming year, Du Plessis said, would be a difficult one in terms of foreign commitments. SA would need a substantial surplus on the current account, which meant maintaining a tight rein on domestic expenditure.

"We will probably end up with no real growth on last year's real gross domestic expenditure figure."

He predicted the economy would grow only modestly this year, at a lower rate than last year.

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Budget

B/D am 9/1/90

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"We must get our house in order to resume a further period of growth towards the end of 1991," Du Plessis said.

This meant bringing inflation down; reducing interest rates while maintaining real interest rates; getting money supply within desired limits and; replenishing gold and forex reserves.

Interest rates would remain at current levels until inflation began to come down. The target for this was the third or fourth quarter of this year.

Du Plessis praised Reserve Bank Governor Chris Stals for his achievements in the area of SA's foreign debt scheduling.

In the knowledge that the foreign debt situation had achieved some stability, it was now time for government to compile "a thoroughly revised five-year fiscal plan. On the policy front we can pursue the fight against inflation, while on the planning side we can … find ways and means of reducing government expenditure".

De Villiers would play a major role in this process, although drawing up the plan was the responsibility of the Cabinet Priorities Committee. President F W de Klerk would have to assess its role and composition regarding his own objectives.

Responding to recent calls for the scrapping of the finrand, Du Plessis agreed it had outlived its usefulness. However, he said, SA's exposure in terms of its foreign obligations was still too high to risk scrapping it now.

"We need to build up more foreign reserves before we can contemplate that."

De Klerk, he said, had fully endorsed the idea that government's contingency fund be used only for emergency expenditure and not to allow spending departments a second bite at the Budget.

In time and with proper management, this would do away with the need for an additional appropriation budget.

No. 75 **19 Januarie 1990**

WET OP VREEMDELINGE, 1937

VANSVERANDERING.—McINTYRE IN WIGHT

Dit het die Minister van Binnelandse Sake behaag om, kragtens die bepalings van artikel 9 van die Wet op Vreemdelinge, 1937 (Wet No. 1 van 1937), Allan John McIntyre, woonagtig te 17de Laan 70, Edenvale, Johannesburg, te magtig om die van **Wight** aan te neem.

No. 86 **19 Januarie 1990**

WET OP VREEMDELINGE, 1937

VANSVERANDERING. — RAMRUTHAN IN BILLER

Dit het die Minister van Binnelandse Sake behaag om, kragtens die bepalings van artikel 9 van die Wet op Vreemdelinge, 1937 (Wet No. 1 van 1937), Clive Lloyd Ramruthan, woonagtig te 807 Goodhope Centre, Queenstraat 92, Durban, te magtig om die van **Biller** aan te neem.

DEPARTEMENT VAN FINANSIES

No. 77 **19 Januarie 1990**

Hiermee word bekendgemaak dat die oordragboeke van ondergenoemde Plaaslike/Binnelandse Geregistreerde Effekte van 1 Februarie 1990 tot en met 1 Maart 1990 gesluit sal wees en dat die rente betaalbaar op 1 Maart 1990 aan die effekte besitters wat op die datum van sluiting van die oordragboeke geregistreer is, betaal sal word:

Plaaslike Geregistreerde Effekte, 7,75 Persent, 1995.

Binnelandse Geregistreerde Effekte, 12,50 Persent, 2003.

No. 78 **19 Januarie 1990**

Hiermee word bekendgemaak dat die oordragboeke van ondergenoemde Plaaslike/Binnelandse Geregistreerde Effekte van 31 Januarie 1990 tot en met 28 Februarie 1990 gesluit sal wees en dat die rente betaalbaar op 28 Februarie 1990 aan die effektebesitters wat op die datum van sluiting van die oordragboeke geregistreer is, betaal sal word:

Binnelandse Geregistreerde Effekte, 10,50 Persent, 1991.

Binnelandse Geregistreerde Effekte, 12,00 Persent, 2004/5/6.

Binnelandse Geregistreerde Effekte, 13,00 Persent, 2009/10/11.

Binnelandse Geregistreerde Effekte, 14,00 Persent, 1994.

Binnelandse Geregistreerde Effekte, 14,00 Persent, 1996.

No. 75 **19 January 1990**

ALIENS ACT, 1937

CHANGE OF SURNAME.—McINTYRE TO WIGHT

The Minister of Home Affairs has been pleased under the provisions of section 9 of the Aliens Act, 1937 (Act No. 1 of 1937), to authorise Allan John McIntyre, residing at 70 17th Avenue, Edenvale, Johannesburg, to assume the surname of **Wight.**

No. 86 **19 January 1990**

ALIENS ACT, 1937

CHANGE OF SURNAME.—RAMRUTHAN TO BILLER

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DEPARTMENT OF FINANCE

No. 77 **19 January 1990**

Notice is hereby given that the transfer books of the undermentioned Local/Internal Registered Stocks will be closed from 1 February 1990 to 1 March 1990, both days inclusive, and that the interest due on 1 March 1990, will be paid to the stockholders registered at the date of the closing of the transfer books:

Local Registered Stock, 7,75 Per Cent, 1995.

Internal Registered Stock, 12,50 Per Cent, 2003.

No. 78 **19 January 1990**

Notice is hereby given that the transfer books of the undermentioned Local/Internal Registered Stocks will be closed from 31 January 1990 to 28 February 1990, both days inclusive, and that the interest due on 28 February 1990, will be paid to the stockholders registered at the date of the closing of the transfer books:

Internal Registered Stock, 10,50 Per Cent, 1991.

Internal Registered Stock, 12,00 Per Cent, 2004/5/6.

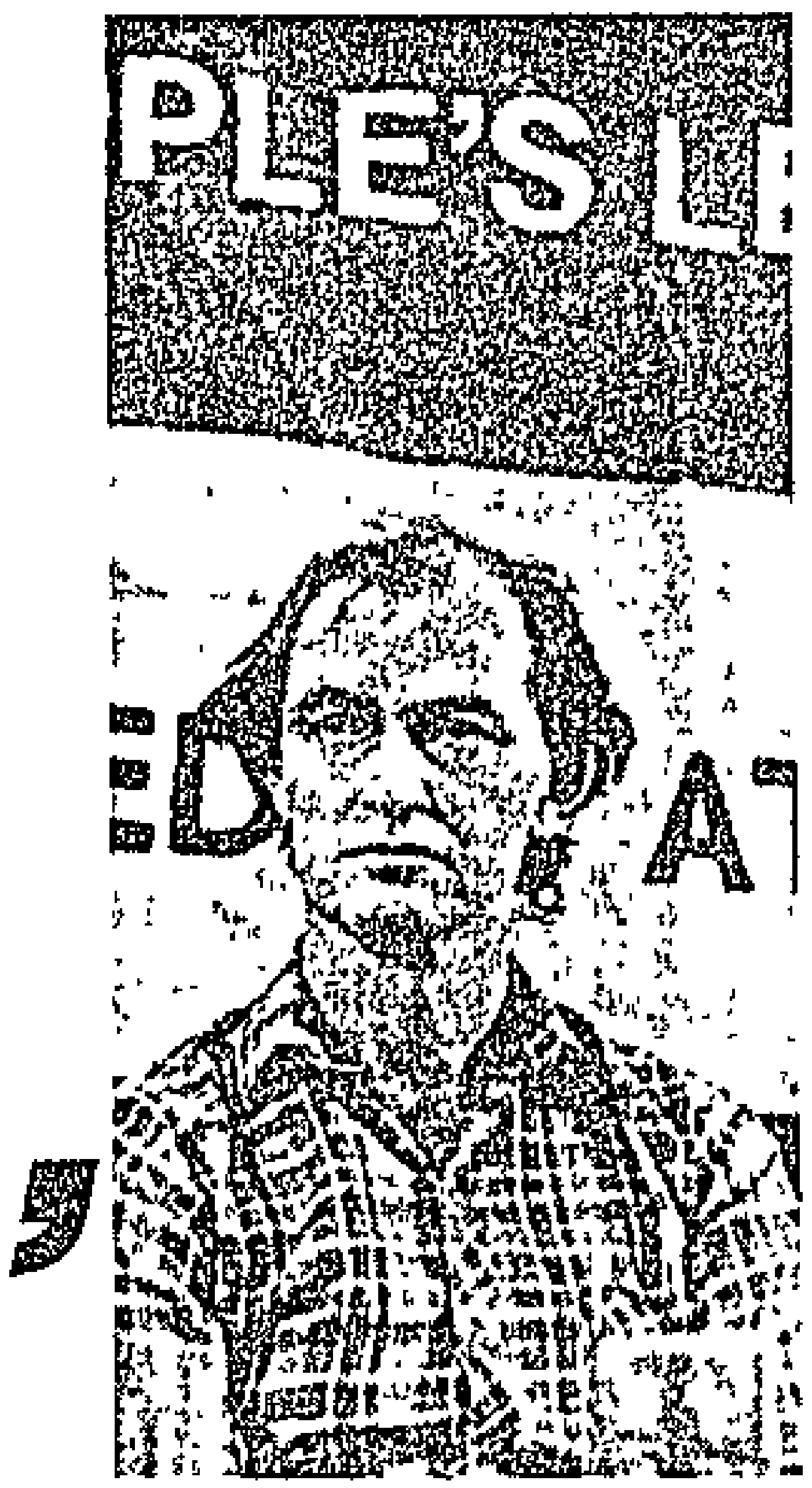
Internal Registered Stock, 13,00 Per Cent, 2009/10/11.

Internal Registered Stock, 14,00 Per Cent, 1994.

Internal Registered Stock, 14,00 Per Cent, 1996.

Economy 'needs more than slogans'

Ideological sloganising will not ensure a viable economy in post-apartheid South Africa, warns Cosatu's national education officer Alec Erwin. SOUTH presents a summary of his paper delivered at the recent Paris Indaba:



Alec Erwin

THERE is a great potential for conflict over differing views of the economy — present and future.

If we are to restructure the post-apartheid economy we shall have to learn to confront the issues and not the ideological paradigms;

The present debate is characterised by much rhetoric which cannot be dismissed because it reflects on reality.

The support for socialism and the use of Marxist-Leninist language reflect a very real discontent with the present economic circumstances

On the side of capital, free marketeers abound and their viewpoint is given considerable space in the media.

This, in turn, reflects capital responding to the economic problems it faces.

Our present economy has massive structural problems which confront us with stark issues.

Official statistics place the number of unemployed in the region of 800 000 while other estimates range from one million to 3,5 million. More serious still is the high percentage of young literate people who are unemployed.

Housing crisis

More than half of all wage earners earn less than the minimum subsistence level.

The official housing shortage estimate is 11 million units but we really have no definite idea of the extent of the problem.

The housing crisis is not the normal one of any developing society but one criminally exacerbated by apartheid which physically destroyed existing housing stock and then froze construction for more than a decade.

The effects of this policy and the existing group areas policies are devastating.

We know that the population growth rate is high, with the rate of urbanisation still higher.

There is a critical shortage of health facilities for the majority of the population. This deficit co-exists with very sophisticated facilities for a minority.

The situation means that people are highly vulnerable to epidemics; South Africa's involvement in destroying the economies of neighbouring states increases the danger of a sub-continental epidemic.

There is also an absurd shortage of educational facilities. Profound structural distortions have occurred as a legacy of apartheid

To confront and overcome problems of such massive proportions will demand of us that we break out of our uncomfortable preconceptions and develop innovative policies.

Our solutions lie neither in free-market capitalism nor in centrally planned command economy socialism.

Cosatu has a socialist conception of the economic policy packages that will be necessary to solve our economic problems.

However, it is important to define what is socialist.

Our policy must be aimed at developing economic and social programmes that most effectively develop and benefit our whole society.

This means there must be particular, but not exclusive, development for the working class majority in our society.

Central to our thinking is the development of a democratic political process that will entrench mass participation and involvement in the formulation and implementation of economic policy.

In these broad dimensions we are unashamedly socialist.

Our challenge is to develop inclusivist programmes that will build a productive, prosperous, ecologically stable and culturally vibrant society where each citizen benefits in meaningful measure.

We have to open up the agenda of debate to go beyond ideological cliches if we are to avoid a future economy where mass poverty exists side-by-side with minority affluence. Such a society cannot be democratic and must collapse into renewed oppression and bitter conflict.

There are three important areas of policy that help pave the way for a more informed interaction between capital and labour.

The first is to understand the nature of the strong opposition to the present economic policies of capital and the state.

At the centre of such policies is the belief that a free market economy which entails privatisation and deregulation is a cover for the more narrow concerns and interests of capital and the state to retain productivity and shed obligations respectively.

There is no coherent thinking about the effects of such policies on the wider society.

This means these policies are a systematic attack on the working class because they have manifest impact on wages and employment with no gains made elsewhere.

These policies are going to exacerbate conflict, particularly bearing in mind the Labour Relations Act (LRA) and the attack on the industrial councils which is undermining negotiating forums.

The dismantling of existing platforms of negotiation increases the potential for conflict between capital and labour.

The LRA and the attack on unions through privatisation and deregulation have polarised the capital-labour relationship

If we could attain a more considered approach, based on negotiation within credible forums, then certain potential within privatisation and deregulation could be developed.

An important component of privatisation is the question of managerial accountability.

If deficits are met by a state subsidy, this will have an effect on managerial style.

We will have to acept that while the present economic policies of capital and the state and the extreme concentration of economic power within a handful of conglomerates will be the starting point of capital they will be totally unacceptable end points for the workers and the broad liberation movement.

We have to confront the issue of whether an inflow of foreign capital and aid will be a solution in a post-apartheid economy.

A popular wisdom has developed that our problems are caused by sanctions and disinvestment, and will be shed with an inflow of capital and aid. There is much talk about a Marshall Aid plan for Southern Africa.

This is a dangerous expectation Its inability to occur on the scale envisaged by its proponents will delay the vital task of restructuring our domestic economy.

Even without apartheid the South African economy will not attract massive capital or aid.

Instead, we face a serious problem of capital outflow.

We should not underestimate the long term significance of events in the USSSR and Eastern Europe.

These economies with a superior infrastructure and more skilled manpower will present very attractive investment prospects to Western capital.

Our future is too important to be left in the realm of a war of slogans

This is not to abandon analysis or to deny very real differences.

However we have to be clear what these differences are and to what extent negotiations will narrow them

We must effect a rapid shift to researched and mandated debates on policy

Within Cosatu and its major affiliates, systematic research and policy discussion are taking place.

The first phase of the Economic Trends project which focussed on the structural problems of the economy has been completed. A second phase looking at the complex issue of restructuring the economy is in process.

At the same time corporations are starting to establish more contact both with economists in the MDM and with the liberation movement.

The debates around the constitutional guidelines and the Workers' Charter will also help the debate and formulate policy.

A successful restructuring depends on perestroika (restructuring) uskorale (an acceleration of improvements in living standards) and glasnost (democratic participation and openness).

Our present economy can be characterised by a high cost-low wage manufacturing economy.

The present economic policies of both capital and the state will perpetuate such a growth or non-growth path.

The challenge facing Cosatu is to restructure the existing economy to a low cost-high wage growth path.

Such a change hinges on an increase in productivity.

However, in achieving an increase in productivity we would also like to lower relative prices of manufactured goods, in order to expand products of the basic social infrastructure and consumer goods to meet mass needs

Strategic

This must raise incomes through rising wages and increased wage value.

Such an economic turnaround requires a coherent strategic plan and conception in key areas:

- investment policy which would link foreign investment to technology and markets which will increase employment and make us increasingly competitive on international markets
- a science and technology programme
- a manpower programme that integrates our skill needs and which is related to education
- health and welfare
- environment
- recreation and tourism.

Such planning cannot be piecemeal. It will have to learn from planning experiences in socialist and capitalist mixed economies.

This raises the central question on nationalisation

In directing production the judicial control of assets by the state is not the complete answer to this question

The answer also does not lie simply in the unfettered ownership rights of free market capitalism or the bureaucratic control arising from the state.

There will have to be social control over production effected through a range of ownership forms and where the market plays a critically important role

The most important lesson we should learn from current events in the world is that as economies using undemocratic structures develop, the forces of democracy will begin to break through. South Africa's future will not be stable unless it is democratic.

The processes of planning that will restructure and develop our economic future must be effected by democratic structures that exist not only at a national level but at regional and local levels and more importantly within the institutions of the wider civil society and within all processes of production.

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set to continue in new decade

people. Decent housing, health and education remain the privilege of a select few.

A major headache is the high and rising rate of unemployment combined with a huge urbanisation rate and a rapidly growing population.

The reform strategy of the state and capital means that organised labour faces the challenge of how to prevent a divided working class — a result of what Cosatu education officer Alec Erwin calls the 30/70 percent solution.

In terms of this, 30 percent of the population has adequate access to resources while the rest lives an impoverished existence.

Cosatu, with community organisations, will have to intensify efforts to organise the unemployed and to campaign for a living unemployment benefit.

Cosatu has recognised the need to restructure the economy within a democratic state as an urgent issue. It wants to intensify discussion about the economy and develop a clear plan for this restructuring.

The discussion would centre on the economic models, the stimulation of economic growth and the redistribution of resources and wealth.

Cosatu and its major affiliates are presently engaged in ongoing research into the economy. This research is likely to have a profound influence on the policy of the organised labour movement in the 1990s.

Militancy

The current pre-negotiations climate on the political front is likely to have profound implications both in terms of shopflour militancy and union policy.

It is in the interests of organised labour to strengthen not only its own structures but that of the MDM as a whole to hasten the end of the apartheid state. At the same time it should ensure that a settlement is not foisted on the people and that working class interests are advanced.

The Cosatu congress in July identified the need to prepare for the post-apartheid society. Such preparations must include discussions on the constitutional guidelines.

Also of critical importance to the future of the labour movement is the call by the Cosatu congress for extensive discussion about a Workers' Charter which will guarantee the basic rights of workers in the post-apartheid state.

Following this discussion, the labour movement intends to hold a special congress to draw up such a charter.

But it is still unclear how this will dovetail with the call by the Workers' Summit for workers to draw up their own Labour Act.

More broadly, a major challenge facing the trade union movement and community organisations is how to develop a working class consciousness which could ensure that the transformation of South African society continues after apartheid has been ended.

M3 confirms a slowdown

B/Day 23/1/90

HAROLD FRIDJHON

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CLEAR signs of a slowing down in the economy are apparent from the preliminary money supply aggregates for December 1989 and from the banks' advances to the private sector.

Preliminary figures for total money supply (M3) for December were R144,8bn, an increase of 1,7% on November, but 21,8% on December 1988.

On a year-on-year comparison, the December figures look good. The year-on-year growth in November was 23,4%, in October 24,6% and in September 22,8%. The peak growth was in February when the M3 grew to a peak 27,4% compared with the previous year.

On the month-on-month comparison, August's M3 growth was 3,4% higher than September's 1,4%, October's 2,7% and November's increase was negligible. The October figures were distorted by the Iscor flotation which carried through into November.

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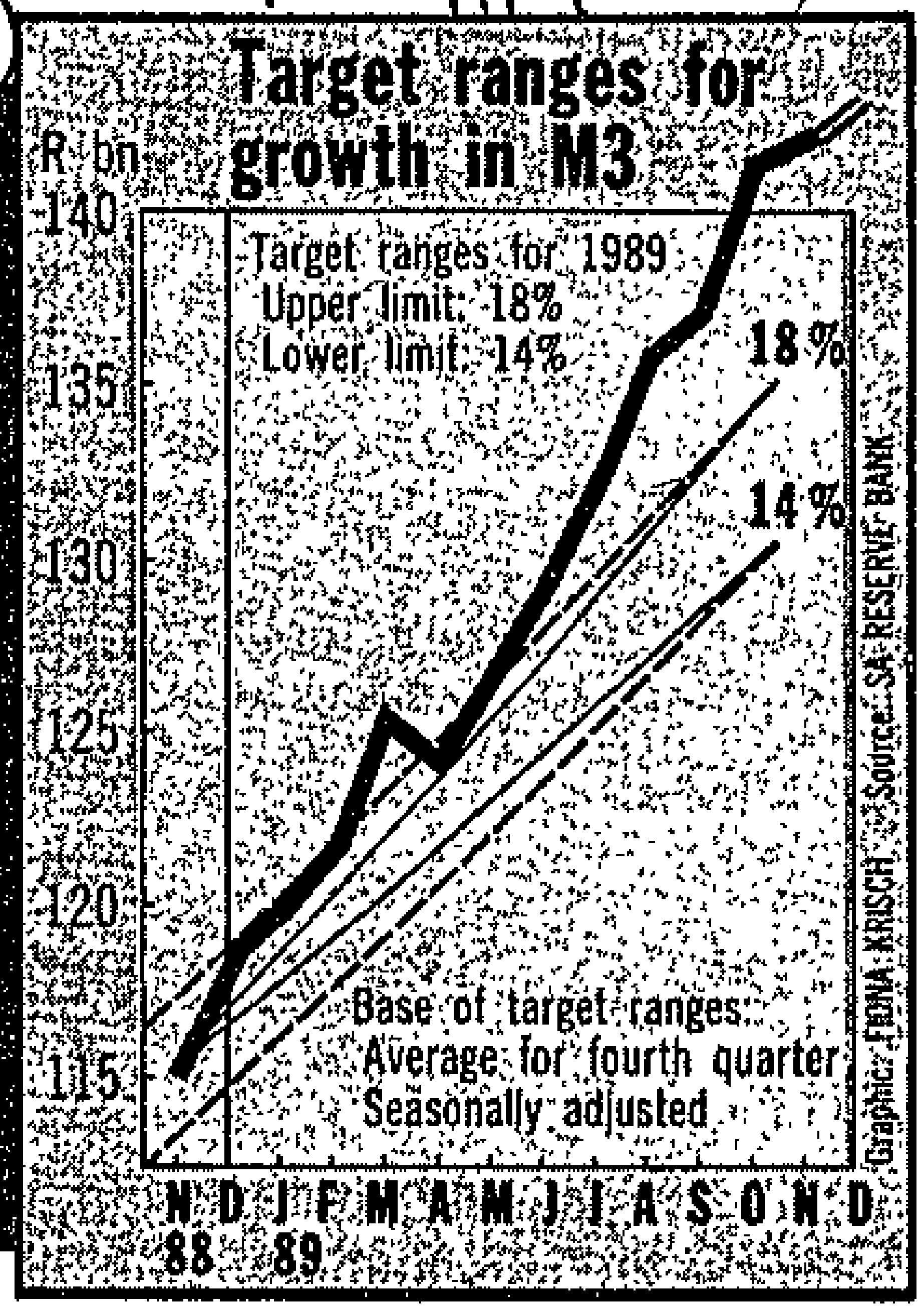

Graphic: FIONA KRISCH Source: SA RESERVE BANK

Slowdown

B/Day 23/1/90

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The seasonally adjusted year-on-year growth rate had declined from 25,35% in August to 22,7% in December.

Perhaps the slowdown in the economy can best be read from total bank advances to the private sector. In November these were a mere 0,5% higher than the distorted October's R139bn. A more normal comparison is September's 2% rise to R135,2bn from R132,5bn in August.

Rand Merchant Bank economist Rudolf Gouws is encouraged by the last Reserve Bank figures, but he warns that one must not look at a single month's aggregate, but at the longer term trend, which looks hopeful.

Govt deficit R4bn less than feared

B/Day 25/11.90

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GRETA STEYN

GOVERNMENT is set to end the current fiscal year with its deficit almost R4bn below the budgeted R9,9bn, as latest figures indicate previous estimates of R7bn were too conservative.

Finance Director-General Gerhard Croeser yesterday said the actual turn-out for fiscal 1989/'90 was likely to be even better than thought last year.

"Revenue is still going strong, and expenditure is under control. We were deliberately conservative in our earlier projections, and now it seems a deficit of between R6bn to R6,5bn is more likely."

At that level the deficit — the difference between spending and revenue — will be comfortably below the IMF's 3% of GDP benchmark and far below the budgeted 4,1%.

However, Standard Bank economist Nico Czypionka, who believes the deficit could be even lower at R5,5bn, yesterday cautioned against making a "song and dance" about the dramatic reduction.

"It has occurred for all the wrong reasons," he said. "Government has milked the economy with excessive taxes instead of cutting spending."

The main reason for the dramatic reduction is a revenue boom, running at an increase of 35% after nine months of the fiscal year. The budgeted figure for the full year is 16%.

In spite of the dramatic reduction in the deficit, significant tax relief in this year's Budget has been ruled out. Government will also not reduce its borrowings as the sale of government stock is a monetary policy weapon.

Reserve Bank Governor Chris Stals yesterday confirmed the sale of government stock was part of the strategy to fight inflation.

"Excess borrowings represent money withdrawn from the market and placed on deposit with the Reserve Bank. As long as this money is not spent again by Government, it represents sterilised funds withdrawn effectively from the private sector."

He added that more than R1bn had been placed in the Treasury's stabilisation account created to keep "sterilised" funds — money taken from the economy specifically to reduce liquidity during periods of overheating demand.

Apart from the transfer to the stabilisation fund, government has paid R1bn to the Reserve Bank to reduce its debt on forward cover losses; an effective "destruction" of money taken from the private sector.

Croeser said this restrictive monetary policy stance should be mirrored by tight fiscal policy, which explained why taxes could not be materially reduced in the next fiscal year.

South Africa's war against capitalism

B/Day 25/11/90

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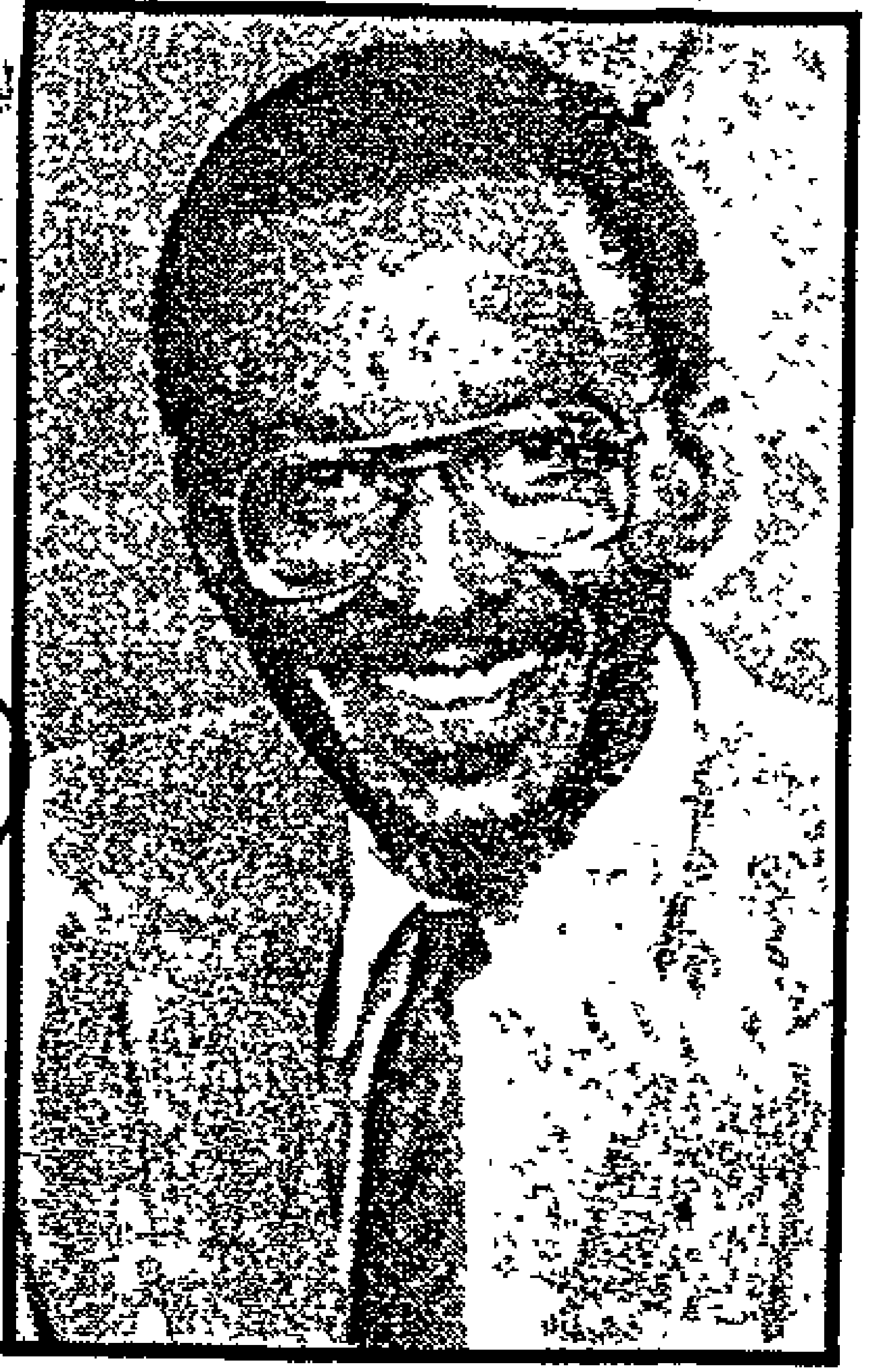
WALTER E WILLIAMS, the American author of a new book on SA, argues that apartheid and capitalism are enemies, not bedfellows.



Eliminating apartheid has been the challenge for South Africa's decent people for decades and now finally they're beginning to taste the fruits of their efforts. As apartheid recedes, serious efforts must be invested in determining what is going to replace it.

This is a crucial task. History is steeped in evidence showing how easily one system of injustice has been replaced by one just as bad, and possibly worse. The Shah of Iran's injustices were replaced by those of Khomeini; injustices of the Russian tsars were replaced by those of Stalin; in most of post-colonialist Africa, injustices of Europeans were substituted by those of black dictators.

In these and many other cases, the average man in the street might say he was better off under the former injustice. In order for apartheid's victims to avoid this pattern, they must see apartheid as merely a special case of something more general.

Underlying the whole ugly history of apartheid was an attack on free markets, the rights of individuals, and the glorification of centralised government power.

This basic mission is seen in the volumes upon volumes of Government Gazettes which, inter alia, mandate who can be employed in what jobs under what conditions; who can operate what businesses where and how; who can buy what and where; and who live where. These mandates stand as convincing evidence that free markets cannot be relied upon to confer racial privileges; it takes government.

If mine owners would not hire blacks as underground engine operators or dynamite blasters, why would a law preventing them be necessary? Laws were necessary because some white businessmen's commitment to profits outweighed their commitment to white supremacy; thus, they would hire lower wage black workers. White workers seeking "civilised" wages had to use government to subvert these market forces.

One of the most effective tools in every racist's arsenal is wage regulation. F H Creswell, supported by the Mineworkers' Union, introduced the Wage Bill of 1925 calling for minimum wages (rate for the job) to protect white workers against competition from lower wage blacks.

Gert Beetge, secretary of the Blanke Bouwerskersbond, frustrated with lax enforcement of job reservation, called for the rate for job as "the second best way of protecting our white artisans". Similar sentiments were echoed by Tom Murray of the Boilermakers' Union and other white unionists.

These men had evil motives; but minimum wages discriminate against the least-well-off even when the motives are noble.

Afrikaner merchants discovered that the free market didn't confer racial privilege. Afrikaner customers preferred lower prices to higher prices. Appeals to ethnic solidarity did not prevent them from patronising cheaper priced Indian merchants. In 1946, the publication Ispan lamented: "The one time pitiful (Indian) pedlar has become a financially strong trader, whilst many hard-working established white businessmen have been squeezed out by the previously despised interloper." Afrikaner merchants sought to eliminate competitively superior Indian merchants through the Pegging Act.

Apartheid's history is loaded with examples of how its proponents used government's coercive powers to rig the economic game by restricting the rights of individuals to engage in voluntary exchange. Today's tragedy is that many apartheid victims are openly hostile to free markets.

Bishop Tutu said, "At the outset I must say that I am opposed to capitalism. It is due to abhorrence at what I believe to be an essentially exploitative order."

Cosatu vice president Chris Dlamini said, "The unholy alliance, apartheid and capitalism, has become obvious and concrete."

Apartheid's architects also shared anti-capitalist sentiments. General Hertzog said some people wanted to "oppress and kill Bolshevism" because "national freedom means death to capitalism and imperialism". D F Malan pleaded, "... the capitalist system which is based on self-interest and the rights of the strongest is in any case doomed. For us to work until the correct adjustment has been made will also be South Africa's task in the future."

The Afrikaner publication Volkshandel wrote, "Every sober-minded, thinking Afrikaner is fed up with so-called laissez-faire — let-it-be — capitalism, with its soul-destroying materialism and the spirit of every man for himself and the devil for us all."

It's clear why privilege-seeking whites were anti-capitalist. I would like to think apartheid's victims are different and their anti-capitalist sentiments result from SA's misrepresenting itself as a capitalist country; hence they make the erroneous connection between capitalism and apartheid.

Apartheid has much in common with communism (or socialism) whose economic definition is: government ownership and/or control over the means of production, i.e. land, labour, capital and entrepreneurial talent.

Capitalism — or its synonyms: free enterprise, laissez-faire, and free markets — refers to a system where people hold private property rights allowing them to acquire, keep and exchange goods and services on mutually agreeable terms without third party (government) interference.

Given these definitions, we might just ask which system — communism or capitalism — better describes SA?

Blacks should not fall prey to the false seductive socialist promises of income redistribution. There are no people anywhere who owe their prosperity and dignity to income redistribution; they owe it to productivity.

Welfare dependency fits neatly into apartheid tenets. After all, it was D F Malan who said, "I regard the Bantu not as strangers and not as a menace to white people, but as our children for whose welfare we are responsible ..."

Apartheid has seen its last days. To secure final victory, marching orders require the complete removal of race from politics, the strengthening of SA's beleaguered market forces by privatising all government enterprises, deregulating economic activity, and a commitment to all-out war against centralised government control.

These measures will make the greatest contribution towards tranquility, justice, dignity, and prosperity for all. I predict that if these steps are taken, and level heads prevail, it won't be long before SA becomes the world's latest economic miracle.

Professor Williams is with the department of economics at George Mason University, Fairfax, Virginia, in the US. His book, South Africa's War Against Capitalism, published by Praeger New York, will soon be available through the Free Market Foundation.

Opinion

Preconceptions must go to provide for innovation

[illegible] 25/1/90 (49)

Part 1 of extracts from a much-discussed paper by Cosatu education officer ALEC ERWIN to a Paris conference attended last month by ANC leaders, South African businessmen and unionists.

TO CONFRONT and overcome the massive structural problems of our economy will require that we break out of our comfortable preconceptions and develop innovative policies.

Our solutions lie neither in free-market capitalism nor in centrally planned command economy socialism.

Cosatu has a socialist conception of the economic policy programmes which will be necessary to solve our economic problems. However, it is important to define economic and social programmes which must develop and benefit our whole society. This means there must be particular, but not exclusive, development for the working class majority in our society.

Secondly, central to our thinking is the development of a democratic political process that will entrench mass participation and involvement in the formulation and implementation of economic policy.

Mass poverty

In these broad dimensions, we are unashamedly socialist. But our challenge is to develop inclusivist programmes that will build a productive, prosperous, ecologically stable and culturally vibrant society where each and every citizen benefits in meaningful measure.

We have to open out the agenda of debate beyond ideological clichés if we are to avoid a future economy where mass poverty exists side by side with minority affluence. Such a society cannot be democratic and must collapse into renewed oppression and conflict.

There are three important areas of policy which help pave the way for a more informed interaction between us. The first is to understand the nature of the strong opposition of Cosatu to present economic policies of capital and the state. At the centre of such policies is a belief in a free market which, it is held, entails privatisation and deregulation.

Shed obligations

In our view, the free market solution to all our economic problems, which is systematically pumped through our media, is providing a cover for very much narrower concerns and interests of capital and state.

In short, the concern of capital is to cut costs to retain profitability and that of the state is to shed its obligations to solve its fiscal problems. There is no coherent thinking about the effects of implementing such policies in the wider society.

The effect is that such policies constitute a systematic attack on the working class in particular because they have manifest impacts on wages and employment with no gains made elsewhere. There are also other long-term costs of present policy which are not being considered. These policies, therefore, are going to increase conflict, particularly bearing in mind the Labour Relations Act and attacks on industrial councils, undercutting negotiation forums.

Narrow interests

If we could attain a more considered approach based on negotiation within credible forums, then certain potentials within privatisation and deregulation could be developed. There is a component of privatisation which is important and that is the question of management accountability for its actions. If deficits are met by state subsidy, then this must have an effect on managerial style when compared to a situation of a self-financing enterprise.

Equally with deregulation, if it is applied to removing protection of narrow interests, then important changes could be affected. These issues are more complex and more fruitful to the wider society. However, at present these potential positive measures will not emerge.

We will have to accept that, while the present economic policies of capital and the state, along with the extreme concentration of economic power within a handful of conglomerates, will be the starting points of capital, they will be unacceptable end points for workers and the broader liberation movement.

The second task is to confront the issue of whether an inflow of foreign capital and foreign aid will be a solution within our post-apartheid economy. Particularly around the issue of sanctions a popular wisdom has developed that our problems are caused by disinvestment and sanctions and that our problems will, therefore, be solved by a future influx of foreign aid and capital. There is a lot of talk about Marshall Aid-type plans.

Such a growth path expectation is dangerous. It is dangerous because it is unlikely to happen on the scale envisaged by its proponents. This will only serve to delay the vital restructuring required in our domestic economy. For the structural reasons outlined in other papers here and identified by our own research work, the South African economy, even without apartheid, will not attract massive or sustained capital or aid inflows. We face a much more serious problem of a capital outflow.

We should also not underestimate the long-term implications of events in the USSR and Eastern Europe. These economies — with a superior infrastructure and vastly more skilled manpower — will offer very attractive investment prospects to Western capital.

We must start now on the work of restructuring and developing our economy rather than delaying in the expectation of a foreign aid.

☐ *A concluding extract will be published tomorrow.*

Govt expects dramatic cut in deficit

Cape Times
25/1/90

(49)

From GRETA STEYN
Own Correspondent

JOHANNESBURG. — Government is set to end the current fiscal year with its deficit almost R4bn below the budgeted R9,9bn as latest figures indicate previous estimates of R7bn were too conservative.

Finance Director General Gerhard Croeser yesterday confirmed the actual turnout for fiscal 1989/90 is likely to be even better than thought last year.

"Revenue is still going strong and expenditure is under control. We were deliberately conservative in our earlier projections, and now it seems a deficit of between R6bn-R6,5bn is more likely."

At that level, the deficit — the difference between spending and revenue — will be comfortably below the International Monetary Fund's 3% of GDP benchmark and far below the budgeted 4,1%.

However, Standard Bank economist Nico Czypionka, who believes the deficit could be even lower at R5,5bn, yesterday cautioned against making a song and dance about the dramatic reduction.

"It has occurred for all the wrong reasons. Government has milked the economy with excessive taxes instead of cutting spending."

The main reason for the dramatic reduction is a revenue boom, running at an increase of 35% after nine months of the fiscal year. The budgeted figure for the full year is 16%.

In spite of the dramatic reduction in the deficit, significant tax relief in this year's Budget has been ruled out.

Government will also not reduce its borrowings as the sale of government stock is a monetary policy weapon.

Reserve Bank Governor Chris Stals yesterday confirmed the sale of government stock was part of the strategy to fight inflation.

"Excess borrowings represent money withdrawn from the market and placed on deposit with the Reserve Bank. As long as this money is not spent again by government, it represents sterilised funds withdrawn effectively from the private sector."

He added amore than R1bn had been placed in Treasury's stabilisation account.

The account was created to keep "sterilised" funds — money taken from the economy specifically to reduce liquidity during periods of overheating demand.

Apart from the transfer to the stabilisation fund, government has paid R1bn to the Reserve Bank to reduce its debt on forward cover losses — an effective "destruction" of money taken from the private sector.

This restrictive monetary policy stance should be mirrored by tight fiscal policy, said Croeser, which explained why taxes could not be materially reduced in the next fiscal year.

BRIAN KANTOR

Surprise, we're growing

(49)

Brian Kantor is professor of economics at the University of Cape Town.

FM 26/1/90

If money supply is anything to go by, the economic slowdown is over and the economy has entered another phase of accelerating growth.

December was a very big trading month. Money supply, as shown by notes issued by the Reserve Bank, grew strongly enough to reverse the declining trend in economic growth. If this continues, corporate earnings will begin growing even more rapidly because note issues consistently and reliably predicts corporate earnings (see **graph**).

This development has not gone unnoticed by Finance Minister Barend du Plessis and he is right to hold the Reserve Bank accountable. Earlier this month he said: "There is indeed a danger that the Bank will, through liberal assistance to the (money) market, facilitate further excessive increases in money supply; this will certainly not be in line with government's economic policy."

On the other hand, Du Plessis is unwise to admonish private bankers for doing what comes naturally to them — to lend more money when it's profitable. He is wrong to believe that excess demand for bank credit can be eliminated without higher interest rates. Neither moral suasion nor direct controls have anything to recommend themselves as options.

The fundamental problem for Du Plessis and the Bank is simply that government's economic strategy is being undermined by its political success. Political developments have clearly been boosts to confidence and, therefore, to spending. The strategy, however, is aimed at restricting domestic spending to generate greater trade surpluses, which are assumed to be necessary to pay foreign debt and rebuild foreign exchange reserves.

The trade balance has recovered well and inflation has moderated but an earlier-than-expected recovery for the economy, presaged by the spurt in money supply, might reverse these developments.

Foreigners have begun to share this confidence. Not only are they more willing to buy SA equities, they are also willing to hold more SA debt. This greater availability of foreign capital means that government policies were designed for an economy in a very different state than it is now.

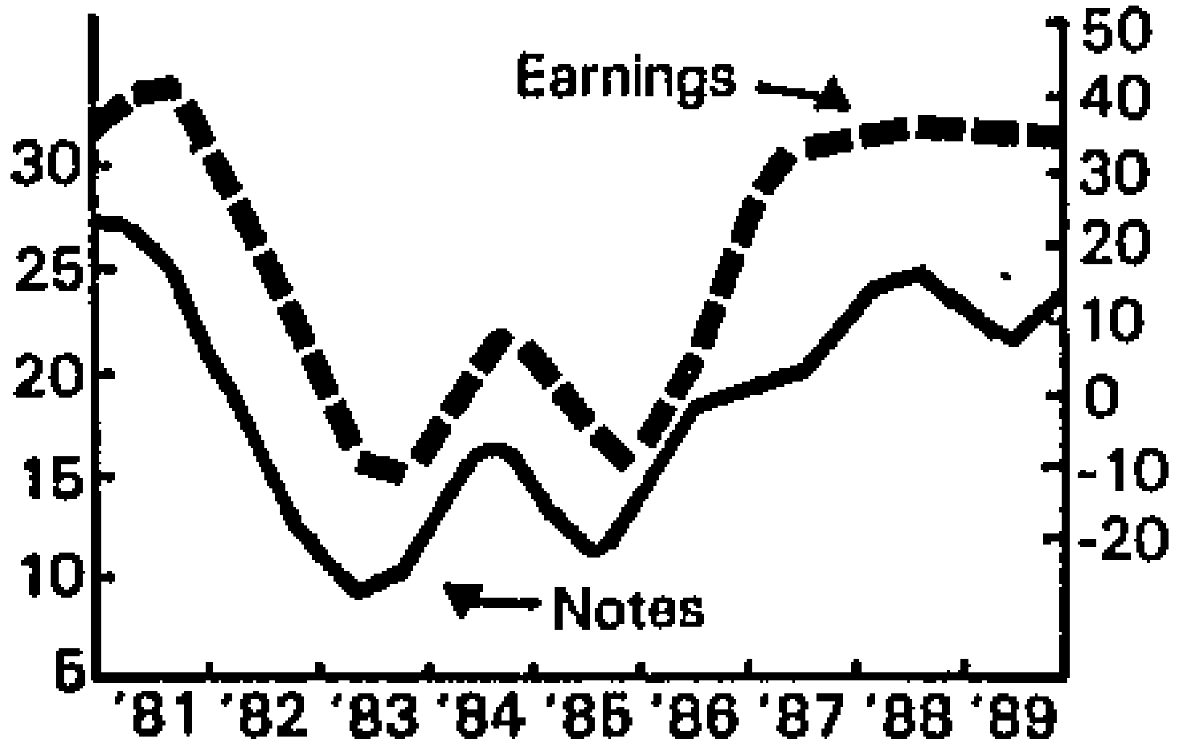
What can be done to inhibit inflation? Higher interest rates may do little to dampen the greater enthusiasm of households and businesses to invest. And to offer foreigners higher returns, when they seem determined to drive down returns with their growing demand, also does not seem appropriate.

So it would be naive to hope for too much from money supply in these circumstances. But faster money-supply growth represents a longer-term, rather than an immediate, threat of higher inflation. More important to inflation in the short run is the price of imports, which is influenced by the exchange rate and import duties. The capital inflows, or a declining rate of outflow, resulting from more confidence in the economy, can be very good for the rand. A stronger rand helps to reduce inflation and is also consistent with higher interest rates.

Strong government revenues present another opportunity to cut inflation and defuse inflationary expectations, which is essential if inflation is to be reduced with minimum pain. Higher revenues can also mean immediate direct tax relief if government spending is restrained. Critical here will be public-sector pay increases. Holding these to no more than 10% this year opens a huge window of anti-inflationary opportunity by cuts in direct tax rates. So, if inflation is to be tamed, it's up to the authorities to act.

Notes and earnings

Kicking off an upturn



The trend in corporate earnings follows the trend in notes issued by the Reserve Bank, so the recent growth in notes issued may mean the economy has bottomed out and a new growth phase has begun.

Source University of Cape Town, School of Economics

Brighter outlook for inflation rate

Star 26/1/90 (49)

By Sven Lünsche

The government's tight monetary and fiscal policy will continue over the next few months and interest rates are only likely to decline by between one and two percent towards the second half of this year.

However, a major positive result of the restrictive policy will be a lower rate of inflation — in the region of 13 percent by year-end — say two leading economists.

Tougher times

Southern Life's Mike Daly and Dr Hans Falkena of the UBS argue in their group's respective publications that the restrictive government policy of the last two years will not be eased appreciably over the next few months.

However, the adjustment process in the economy will be easier this time around and they expect some easing in policy towards the end of the year.

"The real economy has yet to feel any pain as we enter 1990," Mr Daly writes in Southern's latest *Economic Comment*. "However, the cumulative effect of tight monetary and fiscal policy over the past 18 months will result in tougher times as the year unfolds."

He forecasts a small decline in real gross domestic expenditure this year, while only a further improvement in exports will keep GDP growing at about one percent.

"The policy of high real short-term interest rates will be maintained until the second quarter, during which the first official cut in the Bank rate from its current level of 18 percent can be expected."

However, the tight monetary policy is sending signals about the authorities' determination to reduce inflation, which Mr Daly estimates could average 13,3 percent this year compared with 14,7 percent in 1989.

"Inflation may peak at the 15 percent level in the first quarter, but consumer price increases will drop to below the 13 percent level by the end of this year.

"It is also possible that the bottom of the inflation cycle, which will be within a year or two, will be below the previous bottom, reached at the 12,3 percent level in late 1988," Mr Daly comments.

Tax outlook

UBS economist Dr Hans Falkena largely echoes Southern's sentiments.

"Provided the lid is kept firmly on government expenditure, no additional tax increases seem necessary, and interest rates ought to start decreasing gently from the middle of the year. By the end of this year, the Bank rate should be back to the 17 percent level.

"Another positive influence of restrictive policy will be a lower rate of inflation, maybe around 13 percent at year-end, which will also serve to stabilise the exchange rate," Dr Falkena states.

He adds, however, that much more emphasis will be placed on the government's fiscal policy in order to achieve these goals.

Budget deficit

Providing a conservative estimate of the current fiscal year's budget deficit, Dr Falkena says that the significant revenue windfall received could result in a deficit of R7,7 billion for the 1989/90 year (3,2 percent of GDP), well below the budgeted R9,95 billion (4,1 percent of GDP).

"An improvement of such magnitude is unlikely to be achieved again in the 1990/91 fiscal year, although the deficit will still fall as a percentage of GDP.

"With a 16 percent growth in revenue, and a 15 percent growth in expenditure, the budget deficit is likely to be in the region of R8 billion, or around 2,9 percent of GDP."

Ideally, Dr Falkena notes, the budget deficit should be much lower, preferably around 2 percent of GDP.

"Still, with monetary and fiscal policy stances simultaneously restrictive, the policy mix in South Africa will be in a far better shape than during 1988 and 1989."

How to cut high rates — economist

(49)

B/Day 26/11/90

LESLEY LAMBERT

CAPE TOWN — Short-term interest rates and inflation would decline in the second half of the year, provided excessive growth in credit and the money supply was addressed, Southern Life economist Mike Daly said yesterday.

Daly, who projected in October last year that a lower dollar value would relieve the balance of payments (BoP), boost the value of the rand and reduce interest rates, confirmed the trend in his latest monthly Economic Comment.

Changes

He said that if the international value of the dollar remained low and the gold price maintained its current strength, the net gold and foreign reserves would begin to fill up again.

This and a number of other vital economic changes like a slower rate of growth in the money supply and a lower inflation rate would all place downward pressure on short-term interest rates.

If excessive growth in credit extended and the money supply were addressed during the first half of the year, it was possible that prime could shed two percentage points to 19% before the end of the year, he said.

Daly projected an average year-on-year consumer price inflation rate of 13,3% this year, down from around 14,7% last year.

Inflation rates recorded over the past few months had left earlier forecasts looking too pessimistic, he said. While inflation could still peak in this quarter, it would do so at 15% rather than the expected 16% to 17% range, as the recent strength of the rand exchange rate took effect.

However, he cautioned that the real economy would begin to feel the cumulative effect of a tough monetary and fiscal policy as the year unfolded.

"The fact that private expenditure on durable consumer goods declined during the course of 1989 at an accelerating pace, reaching a fall of 9,5% in the third quarter, indicates that pressure on the consumer is starting to be felt," Daly believed.

He said real gross domestic expenditure was likely to show a small negative growth in 1990, after a small positive growth last year.

Only a further strong improvement in net exports in 1990 would keep real gross domestic product growing by a possible 1%.

Mandela rebuts policy change

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ANC firm on state control of business

B/Day 26/1/90

**ALAN FINE and
MIKE ROBERTSON**

THE nationalisation of mines, banks and monopoly industries was still the policy of the ANC, organisation leader Nelson Mandela said in a statement yesterday.

A change or modification of this view was "inconceivable", he said in the statement which was issued through the UDF.

UDF publicity secretary Terror Lekota said Mandela asked on January 15 for the statement to be issued to rebut innuendo in the media that he had revised his position on a policy formulated nearly 35 years ago and contained in the ANC's Freedom Charter.

Businessman Richard Maponya, who was unavailable for comment last night, said after a meeting with Mandela two weeks ago that Mandela had changed his views on nationalisation.

Lekota said Mandela's statement was a restatement of policy and did not represent a hardening of the ANC's or Mandela's position.

A future ANC government would seek as far as possible to "implement the policy without alienating anyone".

Mandela's full statement said: "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is inconceivable.

"Black economic empowerment is a goal we fully support and encourage, but in our situation state control of certain sectors of the economy is unavoidable."

Lekota said the word "inconceivable" was important as it "shows how strongly we feel" on the matter. But, he said, businessmen need not be alarmed by this development.

"The question is not simply to say we will nationalise. The crucial question is how this process will be carried out," Lekota said.

"We want to correct social ills without, as far as possible, alienating sections of the population. The movement will try to win them over," he added. He did not elaborate on how this would be done.

Lekota said the positive reaction of the business sector to meetings with the ANC in the past indicated the former's appreciation of the movement's attitude.

In a document published yesterday by Cape-based newspaper, South, Mandela said government needed to compromise on its opposition to majority rule, and the ANC would have to take into account white fears of black domination if there was going to be reconciliation in SA.

Sapa reports a Justice Ministry statement as saying the department had no record of anything "bearing resemblance to the document published in South. It is therefore not possible to vouch for its authenticity".

In the paper, Mandela said the key to peace in SA was negotiated settlement. A meeting between the ANC and government would be the first major step towards achieving lasting peace.

"Two political issues will have to be addressed at such a meeting: firstly, the demand for majority rule in a unitary state.

"Secondly, the concern of white SA over this demand, as well as the insistence of whites on structural guarantees that majority rule will not mean domination of the white minority by blacks."

"The most crucial task which will face

☐ To Page 2

Budget date is March 14

By Peter Fabricius, Political Correspondent

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CAPE TOWN — Finance Minister Mr Barend du Plessis will deliver his Budget speech in Parliament on Wednesday, March 14. Star 26/1/90

The part appropriation (mini-budget) speech will be on February 12. This provides for money to tide over the country's finances until the main Budget becomes law later in the year.

The additional appropriation will be presented on February 19 when the government will ask for more funds than were budgeted for last year to balance the books for the 1989/1990 financial year.

The SA Transport Services additional appropriation will be presented on February 16.

This will the last Sats budget. As Sats is to be privatised this year there will be no budgets for the 1990/1991 financial year. Star 26/1/90

The Post Office additional appropriation will be presented on February 15 and the main budget on February 26.

Parliament's Easter recess will start on April 6 and end on April 17.

(49)

BUSINESS DAY, Thursday, January 25 1990

Bank warns of hard times

SYLVIA DU PLESSIS

THAT 1989 passed without major casualties does not mean that the worst is now over, and 1990 will "almost certainly" be a difficult year, the Standard Bank warns.

It says in its latest monthly review that 1990 will be characterised by debt repayments possibly as high as $2,4bn, while gold and foreign exchange reserves are "totally inadequate" to meet anticipated capital outflows.

As a result, the continued generation of substantial surpluses on the current account of the balance of payments will be "crucial".

"But this must be achieved at a time of somewhat slower world economic growth and weaker global commodity prices: non-gold exports are therefore unlikely to maintain the upward momentum recorded in 1989.

"In the absence of a further substantial jump in the gold price, import volumes must fall still further. This can be achieved only if domestic spending is kept under a tight rein and the current slowing of domestic activity is sustained," it says.

It says there are also good domestic reasons for continuing to restrict growth in domestic demand, with last year's continued rapid growth of credit demand and money supply being cause for "considerable" concern.

While the Reserve Bank is determined to bring these problems under control, the consistent maintenance of positive real interest rates is vital if this is to be achieved. This implies that interest rates will remain high.

It says the burden of high mortgage rates will continue to be felt.

However, the medium-term prospects of lower inflation and sustainable improved economic growth will be also "greatly enhanced".

Standard says long-term economic growth performance will also be "significantly improved" if political and economic dynamics, which have recently emerged, continue to move in a positive direction.

The second and last extract from a paper read by Cosatu economic adviser Alec Erwin to the Paris conference last month which was attended by ANC leaders and South African businessmen and trade unionists.

Cosatu calls for low cost/ high wage growth path

CAPE Times 26/1/90

49

OUR present economy can be characterised as a high cost/low wage manufacturing economy. The present economic policies of both capital and the state will perpetuate such a growth path or, more likely and realistically, a non-growth path.

The challenge Cosatu is addressing is to turn this direction around and restructure the existing economy to a low cost/high wage growth path. Such a link hinges on an increase in productivity.

However, in achieving an increase in productivity, the objectives would be to lower relative prices of manufactured goods to expand production of basic social infrastructure and consumer goods to meet mass needs. This must raise incomes through rising wages and increased wage employment.

Need for planning

Such an economic turnaround or restructuring requires a coherent strategic plan and conception in key areas. The key areas are:

☐ Investment policy which would link foreign investment to technology and markets, which will increase employment and make us more and more competitive on international markets.

☐ A science and technology programme.

☐ A manpower programme which integrates our skill needs and which is related to education.

☐ Health and welfare.

☐ Environment.

☐ Recreation and tourism.

The stress here is the need for such planning to be coherent and integrated and not piecemeal. This planning process will have to learn from planning experiences in both socialist and capitalist mixed economies.

Centrally planned economic policies are not appropriate to either the political situation or the economic resource base of the economy. We are researching and discussing parametric planning that will effect a restructuring of the economy.

This raises the central question of nationalisation. The socialist and capitalist experiences of nationalisation require us to go into a very much more detailed and disaggregated approach to this problem.

In directing production, the judicial control of assets by the state is not the complete answer to this problem. Neither is the unfettered ownership of free-market capitalism nor the bureaucratic control arising from the state's judicial ownership.

New policies

There will have to be social control over production effected through a range of ownership forms and where the market plays critically important roles. We are going to have to forge new policies.

The conclusion I wish to make is of central importance. The processes of planning that will restructure and develop our economic future must be effected by democratic structures which exist not only at a national level but at regional and local levels, but, more important, both within the institutions of the wider civil society and within all processes of production.

Mandela: Stand on industry the same

49

Cape Times 26/1/90

Own Correspondent

JOHANNESBURG — It was inconceivable that the ANC would change its policy on the nationalisation of industry, jailed ANC leader Mr Nelson Mandela said in a statement issued through the UDF yesterday.

UDF publicity secretary Mr Terror Lekota said Mr Mandela asked for the statement to be issued to rebut innuendo in the media that he had revised his position on the policy, formulated nearly 35 years ago and contained in the Freedom Charter.

Businessman Mr Richard Maponya, who was unavailable for comment last night, said after a meeting with Mr Mandela two weeks ago that Mr Mandela had changed his views on nationalisation.

Mr Lekota said the statement was a restatement of policy and did not represent a hardening of the ANC's or Mr Mandela's position.

But, he said, businessmen need not be alarmed by this development. "The question is not simply to say we will nationalise. The crucial question is how this process will be carried out.

"We want to correct social ills without, as far as possible, alienating sections of the population. The movement will try win them over," he said. He did not elaborate on how this would be done.

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Businessmen confused over ANC stance

ALAN FINE

B/Day 29/1/90

BUSINESS has responded to Nelson Mandela's reaffirmation of his and the ANC's commitment to the nationalisation of mines, banks and monopoly industry with discomfort and confusion.

SA Chamber of Business president Leslie Boyd said the statement would have an extremely negative impact on the perceptions of skilled and professional people in SA.

"If such policies are implemented in a future SA it would lead to a massive brain drain the likes of which have never before been seen," he said.

He said many in SA were prepared to accept the total removal of racial discrimination and "heavy" black involvement in government, provided the economy was run on a free enterprise basis.

"If the statement is authentic I am very disappointed. It would appear Nelson Mandela and the ANC are out of touch with reality and totally ignore the very significant events that have taken place in Eastern Europe in recent months," said Boyd.

Another prominent businessman, who had met ANC representatives more than once, said it was impossible to have a sensible debate until the political process had been freed up.

Declining to be named, he said nationalisation was a vague term and a rhetorical device.

"It is possible to speculate that the ANC wishes to firm up its apparently softening policy so it has an appropriate opening position at the bargaining table. It also has to reassure its restless troops on the ground who believe it is going soft," he said.

He noted that the ANC, like most political organisations, had many agendas directed at a wide range of constituencies. Without open debate it was difficult to assess what various statements meant.

Chamber of Mines president Ken Maxwell said at the weekend Mandela's reported statement was a contradiction of the process required for black economic empowerment.

It also appeared to contradict some of the reassuring noises made by ANC leaders recently, Maxwell said.

Maxwell said these discussions had led to expectations that the ANC had begun to adopt a more realistic approach, more in keeping with developments elsewhere in the world where nationalisation was being abandoned "at every turn".

Complete tax separation expected

B/Day 29/1/90

(49)

GRETA STEYN

GOVERNMENT is expected to implement complete separate taxation of married couples in the coming Budget — a move which would inhibit growth in tax revenue in the current fiscal year, the UBS says in its latest Economic Perspective.

Other factors mitigating against a repeat of the tax windfalls of the past two fiscal years were the expected revision of import surcharges, lower growth in personal and company tax due to the slowdown in the economy and the fact that the minimum tax on companies and the loan levy were "once-offs".

Bracket creep would continue to be a factor in the 1990/91 fiscal year, but "government has promised some relief from the insidious effects of inflation", the UBS says. As a result of these factors, the revenue growth rate of 16% is seen for the next fiscal year.

On the spending side, "a number of positive as well as negative influences are emerging". Positive factors included lower defence spending, and the end of budgetary aid to Namibia.

"In addition, high-level private sector consultants in government may make a difference to the current expenditure structure and succeed in limiting expenditure in the medium run. A final positive influence is saving opportunities provided by privatisation and deregulation, for instance limiting administrative costs."

However, spending growth would be underpinned by long overdue salary increases for essential public servants, such as nurses, and the rest of the public sector was likely to demand higher incomes as well. Forward cover losses would have to be addressed, and it was unlikely government would succeed in cutting the growth rate in expenditure. Another year of spending growth of 15% was therefore predicted.

These spending and revenue scenarios implied a budget deficit of about R8bn — or about 2,9% of GDP.

"The government has expressed the wish to limit the budget deficit to 2,5% of GDP. As this will imply that the government will finance little or no current expenditure with loan finance, achieving this target will be signficant. However, for government not to extend its share in the economy indefinitely, the budget deficit rate should be equal to the potential growth rate of the economy, which is nearer to 2%."

On the fiscal and monetary policy mix, the UBS said the stance would have a beneficial effect on the economy as a whole and would go a long way towards allowing government to attain its macro-economic goals in 1990.

Economy could slow further

BDay 29/11/90 (49)

SYLVIA DU PLESSIS

INDICATIONS are that the slowdown in general economic activity experienced over the past year will intensify in 1990, says Sanlam chief economist Johan Louw.

In his company's first economic survey for the year, Louw says it is unlikely government's restrictive policy will be eased appreciably over the next few months, because SA's foreign reserves remain far too low.

This is in spite of the higher gold price which has given the authorities "breathing space".

Louw says SA citizens will probably have to be satisfied this year with a salary and wage adjustment which will "barely keep pace" with the inflation rate, expected to average 14% against 1989's 14,7%.

"Moreover, there is little chance of significant tax relief. This is the price that will have to be paid to make essential adjustments to the SA economy and so lay the foundation for a better future for all.

Urbanisation

"As far as the balance of payments is concerned, the favourable trend in SA's net foreign trade position continues. It is particularly heartening that our exports are remaining fairly strong in spite of the marked firming in the external value of the rand in recent months," he says.

Addressing the economic implications of SA urbanisation, Louw says both whites and Asians are already about 90% urbanised, while the 1980 figure for black urbanisation — 33,4% — could rise to 79% by 2020. This urbanisation creates a strong demand for housing, he says.

"On the basis of research undertaken by the Institute for Future Research by the University of Stellenbosch, it is expected that some 137 000 housing units for blacks will be required annually during the period 1988 to 2000.

"This would not even reduce the backlog in housing. Between 1970 and 1980 the annual increase in black housing units was a mere 22 000."

According to Louw, there is "a growing realisation" that the provision of housing can make a significant contribution towards alleviating unemployment in the urban areas.

B/Day 30/1/90

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SA will become acceptable to investors

SA will again become an acceptable place to invest in, says PETER KRAFFT in the Daily Telegraph.

AFTER a while, nations become weary of war, poverty and ideology, and turn with relish to making money. The thought of this happening in Eastern Europe has brought foreign investors piling into German shares, but they should not forget SA.

The country has been a Berlin amid hostile neighbours for years. The political changes now taking place and the imminent release of Nelson Mandela mean SA will again become an acceptable place to invest in, but the implications run much deeper.

The country is undergoing an economic overhaul equivalent to those of Thatcher and Gorbachev rolled into one.

President F W de Klerk has handed monetary power back to the Finance Ministry and the Central Bank.

No longer can the profligacy of an overblown police state determine money supply. Interest rates have risen to 20% to squeeze out 15% inflation.

A major privatisation programme is taking place: even the State garages are up for sale. Tax rates will fall from their very high levels.

Refugees

These supply side improvements come as the dismantling of apartheid brings promise of a trade upsurge with SA's black neighbours.

Behind the rhetoric, they have been expanding trade steadily and improvements in the political climate could turn SA into their Hong Kong: a technological and trading shopfront for the world.

As the Berlin Wall fell, the shares to buy were those of construction companies standing to benefit from building homes for refugees as well as reconstructing the East.

There will be no quick jump in profitability for SA companies. The new economic discipline implies a tough immediate future, followed by soundly based expansion.

What shares can be bought to benefit from the long-term improvement in the economy?

In many ways, the country resembles Australia, with its labyrinthine cross-holdings. But the balance sheets are very different, often being stashed full of cash. Shares are also cheap.

A company like OK Bazaars, quoted in London and one of the country's biggest retailers, yields almost 10%, but offers little direct exposure to the improved industrial prospects.

Two companies which stand out are Barlow Rand and Malbak.

Barlow Rand, quoted in London, has a rock-solid balance sheet, with no net borrowings.

It is a well-managed conglomerate with interests ranging from cement to telecoms manufacture, and trades on a historic earnings multiple of under seven.

Smaller, and not quoted in London, is Malbak, although with a £250m market capitalisation it is no flyweight. Its earnings per share have risen at a compound rate of 35% annually for the last few years.

Squeeze

Making industrial products it will be a direct beneficiary of improved trading links.

Although the economic squeeze will slow Malbak's growth this year, it will still manage about 15%, bringing the earnings multiple down to six.

Such value cannot easily be had in London.

Reserve Bank to curb money supply growth

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By Sven Lünsche

In line with its efforts to reduce inflation, the Reserve Bank is to set lower targets for growth in the money supply this year.

Reserve Bank Governor Dr Chris Stals says monetary policy will remain tight for some time and that the targets for growth in the broad measure of money supply, M3, are likely to reflect this policy.

"Given our efforts to bring inflation under control, it is reasonable to assume that the targets will be lower than last year's 14 to 18 percent level," Dr Stals said yesterday.

"Dr Stals has kept interest rates high and liquidity in the market tight, despite the improvement in the balance of payments," TrustBank economist Nick Barnardt said yesterday.

"However, persistent growth in bank credit and money stock are forcing him to maintain a tight policy and I expect a target of 11 to 15 percent for 1990," he said.

Another bank economist predicted an even lower range of 10 to 14 percent, "as combating inflation involves breaking inflationary expectations, which a lower target would do".

However, a lower target in itself creates numerous problems, not least the task of overcoming them.

Over the last few years growth in M3 has substantially exceeded targeted figures.

Upper limit

Sow 31/1/90

From the fourth quarter of 1988 to last year's fourth quarter M3 rose by 25 percent to R143,1 billion, against a targeted upper limit of R135,13 billion.

The Reserve Bank will release its target figures by the end of February, when the commercial banks have submitted their BA9 figures.

But Dr Stals said the target was reached with flexibility and that there was no acceptance of a rigid and overriding "money rule".

"If we do not achieve the targets it is a good indication to us and the general public that we are still growing too strongly, as was the case last year.

"However, we are receiving evidence that the economy is headed for a soft landing if the current level of interest rates is maintained for a while and no futher adjustment in rates is necessary," Dr Stals said.

The target usually comprises the Bank's forecast for inflation plus economic growth as measured by gross domestic product (GDP).

While it is generally expected that GDP growth will not exceed 1,5 percent this year, the difficulty arises when predicting the inflation rate for the year.

Dr Stals said: "Monetary and fiscal policy are making their contributions to lower price increases and will continue to do so, but whether inflation will fall further in the year ahead will depend largely on the level of wage increases.

"If wage increases fall in line with stricter monetary policy, the major impact of lower economic demand will be on prices.

"But if wages continue to rise at the high levels experienced over recent years, then not only will inflation decelerate at a much slower pace, but unemployment will increase," he said.

Many economists agree with him that economic demand is already slowing down credit demand, and hence money supply.

"While corporate demand for credit is taking longer to taper off than consumer demand, the growth in money supply should fall well within an 11 to 15 percent target range by the second half of this year," Mr Barnardt said.

Nedfin MD Ron Rundle said: "Corporate credit demand held up exceptionally well last year, but should decline as interest rates for corporate customers remain high and have even been raised over the last few weeks."

STAR 1/2/90 (49) (88)

The Star
Finance

Stals sets tough rules for economy

By Sven Lünsche

The approach to monetary policy by Reserve Bank Governor Dr Chris Stals differs markedly from that of his predecessor, the late Dr Gerhard de Kock.

Under Dr Stals monetary policy has remained tight despite marked improvements on the balance of payments in the wake of a firmer gold price.

The graph, compiled by TrustBank's economic division highlights the difference in this approach to that of Dr de Kock.

During Dr de Kock's reign at the Bank, interest rates, the key tool for monetary policy makers, were determined to a large extent by the movement of the gold price.

As the gold price rose, interest rates were allowed to fall, in view of the expected improvement on the balance of payments, while a declining gold price caused a tighter approach to interest rate policy.

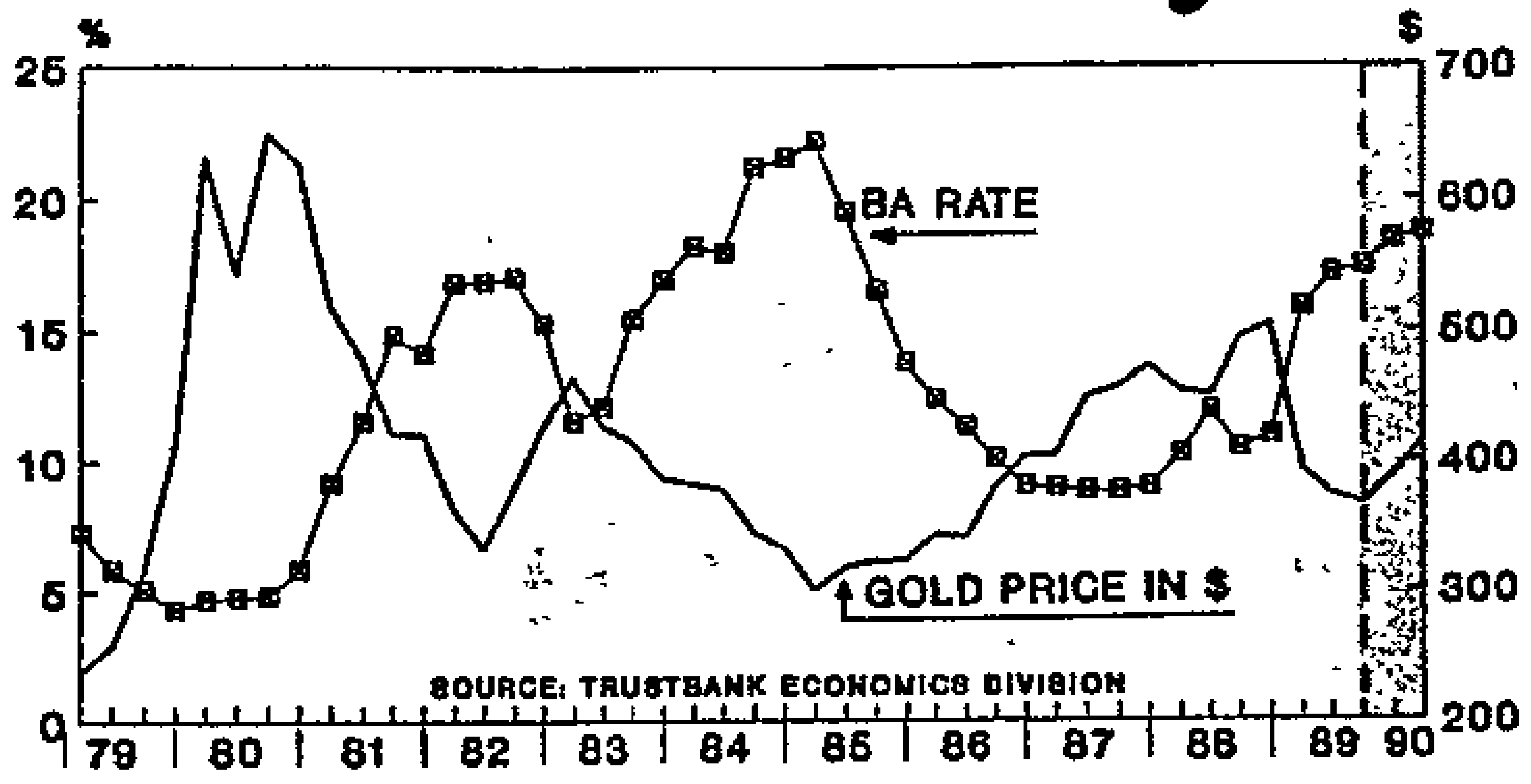
This situation has changed drastically since Dr Stals was appointed Governor in the third quarter last year.

Although the gold price has since then risen from a low of $355 to levels of just under $420 and the balance of payments has improved markedly, interest rates have maintained high levels.

This reflects Dr Stals determination to bring inflation under control and steer the economy towards a soft landing.

He has indicated that the Bank rate would remain at current levels until clear economic evidence suggests that this has been achieved, despite calls by some banks for interest rates to be raised.

"Our restrictive monetary policy does hurt, but we will have to remain patient until its full impact has been felt in the economy," he commented recently.



SOURCE: TRUSTBANK ECONOMICS DIVISION

BA rate versus dollar price of gold (quarterly figures — scale on left).

On the money market Dr Stals has kept liquidity tight, urging the banks to restrain credit growth and the huge shortage of cash on the money market — estimated to be in the region of R5 billion — has resulted in the 90-day Bankers Acceptance rate maintaining a level of well above 15 percent.

Says TrustBank's senior economist Nick Barnardt: "Dr Stals' approach has been stringent and I think he will keep interest rates high and liquidity tight until bank credit and the money stock fall significantly."

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NEWS FOCUS

Democracy: will Africa learn?

HERMAN NICKEL
former US ambassador in SA

ARE African leaders about to add Eastern Europe's Great Democratic Revolution to the long list of external calamities inflicted upon their hapless continent?

Or will they heed the lessons the revolution holds for the economic and political governance of their countries, and face up to the self-inflicted causes of Africa's depressing decline?

The answer will be critical. Without a dramatic turnaround, sub-Saharan Africa is now headed for a Malthusian nightmare. The continent's population probably will double in the next 20 years to more than one billion, plunging per-capita incomes ever further below the subsistence level.

Before casting themselves as victims of racist-tinged Western indifference, African leaders should ask themselves what they themselves have to do with this depressing state of affairs.

Why it is that a region of 450-million people has not been able to achieve a gross national product greater than that of Belgium, with its 10-million population? Why it is that its share of world trade is down to a mere 1,5%, half of what it was in 1960?

It was not lack of aid that caused the failure of Julius Nyerere's grand experiments in African socialism. Volatile commodity prices and changes in the terms of trade provide no alibi either. Over time, commodity price gains have exceeded the losses. To be sure, civil conflicts have inflicted staggering human and economic damage, especially those fuelled by outsiders such as Cuba and SA. But it is also true that Botswana owes its remarkable progress largely to its diamond mines, developed with SA investment and expertise.

African countries well beyond Pretoria's reach have done no better, and often worse, than some of the so-called Frontline states.

Competitive

The root of Africa's economic problems, according to a recent World Bank study, From Crisis to Sustainable Growth, is low return on investment. "Africa", it says, "is simply not competitive in an increasingly competitive world".

As in Poland, phasing out distorting controls is bitter medicine, and it deserves encouragement.

But the opening up of the economic system to market forces and of the political system go hand in hand. "Leaders," the World Bank warns, "must become more accountable to their people".

Sadly, it is this lack of accountability — and the resultant profusion of corruption, bloated bureaucracies, underperforming parastatals and abuse of power — that has become Africa's common denominator. The self-serving rationalisations advanced by African leaders against multiparty democracy are becoming ever more threadbare.

Supposedly, multiparty systems foster tribal politics. But as one reform-minded member of Mozambique's govenemnt puts it dismissively, "what do you think we have now?" Equally hollow is the argument that for communally orientated Africa, socialism is the natural way of life. That is a myth, contradicted on every African street corner and in the rural areas where small farmers are most productive working their own land.

Of course, there is nothing peculiarly African about the reluctance of rulers to initiate reforms that could put them out of business. The missing element in Africa is a groundswell for change from below. The patience of Africa's long-suffering masses does not seem to have run out just yet.

There is no realistic scenario for Africa's recovery that does not involve a prominent role for SA. Even now, such politically disparate leaders as those of Zaire, Mozambique, Congo, Ivory Coast, Gabon and Guinea-Bissau are vying to get SA involved in the reconstruction of their economies.

There are at least two preconditions that must be met before SA can play its full part in Africa's recovery.

The first is the dismantling of apartheid. Otherwise no true normalisation of relations is possible.

The second is that the SA economy must be allowed to survive the transition to non-racial democracy intact, so that it can generate the growth the country and the rest of Africa so desperately need.

But which economic course a post-apartheid government will follow remains very much an open — and anxious — question. If it opts for failed socialist formulas in a self-defeating effort to redistribute wealth, the disastrous consequences in SA would be compounded throughout the continent.

Recovery

Three common and consistent imperatives thus emerge for Western policy throughout Africa.

First, there must be firm insistence on market-orientated economic policies, and, second, open markets must be matched by the kind of political accountability that comes only with democratic pluralism.

The third element is that Africa's economic recovery hinges on creating a framework for regional co-operation that includes SA.

If the lessons of the Democratic Revolution of 1989 are heeded in Africa, the continent's tragic decline could still be reversed. The alternative is too ghastly to contemplate.

Extract from an article in the Wall Street Journal, reprinted with permission.

● NICKEL

SAPC lifts its ban on

FM 2/2/90 (49)

PUBLIC ACCOUNTS

Clashing signals

A few weeks ahead of the Budget, a remarkably buoyant picture of State revenue and expenditure has emerged.

An unprecedented rise in government balances in the last half of 1989. **(See table right)** is being partly sterilised, for instance by paying R1bn to the Reserve Bank towards forward cover losses. And — unusually for recent years — government has been able to transfer about R1,3bn to the stabilisation account. Yet the positive balance ballooned to over R5bn by the end of the year.

One windfall item has been R3bn for the privatisation of Iscor. But regular items of revenue have grown too.

Analysis of figures is hampered by ad hoc taxes. And strong aggregate figures for income tax (nearly R1bn over-Budget) conceal specific issues. Income tax receipts for companies for 1989 will have been reduced by replacement of the 50:30:20 capital allowance formula, by a limited straight-line 20% a year rule.

So the ending of the minimum tax on companies will be countered by higher receipts from companies. As for individual income tax receipts, these will have been pulled up by fiscal drag. Customs surcharge, points out Nedcor chief economist Edward Osborn, is also running over-Budget — to the tune of some R900m.

But, at this stage of the financial year, there have been many individual departmental overruns: House of Assembly (R320m); Health (R152m); Police (R121m); Development Planning (R304m); and interest payments (R337m). Savings against Budget have been achieved in Defence (R454m); Trade & Industry (R334m); and Transport (R128m).

Voices have been raised against undue optimism, even though government has indicated a further R1,5bn will come off the Defence vote. Vastly more needs to be spent in three key areas — police, health and education. Breakdown threatens in all three with black education a key zone of underfinancing.

A sensitive area is that of income tax on the middle-income group, which has experienced a sharp drop in real after-tax income in recent years, through inflation and the progressive income tax scale (which has remained unadjusted for some time now). This is politically sensitive for government as economically dissatisfied middle-income voters are a key part of the catchment area for recruitment to the CP.

This area has also become an administrative quagmire for Inland Revenue. The Site system has produced as many difficulties as it solved.

One way to cut through many of these problems at a stroke would be to tax wives' *earned* incomes separately from their husbands'. This reform could be the dark horse in the Budget speech. There has also been speculation there could be a substantial increase in the deduction (R1 000) on taxable interest and building society dividends as an

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incentive to save.

There is hope too that the 50% standard income tax rate for companies could be reduced.

Another area where revenue could be sacrificed is reform of the sliding scale for mining taxation. But this is a complex issue, as mines now benefit from the 100% write-off of capital expenditure.

Whatever government decides, it has far greater freedom of action than in the past, as the gold mining take is a smaller proportion of total revenue.

It would be reckless to forecast a generous Budget and the *FM*'s best guess is there will be big shifts in relative advantage between groups such as middle-income individuals and companies.

Osborn argues we could see a Budget which holds the deficit before borrowing for 1990/1991 to a relatively modest R7bn-R8bn, which would reflect a ratio of deficit to GDP of 2,6%. This compares favourably with a probable 3% for 1989/1990 — an outcome which is likely to reduce long-term interest rates because of reduced public-sector borrowing requirements. ■

AT THE YEAR END

State revenue

1989-1990 (Rm)

	Budget	Pro-rata or expected Apr-Dec	Actual Apr-Dec
Revenue	55 068	41 301	43 539
Expenditure			
Votes	64 017	48 013	47 899
Contingency	1 000	—	—
Deficit	−9 949	−6 712	−4 360
Redemption			
Loans*	−3 211	−1 152	−1 740
Bonds	−380	−285	−513
External	−83	−66	−156
Total finance needs	13 623	8 215	6 769
Financing			
Loans*	13 031	9 773	8 919
Bonds	100	75	33
External	200	150	24
Levy	0	0	708
Surrenders, etc, net	0	0	356
Total finance	13 331	9 998	10 040
Finance surplus	−292	1 783	3 271
Privatisation proceeds**			2 900
Treasury bills	—	—	1 210
Stabilisation a/c	—	—	−1 311
Forex losses	—	—	−1 000
Increase in balances	−292	+1 783	+5 070

* Excluding loan consolidation of R30 311 000

** Included by Ministry of Finance with Inland Revenue.

Source: Nedcor

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As the First World moves on, we're too late to jump aboard

By the end of the century, there will be three powerful economic regions in the world. Those inside will flourish, those outside will struggle. South Africa will be on the outside.

By ALAN HIRSCH

SOUTH AFRICA'S drive to export manufactured products is 30 years too late and doomed to failure

This is one of the pertinent implications of an emerging view of world economic prospects for the 1990s presented in the current issue of *South*, the monthly business magazine for the Third World.

In line with an emerging consensus, *South* points to the emergence of three powerful economic regions across the world. By the end of the century there will be three main regions of broadly comparable economic strength; North America, including Canada and Mexico, West and East Europe; and the Western Pacific comprising Japan, China, Australia, New Zealand and several rapidly growing developing countries.

The total output of each of these regions by 2000 is likely to be between $6-trillion and $7.5-trillion (based on 1985 prices and 1988 exchange rates) Each will have at its centre a dominant currency· the US dollar, the yen, and the D-mark or the ECU (the European Currency Unit).

All three regions will include countries at very different stages of economic development For example, the Western Pacific will include China with a per capita income one-sixtieth of Japan's. The American region will include Mexico, and possibly other parts of Central America, while Europe will range from Germany to Portugal and Romania.

The critical part of the report is that each economic region will become a trading bloc allowing unfettered internal trade but restricting relationships with third parties. Investment is likely to be concentrated within each bloc too. The European Community already conforms to this pattern to an extent, and will even more after 1992. The United States has a free trade agreement with Canada, and is finalising one with Mexico Japanese trade, investment and aid are increasingly binding the Western Pacific together

What is worrying for much of the Third World, and for South Africa, is that these regional economic groupings may erect high protectionist barriers against outsiders. This trend seems most pronounced in the European Community, where integration has raised fears of a Fortress Europe. In America, moves towards reducing regional trade barriers are accompanied by the growth of protectionism as regards those outside.

The Western Pacific is not putting up any new regional barriers, but existing protectionist inclinations could steepen if North America and Europe force the big Asian exporters to retaliate

Those left outside the blocs will have to exploit whatever tenuous connections they have to the blocs to retain economic links with the industrialised world Former European colonies will continue to struggle to broaden the scope of the Lomé convention, for example. Lomé provides preferential trade and aid links with Europe for its ACP (African, Caribbean and Pacific) group of countries. Multilateral world insitutions such as the World Bank and the General Agreement on Tariffs and Trade (GATT) may be increasingly less effective guarantors of international economic links

South Africa is on the outside in more ways than most countries. Besides being isolated directly by sanctions, we are not members of the Lomé Convention nor of the Commonwealth, and therefore lack any special access to Europe, the regional bloc to which we are most strongly linked.

The countries outside the trading blocs that are expected to be most succesful are those able to respond flexibly to changing world economic conditions. This implies a technological capability, but above all a skilled, educated, and adaptable labour force It will take years after Bantu education is abolished for South Africa to have a capable labour force in these terms

Not only trading practices but also changing technological conditions marginalise South Africa in the world economy. In the world of electronics and microchips, many traditional products and processes are falling away. For example, steel and coal products are plummeting as a share of value added in the world economy. As a corollary, less than two percent of the cost of a silicon chip comes from raw materials. Traditional exporters of raw materials, like South Africa, face seriously declining markets.

In spite of the international context, South African economic policymakers argue that the way out of our economic impasse is through export-promotion Stef Naudé, director-general of the Department of Trade and Industries, has placed a revised export promotion scheme at the centre of South Africa's industrialisation strategy.

In the short-term this might seem the only way forward In the battle against inflation, and in the struggle to repay foreign debts, the government has embarked on a tight money policy designed to restrict consumer spending. Under these circumstances industries will not grow unless they find external markets.

But the government's strategy is a short-term and potentially dangerous one, as South Africans are no more likely to respond positively to restrictive monetary policies now than they were in 1984 (when they reacted with rent and electricity boycotts, and sticks and stones). It is difficult to imagine an effective response to the changing world economy without a political settlement which entails a real redistribution of resources resulting in the development of a skilled labour force amd a sound internal market as the basis for growth

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Business rushes in as Europe's barriers tumble

W/Mail 2/2 - 8/2/90

The European conglomerates are helping propel western contacts with Eastern Europe, reports EDWARD CODY

THE Dutch landscape extends flat, placid and predictable as far as the eye can see outside the headquarters of NV Philips, the multinational electronics giant.

But for Philips executives looking beyond that first horizon, squinting toward the European Community taking shape around them and the Eastern European glacier disintegrating off to the east, the year and the decade ahead promise change, opportunity and more surprises.

Business leaders in this company town, like their counterparts in corporate centres throughout Western Europe, have been confronted with an unpredictable new element in what already was a process of swift and sometimes unsettling change that is both political and economic.

Western Europe had braced itself for the creation of a single business and trading market to take effect on December 31 1992 Now it is also seeing the unexpected opening of market and investment opportunities in Eastern Europe — developments that may put new claims on Western European financial resources and political energies.

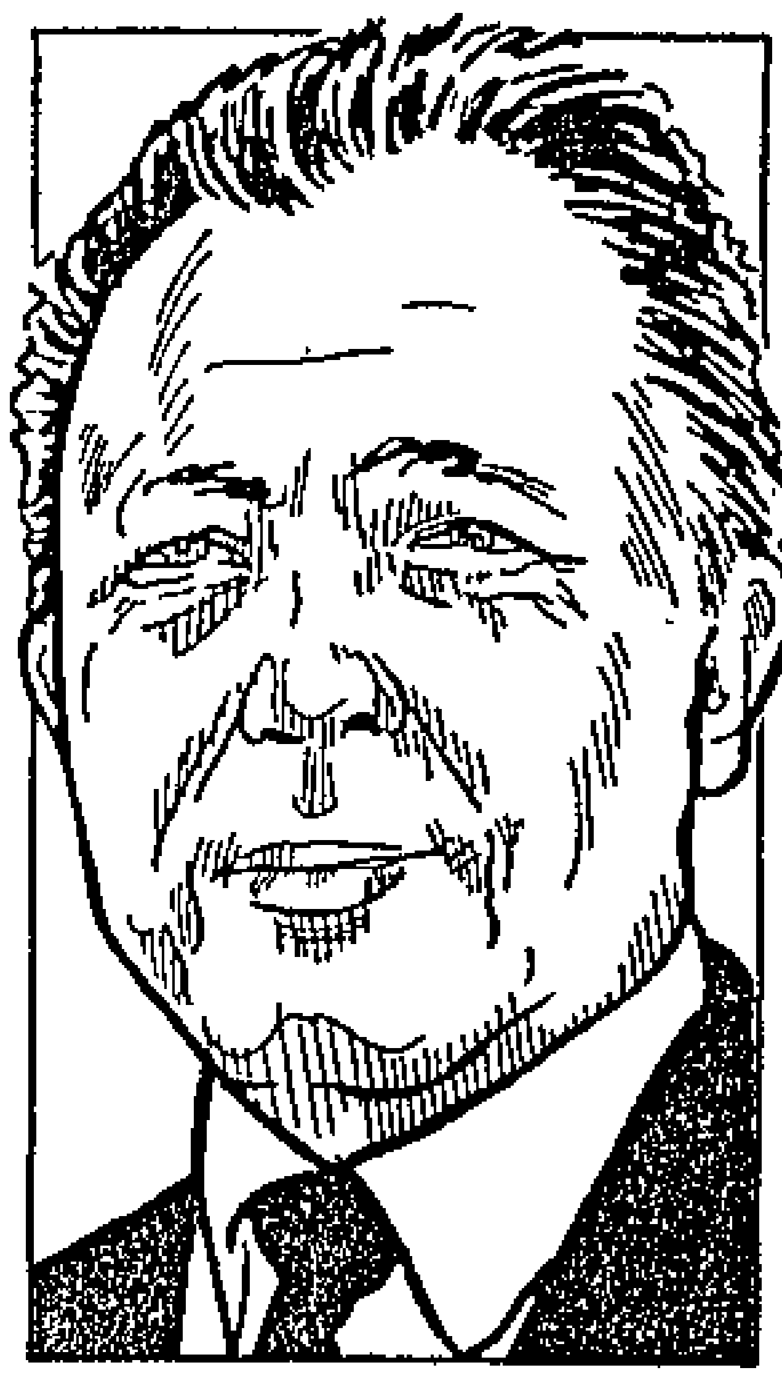
All this turmoil and change sweeping through Europe is presenting already-burdened executives and policy-makers with potentially momentous decisions on how to respond

Gerrit Jeelof, executive vice president of Philips Industrial Incorporated and president of North American Philips Corporation, describes the shifting European business situation by quoting the French writer Paul Valery: "The future isn't what it used to be."

In an apparent attempt to shake the thinking of the continent's leaders, Jacques Delors, president of the European Commission, the EC's administrative arm, suggested at the same time that the Community increase aid to emerging Eastern European democracies by more than 22 billion dollars a year for at least the first half of the decade EC nations have pledged only about 3,5 billion dollars so far, to Poland and Hungary exclusively.

Philips, a global corporation listed on 19 stock exchanges and ranked 22nd in the Fortune 500, has particular reasons for interest in both the EC's effort to abolish economic borders by 1993 and Eastern Europe's effort to shake off communism and expand commercial relations with the rest of the continent.

Executives here like to recall that Wisse Dekker, then Philips's president and still chairman of its 12-member advisory board, set forth a plan in January 1985 that helped rouse European leaders to eventually produce the 12-nation political accord on a single internal market A high-level "Europe 1992" team within the company has been set up to usher Philips into the changes that will be produced.



EC president Jacques Delors

As for Eastern Europe, company historians say co-founder Anton Philips landed his first big export contract in 1898 by promising to put 50 000 electric lamps in the czar's palaces in St Petersburg and Moscow More recently, executives have been told 50-year-old Philips equipment is still generating electricity in Warsaw.

In a pattern repeated by other European multinational companies, the march toward a single European market has coincided with — and to some degree caused — substantial change at Philips in recent years Other factors that forced the company to change its way of doing business, Jeelof said in an interview, were the end of Europe's easy postwar economic growth and the emergence of competition from the Far East, particularly Japan

"Philips used to be a multinational organisation that really was a federation of various national organisations," Jeelof explained "With the coming of the European market, the first thing to do was to go through an enormous rationalisation," or streamlining, of its operations.

That streamlining has meant scaling back the number of its products, focusing on core areas of consumer products such as televisions and compact-disc players, traditional lighting, computers and computer chips

But it also meant shedding fat and reorganising along product lines, seeking to take advantage of economies of scale and cheap labour that could be employed under the EC's new rules allowing free movement within the 12 member nations

In the process, more than 50 factories have been closed, and the number of Philips employees worldwide has dropped in the last 10 years from 378 000 to 307 000 Trying to shake a reputation for paternalism and creaky management, Philips execu-

W/Mail 2/2 – 8/2/90

Only half-awful, says the guv'nor

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RESERVE Bank governor Chris Stals hopes total capital outflows from South Africa will be only R2-billion to R3-billion this year — less than half of the "worst case" scenario of R7-billion which economists have been forecasting.

And Stals believes it may not be unrealistic to expect the lower figure. He is confident the outflow will be less than R7-billion, although he told *Weekly Mail* this week it was still too early to make a firm prediction.

Although South Africa is due to repay a substantial amount of foreign debt this year, foreign bankers may roll over maturing loans or reinvest the proceeds and there may be some new investments which cancel out capital outflows.

Stals confirmed international perceptions of South Africa as a credit risk had improved. Factors which influenced this were the political situation (especially hopes for negotiation), internal stability and the country's economic prospects and the fact that it had begun to apply necessary budgetary discipline. Last year's debt rescheduling also served to eliminate uncertainty about the country's foreign debt obligations to mid-1992 and its ability to meet them.

Stals said he was optimistic that South Africa's international economic relations were improving although he cautioned "we must be modest in our expectations". The improvement was not such that the financial authorities could start relaxing on policy.

Chris Stals expects capital outflow to be half the 'worst-case' scenario which economists have predicted

But Stals said there were small amounts of new money coming into the country which would not have come in previously.

The financial rand — which has appreciated against the dollar from R4,30 late last year to R3,36 now — is the most sensitive barometer of this (although money which comes in via the financial rand pool does not have a positive impact on the balance of payments). Foreign investors for example bought ~~R2-billion~~ of gilts and semi-gilts (government and semi-government bonds) in the last few months of last year.

But Stals said the trend was evident in commercial rand transactions.

He said there has been an increase in short term trade and loan finance to South African banks.

"Here and there foreign investors have been making new loans, mostly short term and mostly linked to trade finance."

Although South Africa has had access to trade finance, for a long time foreign bankers did not want to increase their limits on such finance and were making no additional funds available.

"We have seen an easing since the middle of last year," Stals said.

South Africa's gold and foreign exchange reserves have been increasing since August/September last year after falling to record lows.

The surplus on the current (trading) account of the balance of payments has been increasing as a result of declining imports and rising exports. Stals expects a current account surplus of R6-billion to R7-billion for this year.

Stals believes the surplus on the current account will probably exceed capital outflows for the year, resulting in a net increase in gold and foreign exchange reserves. Even in the "worst case" capital outflow scenario, the level of reserves will not drop.

Stals speaks on economic reform for tomorrow

W/Mail 2/21 – 8/2/90

(49)

Reserve Bank governor Chris Stals outlines his views on long-term economic policy, arguing that the two ingredients are political reform — and economic overhaul. He speaks to HILARY JOFFE

EVEN if its political problems are solved tomorrow, South Africa will still need a tough economic reform programme if it is to get the capital it needs to grow.

Reserve Bank governor Chris Stals stressed this in an interview this week in which he outlined his views on both short and long term economic policy. He said interest rates were likely to remain at present levels for the rest of this year and economic growth in 1990 would probably be around one percent.

Many in government, business and extra-parliamentary opposition movements have been arguing recently that a political settlement is the key to obtaining foreign capital leading to economic growth.

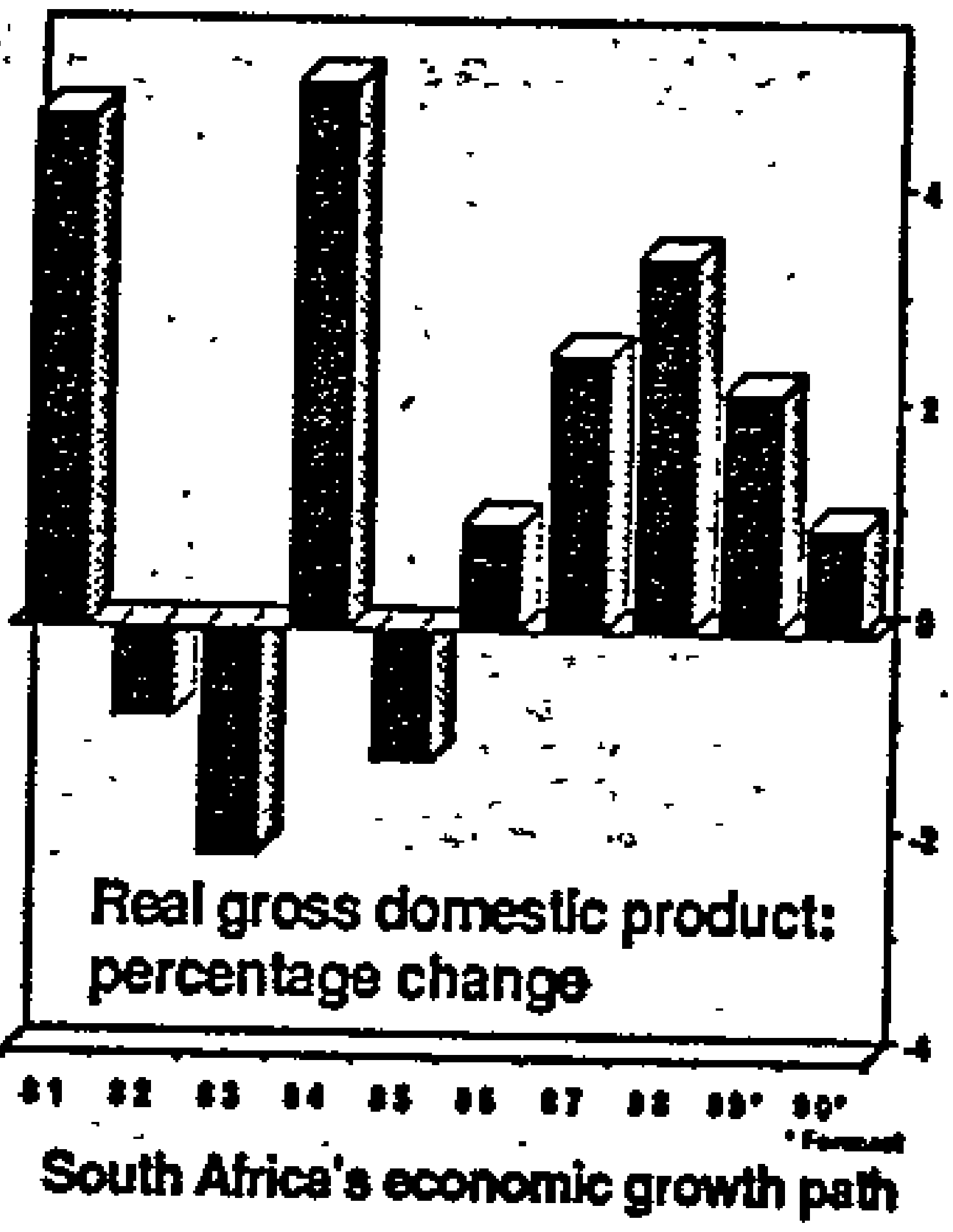
Stals agrees with this but argues that access to capital is difficult for all developing countries. South Africa's chances of new foreign capital are likely to be slim unless it improves its credit rating by pursuing reform on economic, social and political fronts.

The major banking institutions in industrial countries in 1981 made available loans of $85-billion to Third World countries. By 1984 this figure had declined to $60-billion and by 1988 it was negative to the tune of $7-billion. And there are currently 73 countries who are repaying foreign debts or are subject to debt rescheduling arrangements.

Stals cites these figures as the basis of his argument that the South African economy must be "restructured" so it can achieve a higher economic growth rate with less dependence on the outside world.

While political reform will help stem the outflow of foreign capital from the country, he argues, on its own it will not attract foreign bankers or investors. The reform which is required is political, social and economic.

"If Mr FW de Klerk were wise enough to solve the political problem overnight and we did not have a sound economy we would not get foreign capital," says Stals.



South Africa's economic growth path

He lists some of the measures required for restructuring: use labour to the optimum; give attention to education and training and to improving productivity; save more and waste less on consumer goods; spend less on luxuries. In short we must save more within the country to finance the economic development we need.

Although the process has been started, there is still a long way to go, in Stals' view.

The Reserve Bank's oft-quoted econometric model has it that given present levels of capital outflow, the economy can grow by no more than two percent a year. Over the last two years growth has averaged 2,9 percent, although this put stress on the economy. Stals believes with structural adjustment the two percent growth limit can be exceeded but it will be a very slow process: in three years' time, for example, the limit could have risen to 2,5 percent.

"Of course it would be much easier with new capital," he says.

As a banker Stals focuses on monetary and fiscal policy but adds that political and social measures must go with economic change — and some of this has already happened. So for example, labour policy requires such measures as liberalisation of trade unions, training, improving living conditions and bringing about higher productivity. It also requires the abolition of restrictions on employment and the free movement of people.

In the area of fiscal (government finance) policy, it's essential for government expenditure to absorb less of the country's scarce savings. The process has begun over the last three years in which the government's deficit before borrowing has been reduced.

On monetary policy Stals stresses "we can't go on creating money to enable people to spend more. We can only finance additional expenditure out of additional earned income."

Money supply and interest rates are the area over which Stals, as central banker, has most control and he has made the fight against inflation a priority. It was 14,9 percent last year. He wants it lower this year.

Stals wants total credit extended by the banks to grow by not more than 15 percent this year, he says. Last year it grew by over 20 percent and in 1988 by over 30 percent.

Keeping monetary policy tight is partly related to the balance of payments situation: increasing the surplus on the current account means a further slowdown in imports, which can be brought about only by lower domestic spending. Higher interest rates have been one way in which the authorities have curbed spending over the past year. But Stals puts his argument in terms of the the need to put the domestic economy on a long term growth path.

Chris Stals

Inflation, he argues, distorts the economic structure in that it encourages investment in areas which offer protection against inflation instead of those offering the highest possible production.

"In the last 10 years we have been inclined to invest a substantial part of our savings in non-productive investments such as commercial property."

Inflation also discourages the domestic savings necessary for growth.

He argues, too, that inflation is socially dangerous — periods of unrest in South Africa have often been sparked off by high inflation rates which have affected costs such as transport, electricity and rents.

Monetary policy now emphasises positive real interest rates — that is, higher than the inflation rate. Although interest rates have risen steeply over the last two years to the present 21 percent prime overdraft rate, Stals continues to argue interest rates are not high in real terms compared to other industrial countries.

Lately he has been trying to curb bank lending by "moral persuasion and quantitative restrictions" rather than by allowing interest rates to rise.

But Stals does not see a relaxing of monetary policy this year. Interest rates are likely to remain at present levels until next year, he says.

"We are satisfied with the direction in which the economy is moving but it is very slow. We will decide later this year but at present are looking only to 1991 for some relaxation of monetary policy."

What this means is lower growth - of around only one percent this year, compared to growth last year of 2,25 percent, Stals says. This is the price which has to be paid for economic growth and higher employment in the longer term.

But the governor has a special message he wants to convey to organised labour: allow the fight against inflation to have its impact on wages rather than on employment levels. Unless organised labour accepts some reduction in real wage levels this year, according to Stals, the anti-inflation fight will push unemployment up rather than pushing prices down.

BDay 2/2/90

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Govt finance control inadequate, says SACB

SYLVIA DU PLESSIS

FINANCIAL management systems in government were "conspicuously inadequate", particulary in regard to record-keeping and performance measurement, SA Chamber of Business (SACB) researchers said in a report presented to Cabinet this week.

According to the SACB, it had become a matter of urgency that confidence be restored in the handling of SA's fiscal affairs.

"In particular, it is suggested government uses all the tools at its disposal to force a tough annual reassessment of national priorities and to put all spending programmes in the context of total expenditures and the need for revenues," it said.

The report, titled "Budgetary Procedure and Government Expenditure Trends in SA", is the result of a six-month study last year by the Afrikaanse Handelsinstituut (AHI), the now-defunct Associated Chambers of Commerce and Industry (Assocom) and the SA Federated Chamber of Industries (FCI).

The SACB said in a statement yesterday it was designed to make a positive contribution to the debate surrounding the proper role of government in economic affairs and the question of optimisation of SA's resources.

Among the report's findings was that "a variety of practices" which served to undermine effective control over public expenditure and the credibility of the annual Budget estimates existed in the institutional budgetary process.

Duplication

It also found unabated growth in government expenditure had steadily shrunk the relative contribution to GDP of private sector economic activity, and had been inversely correlated to SA's real economic growth trend, especially since the last decade.

In addition, constitutional development policies designed to eventually create 10 independent black national states had resulted in "a large degree of administrative duplication", the cost of which was borne largely by the SA taxpayer.

SA fiscal policy had at times also been conducted "at a tangent" with other economic policy measures, particularly monetary policy, and had served to largely defeat the objects of economic strategy.

Ministers who received the document in the SACB's first official meetings with parliamentarians included Finance Minister Barend du Plessis, Trade and Industry Minister Kent Durr and Administration and Privatisation Minister Wim de Villiers.

☐ Edward West reports the Witwatersrand Chamber of Commerce & Industry announced yesterday it had changed its name to the Johannesburg Chamber of Commerce & Industry (JCCI).

CE Marius de Jager said in a statement the name change arose as a result of the creation of the SA Chamber of Business and the existence of the chamber's internal reassessment and development plan, Project 100.

The project plans to improve the level of operating efficiency and the flow of information to members.

Govt may achieve budget surplus

STAR 2/2/90 (649)

Government expenditure was thoroughly under control and it appeared the year would close with a budget surplus, the State President said today.

Outlining the Government's economic plans, he also said fiscal and monetary policy would be co-ordinated in the coming year to allow a continued easing of the tax burden, especially on individuals; the generation of surpluses on the current account of the balance of payments, and reconstruction of gold and foreign reserves. — Sapa.

STAR 4/2/90

SACB urges spending controls

By Sven Lünsche

The South African Chamber of Business has recommended a thorough overhaul of SA's public finances.

(49)

In an important document, which has been handed to leading cabinet ministers, the SACB urges that direct restraints be imposed on the way departments are handling their expenditure.

"The Government should use all the tools at its disposal to force a tough annual reassessment of national priorities and to put all spending programmes in the context of total expenditures and the need for revenues.

"Parliament must scrutinise proposed spending to ensure that inefficient expenditures are pared away," says the report, undertaken by Assocom, FCI and the AHI.

Other findings include:

- The current Budgetary process undermines effective control of expenditure and the credibility of annual Budget estimates.
- The unabated growth in expenditure has undermined the contribution to GDP by the private sector.
- Fiscal policy has been conducted at a tangent with monetary policy and has served largely to defeat the objects of economic strategy.

Stals optimistic that country's debt burden will be eased

STAR
3/3/90

SVEN LUNSCHE

(44)

STATE PRESIDENT FW de Klerk's historic speech has greatly improved prospects for the South African economy, Reserve Bank Governor Dr Chris Stals said yesterday.

And economists added that Mr de Klerk's policy statements will go some way in alleviating the country international economic isolation.

"Most foreign banks will take their lead from their country's politicians, but short-term trade credits will be more easily accessible," Dr Stals said.

"However, longer term loans from the international community and the International Monetary Fund will take much longer to achieve," he said in an interview with the Saturday Star's political staff.

Nevertheless, some stockbrokers and economists expect more immediate benefits in the form of reduced sanctions.

Stockmarket dealers in London said one effect of Mr de Klerk's moves may be that economic sanctions against South Africa will be eased, resulting in improved trading prospects for South African companies.

And Wayne Mitchell, executive director of the American Chamber of Commerce said that a climate has been created whereby the US could give recognition to the bold steps taken by the SA Government.

"This could be expressed by the US in the form of the repeal of certain clauses in the Comprehensive Anti-Apartheid Act or at least the staving off of any further sanctions," Mr Mitchell said.

Both the US Congress and international economic agencies, like the IMF, have indicated that renewed contacts with SA in the form of trade links and new loans would depend on the progress made on the political front.

Dr Stals said that loans would be more forthcoming from Europe and the Far East, as bankers there act more independently than their colleagues in the US, who are restricted by the Anti-Apartheid Act.

However, more immediate benefit will certainly be experienced on the debt front.

The country's debt repayments this year total R7 billion. Much of this debt will mature this year, but the latest moves will help local debtors in converting it in terms of the 10-year loan option.

Dr Stals indicated that as much as R3 billion of the debt could be rolled over, as 70 percent of this year's debt consisted of maturer bearer bonds and trade credits.

He also expects that there will a significant slowdown in the outflow of capital, while local financial markets could benefit from a renewed surge in foreign investments.

"The improved outlook will enable us to accumulate some foreign reserves and bolster the gold and foreign exchange reserves.

"We are looking at a situation in 1990 where we can cover the capital outflows with the surplus on the current account and will accumulate the foreign reserves we need so desperately," Dr Stals said.

Commenting on the State President's statement that South African would report a surplus on the Budget in the 1989/90 fiscal year, Dr Stals explained that this meant that after borrowing the fiscus will end the year with a surplus of cash.

"We borrowed more than we required which allowed us to contribute about R1 billion into the stabilization fund and complement the present monetary and fiscal policy," he said.

Most economists are expecting a deficit before borrowings of between R5 billion and R7,5 billion for the current financial year, compared with the orginally budgeted R9,9 billion.

Group rights under a new spotlight

C/Pres 4/2/90

THE government is asking the Law Commission to investigate ways of protecting group rights in a future constitution.

President FW de Klerk said any constitution which disregarded the reality of South Africa's diverse population would be harmful.

The task given to the commission is to protect the human rights of all the country's citizens, as well as associations, minorities and nations.

"This investigation will also serve the purpose of supporting negotiations towards a new constitution."

The commission must identify the main types and models of democratic constitutions, analyse ways the relevant rights are protected in each model and find ways in which such constitutions could be made to succeed.

De Klerk said he wanted the Law Commission to give priority to its current investigation into the protection of fundamental human rights.

He said the government accepted the principle of the recognition of the fundamental individual rights which formed the basis of most Western democracies.

"We acknowledge the most practical way of protecting those rights is by an independent judiciary.

"However it is clear a system for the protection of the rights of individuals, minorities and national entities has to form a balanced whole.

"The formal recognition of individual rights does not mean the problems of a heterogeneous population will simply disappear." – Sapa.

others, the unbanning of the ANC, PAC and SACP. On this page we carry excerpts from the speech.

Surplus predicted for govt budget spending

(49)

C/Pres 4/2/90.

GOVERNMENT expenditure was now thoroughly under control and it appeared the year would close with a budget surplus.

Outlining the government's economic plans, De Klerk also said fiscal and monetary policy would be co-ordinated in the coming year to allow a continued easing of the tax burden – especially on individuals – the generation of surpluses on the current account of the balance of payments and reconstruction of gold and foreign reserves.

Referring to government spending, he said the government's financial year only ended in two months' time and several other important economic indicators for the 1989 calendar year were still subject to refinements.

"In respect of government expenditure, the budget for the current financial year will be the most accurate in many years.

The government intended to co-ordinate fiscal and monetary policy in the coming financial year in a way which would ensure that the present downturn would take the form of a soft landing which would help to make adjustments as easy as possible.

It was also intended the economy would consolidate before the next upward phase so that "we will be able to grow from a sound base".

He said a new South Africa was possible only if it was bolstered by a sound and growing economy, with particular emphasis on the creation of employment.

The central message of the advice received by the government was that South Africa would have to make certain structural changes to its economy, just as its major trading partners had to do a decade or so ago.

Substantial progress had already been made towards reducing the State's role in the economy.

This had been achieved by restricting capital expenditure in parastatal institutions, by privatisation, deregulation and curtailing government expenditure.

This did not mean the State would give up its indispensable development role. The government would concentrate an "equitable portion of its capacity" on these aims. – Sapa.

ANC TIMELINE

C/Pres 4/2/90.

Through 30 years of persecution and exile, of underground action and guerrilla war against apartheid, the ANC has embodied the aspirations of millions of South African blacks.

This is how the ANC has come up through the years:

1912	The ANC began as a cautious middle-class group whose appeals against the removal of blacks' land and civil rights failed to moderate government race policies.
1948	Young radicals like Nelson Mandela and Walter Sisulu took over the leadership after the white Afrikaner National Party's electoral victory.
1952	The ANC backed the first systematic campaign against the government when thousands of blacks were arrested for defying discriminatory apartheid laws.
1955	The ANC organises a congress and adopts "The Freedom Charter" at Kliptown calling for a non-racial democracy.
1959	Divisions within the movement led to creation of the PAC, which objected to white participation, argued for black self-reliance in the fight against white rule and proposed South Africa be renamed Azania.
1960	The ANC is banned and it forms a military wing, Umkhonto we Sizwe (Spear of the Nation). Other movents banned are the SACP and the PAC. The ANC bases itself in Zambia, while the PAC moves to Tanzania.
1963	Mandela and most other ANC leaders had been caught and sentenced to life imprisonment.
1976-1986	After years of stagnation, the ANC gained new waves of young recruits when new South African opposition groups and youth revolts were crushed.
1988	ANC guerrillas mined South African border roads, ambushed black policemen and planted bombs in public places. But the organisation renounced attacks on civilian "soft targets" in August.
1990	The ANC, PAC and SACP are unbanned.

De Klerk puts SA on the high road

S/Times 4/2/90

(49)

PRESIDENT De Klerk's far-reaching political reforms and his promise of Thatcherite economics sent the stock market bounding on Friday.

By David Carte

Never mind the many political and economic difficulties that lie ahead, investors judged that President De Klerk had opted for the high road to long-term prosperity.

Share prices and the financial rand spurted as British and American investors piled in and SA businessmen reached for champagne.

Realists' warnings that these were early days were largely ignored.

A large part of President De Klerk's speech dealt with the economy and the message was clear: the State's role in the economy is to be reduced and SA is to embark on get-tough supply-side policies of other industrial nations to get inflation down and growth up.

President De Klerk's far-reaching political changes meet US requirements for the suspension or modification of sanctions.

The US Comprehensive Anti-Apartheid Act allows President Bush to suspend or modify sanctions if the state of emergency is ended, political prisoners are released, political parties are unbanned and the Government agrees to enter good-faith negotiations.

President De Klerk has undertaken to deliver on all these requirements.

Aggressive

The US Embassy in Cape Town refused to comment, but the unofficial word from Washington is that President Bush and Secretary of State James Baker will work with Congress on a response.

They could well move the goal posts and increase demands on SA. But President De Klerk's words have probably blocked tighter sanctions proposed by Senator Edward Kennedy and Congressman Howard Wolpe.

President De Klerk's message was hailed by business people across the land.

Richard Lomberg of stockbroker Davis Borkum Hare said: "British and American investors were buying SA shares aggressively before Friday's JSE close and the financial rand hardened from R3,32 to R3,28 to the dollar in mere minutes."

Anglo American chairman Gavin Relly said it was "the most important political speech since General Smuts took us into the Second World War".

Mr Relly said the speech was a first step on the high road to a multiracial democracy and the great economic opportunity described by Anglo's think tank two years ago.

Mr Relly doubted that sanctions would be lifted overnight, but he was hopeful that international creditors would be more sympathetic about SA's debt repayments.

Barlow Rand deputy chairman Derek Cooper said President De Klerk had been incredibly courageous. He deserved the support of all South Africans — and of President Bush and UK Prime Minister Margaret Thatcher.

Unrest

Mr Cooper said: "Economically, I remain cautious. There is potential for unrest and a huge responsibility on the ANC."

Sanlam managing director Pierre Steyn said the speech would be well received by financial markets.

"We can look to more stable and relaxed domestic politics and normalisation of SA's foreign relations."

Mr Relly's counterpart at Gencor, Derek Keys, said from New York that he never discussed politics — "We have all shades of opinion at Gencor."

A similar response came from Rembrandt chief Anton Rupert, who seems to have forgotten his desire to "bury the dead, stinking corpse of apartheid".

Old Mutual chairman Levett was also reluctan comment.

After the speech, busi people were imagining unimaginable only a ago. They contemplated:

- The prospect of sanct being lifted by the US, the

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De Klerk

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and other European Economic Community nations as well as Japan.

- Foreign investment and loan funds flowing in again.
- Chopped security and strategic spending, making increased funds available for health, education, training and welfare.
- Outstanding possibilities for trade and co-operation with more stable and friendly Southern African neighbours.

S/Times 4/2/90

Economists say that if financial sanctions are lifted and SA's foreign debt can be renegotiated, the Government will be able to ease the economic brakes.

The only reason brakes have been applied so hard is to preserve national cash flow. The object has been to stifle demand for imports and so ensure a balance of payments surplus to repay debt.

It is common cause that SA's inflation has been of the cost-push variety, triggered by the rand's fall and other structural causes — not the demand-pull variety resulting from excessive demand.

Industrial capacity is not fully used. This means that economic growth can resume if financial sanctions are alleviated.

President De Klerk promised a Budget surplus, determination to get inflation under control, to lighten individual tax burdens and to reduce the State's role in the economy.

An economist said: "SA is the one country into which sympathetic outsiders could put a couple of billion dollars and help millions of people in distress. Southern Africa is ripe for a Marshall Plan."

Although there was euphoria in most quarters, there were also words of caution.

Posturing on the extreme Right and Left could stall negotiations. There is considerable potential for unrest. Demands are likely to increase from all quarters.

Your turn to draft the Budget

WHAT would you do if you were Barend du Plessis and drafting the Budget? (49)

Business Times has six magnums of sparkling wine for the best, wittiest and most original replies from readers.

You have no more than 200 words to express your ideas. Post your suggestions to: If I Were Barend, Business Times, Box 1090, Johannesburg 2000. S Times 4/2/90

We have popped the question to readers — and to professional economists — because never has this minister had a cleaner slate and more discretion to make changes to his Budget.

This year Mr Du Plessis is nobody's stooge — and he has the unqualified support of President de Klerk in his attempt to reduce the State's role in the economy.

He also has Wim de Villiers on his side in the battle to contain State spending. Already big cuts have been effected in defence, security and strategic spending. Reserve Bank Governor Chris Stals completes a team of new disciplinarians.

Why SA must opt for free enterprise

S\Times 4/2/90

(49)

GROUPS that hate each other often transact peacefully in the marketplace, but erupt into violence when their conflicting interests are at stake in political decisions.

Thomas Sowell: The Economics of Politics and Race (William Morrow 1983)

by Stephen Mulholland

IT is a great irony that the thinking of black intellectuals in South Africa today shares so much with that of the Afrikaner nationalists who came to power in 1948.

Those Afrikaners, bent on revenge for the slights, both real and imagined, visited on them by the hated capitalists, vowed to nationalise the mines. They were socialists who believed in strong central control by the State. They vastly expanded the apparatus of the State by providing sheltered employment for growing numbers of their people.

The Afrikaner has always been suspicious of the marketplace. Outbreaks of violence — such as the 1921 miners' strike — flowed from resentment at having to compete freely with black labourers who were prepared to work for far lower wages.

Thus, State interference in the market for labour was used — as in the "civilised wage" concept — to deny job opportunities to blacks who, in a free market, would have been readily employed.

Surprising

In employment, those blacks would, in a free labour market, have, as all men do, tried in general to improve their lot, to better educate their children and pursue self-betterment as men do when left alone in a free market to shape their own destinies.

Blacks were denied the benefits of the free market and, therefore, by definition a free market did not exist. How could there be a free market when the bulk of the people were denied participation in it? It is a contradiction in terms to call apartheid South Africa a free market.

A free enterprise system is the enemy of prejudice and the friend of integration. Support for this view came in July 1980 from a surprising source: Piet Meyer, then Rector of the Rand Afrikaans University and former chairman of both the Broederbond and the SABC.

In an address to the Federation of Afrikaans Cultural Organisations, Dr Meyer fiercely attacked free market concepts. He said: "The free enterprise system does not differentiate on the basis of different national groups. It forms one integrated economic whole.

"An integrated economic system tends inevitably towards an integrated society at all levels — political, educational, church and, eventually in cultural and social spheres.

"May the Afrikaners never allow themselves to adapt passively to the tendencies and demands of the free enterprise system. . . ."

He concluded: "The question before us is: Will it turn out that the challenges of the free enterprise system in our country will be too great for us and our culture?"

Patrick "Terror" Lekota — the nickname derives from his ferocity in the boxing ring — is a leader of the UDF. He became alarmed at recent indications that Mr Nelson Mandela was softening on the issue of the nationalisation of what collectivists fondly call "the commanding heights of the economy".

Irrational

Mr Lekota promptly produced a letter from Mr Mandela which stated that any change in the policy of nationalisation of the mines, banks and monopoly industries was "inconceivable".

Perhaps this is a negotiating position which Mr Mandela sought to restore following reports of a shift in his thinking.

Let us hope so, because if it is not, and the leadership of the ANC is determined on this approach, then we are witnessing the behaviour of men who refuse to act rationally on the evidence of history.

Comrades Lekota and Mandela should ponder the words of Vaclav Havel, the new President of Czechoslovakia, a country now struggling to throw off the crushing yoke of communism, nationalised industries and all the deleterious effects of collectivism.

"My dear fellow citizens," said Havel in his first address to the Czech people, "for 40 years you heard from my predecessors on this day different variations of the same theme:

"How our country flourished; how many million tons of steel we produced; how happy we all were; how we trusted our government and what bright perspectives were unfolding in front of us.

"I assume you did not propose me for this office so that I, too, would lie to you.

Exploitation

"Our country is not flourishing. The enormous creative and spiritual potential of our nation is not used sensibly.

"Entire branches of industry are producing goods which are of no interest to anyone while we are lacking the things that we need. A State which calls itself a workers' State humiliates and exploits workers."

And a MORI poll in Poland for The Economist and the Los Angeles Times on January 19-22 revealed that the Polish Communist Party would get one percent of the vote in a general election.

Mr Lekota says nationalisation in SA is necessary "in order to achieve the upliftment of the exploited". This is not the place to conduct a technical argument on that concept. It is sufficient, I believe, to ask Messrs Lekota and Mandela to look no further than the experience of their black brothers to the north and to the restless millions of Eastern Europe.

It is sufficient, I believe, to ask them where ordinary men are better off, in the market economies of Western Europe or in the nationalised models of the East? And the descent of Tanzania and Zambia from the status of reasonable self-sufficiency to that of international beggars must surely carry a message.

The truth is that South Africa has never enjoyed free enterprise. There can be no free enterprise when there are artificial barriers to entry, when there is not freedom of association, of speech and of movement. Individual freedom and free enterprise go together to bring men closer to each other, to form, as Piet Meyer correctly feared, "an integrated society at all levels."

Mr Lekota is right. Vast resources are needed to uplift our black brothers and sisters. But these resources have to be created and recreated — unless what is sought is a one-off orgy of confiscation which will leave our country devastated.

Again, I implore black leaders merely to look around the world. They can see quite clearly for themselves the contrast between, for example, the dynamism of Japan and the backwardness of China, the vigour of South Korea and the inertia of the north, the prosperity of Thailand and the depredations of Vietnam.

Choice

Or they can ask our own black commuters what they prefer: The taxis of free enterprise or the nationalised transport of the State?

Where will the new South Africa, or Azania, or whatever we call it, cast its lot? With the failed, shattered remains of collectivism — or with the thrusting, vigorous dynamism of free enterprise?

As Santayana warned: "Those who cannot remember the past are condemned to repeat it."

☐ *Mr Mulholland is managing director of Times Media Ltd. A former financial journalist (founding editor of Business Times, editor of the Financial Mail), he has been one of South Africa's most consistent and energetic proponents of free enterprise.*

Cape Times, Monday, February 5, 1990 7

Nationalisation remains ANC 'commitment'

STOCKHOLM. — The ANC remains committed to nationalisation, but an ANC government in South Africa would seek negotiation with big business, its secretary-general said.

"The nationalisation of key elements is necessary to get the resources for the democratic government to carry out its programmes," Mr Alfred Nzo said.

"We have stated in public documents we are for a mixed economy," said Mr Nzo, who has joined veteran ANC leaders in Sweden for a reunion and informal talks following South Africa's removal of a ban on the movement last Friday.

"There is the question of nationalisation that people are so worried about. A democratic government still needs to have resources to deal with problems in the interests of the people," he said.

Mr Nzo was asked what role could be played by South African business leaders such as Mr Gavin Relly, chairman of Anglo American Corporation.

"When the time comes, people say we are going to be reckless, you know, nationalise everything," Mr Nzo said.

'Seeking resources'

"We will still be seeking resources but you cannot get them from nationalising the poor shop on the street corner."

Mr Nzo confirmed that an ANC government would negotiate with big business over its economic plans, but said a democratic government could not allow its plans to be thwarted by lack of resources.

"If Mr Gavin Relly owns an establishment that controls the economy of the country and he owns it alone and it exists only to feed Mr Gavin Relly, you cannot as a democratic government satisfy the conditions of the people," he said.

Last month ANC leader Mr Nelson Mandela said in a statement from prison that nationalisation of South Africa's mines, banks and monopoly industries was ANC policy, and any modification of this view was inconceivable.

South African businessmen expressed disappointment at Mr Mandela's statement, which was issued to disprove a report from a black entrepreneur who said the ANC leader now favoured free enterprise. — Sapa-Reuter

Jesse Jackson calls for Marshall Plan for SA

Cpt Times 5/2/90 **Own Correspondent** 49

LONDON. — The Rev Jesse Jackson, who will arrive in South Africa this week, called yesterday at St James's Church in Piccadilly for "a new Marshall Plan of investment for a free South Africa".

Mr Jackson, who will meet Mrs Margaret Thatcher today before he flies to Zambia to meet President Kenneth Kaunda and then going on to Johannesburg, said President F.W de Klerk's speech on Friday heralded a new era of hope for South Africa.

But he said the changes still fell far short of his hopes — and he urged Mr De Klerk to move without hesitation for the creation of a democratic, free and non-racial South Africa.

But he said that when freedom came, aid on a gigantic scale, to match the reconstruction in Europe after the World War II, was needed to enable South Africa to take its rightful place in the world.

End to isolation now in sight — foreign bankers

STAR 5/2/90 (4A)

By Neil Behrmann

LONDON — The end to South Africa's economic and financial isolation is now well within sight, say foreign bankers, businessmen and brokers.

Yet medium- and long-term direct investment and foreign capital will not begin pouring in until the Government's negotiations with its black opposition is well under way.

As expected, the foreign financial and business community's response to President FW De Klerk's remarkable address was overwhelmingly positive.

They do believe, however, that the Group Areas Act should be removed.

Ideas of nationalism

Black politicians should also abandon their ideas of nationalisation, they say.

South African shares boomed in London.

Gold shares jumped by 5 percent on Friday, and brokers were receiving orders for leading industrial counters.

Inquiries for industrials began towards the end of last year and the interest in these shares illustrates the significant change in sentiment about South Africa.

It has been many years since foreigners were remotely interested in SA industrials.

"South African shares are being re-rated," says Albert Loveless, of Smith New Court.

"Although the gold shares seem overvalued from an historic point of view, purchases will continue, particularly if the gold price continues to firm".

On the day's trade, the financial rand jumped to a peak of 30,2 US cents from Thursday's close of 29,50c and closed at around 30c.

The discount on the commercial rand is currently 24 percent, compared with 35 percent last September.

Foreigners who bought Eskom stock through the financial rand market have seen their capital appreciate by 30 percent over the period, while receiving interest of nine percent.

"Of more importance to the South African economy, however, is the movement of long-term funds.

Swiss and London bankers say that trade finance has been freely available, but that, while the foreign debt remains in place, bankers will not lend medium- and long-term finance to South Africa.

"President De Klerk's measures far exceeded my expectations," says a Swiss banker. "There is no doubt that the path is set towards a better South Africa, yet don't expect a stampede of bankers anxious to lend to South Africa."

A London banker says: "US and UK bankers will be more inhibited than their Swiss and West German counterparts.

"But the road to a democratic South Africa is now open and the trickle of funds will eventually broaden into a stream."

Bankers are clearly impressed with the manner in which the South African economy has managed to grow, despite a relatively low gold price and the outflow of foreign capital.

South Africa has reduced its foreign debt from around $24 billion in 1986 to $19 billion — about 25 percent of gross domestic product (GDP).

This compares with Australia's foreign debt of $83 billion — equivalent to 32 percent of GDP.

Bankers in London say that South Africa pays its debt on the spot.

As a result provisions against this debt are a mere 5 percent, compared with provisions of 50 to 60 percent on South American debt.

But South Africa needs direct foreign investment rather than loan capital, they say.

"I believe that it is better for South Africa to rely less on bankers and reduce its foreign borrowings below $10 billion," says a London banker.

"The country will then be in an exceedingly strong position. Direct investment from foreign companies will be far more beneficial," he maintains.

There is little doubt that overseas companies will take advantage of the Southern African market, given the growth potential, the banker says.

Italian businessmen, for example, have already expressed interest.

Focus of attention

Involvement by West Germany is likely to be less marked, says Rudolf Gruber of the South African Foundation in Bonn. Its focus of attention is now investment in East Germany, he says.

South African trade with the UK remained buoyant last year, says Tim Bird, deputy director of the UK SA Trade Association.

Imports from South Africa rose to £885 million from £804 million in 1988, while British exports to SA dipped three percent to £1,04 billion.

"Everything that we could have hoped for has been announced," he says.

"We are now looking to negotiations which will lead to a non-racial democratic future."

Riding the tide of SA's new-found spirit of optimism

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B/Day 5/2/90

STEPHEN MULHOLLAND

FOR those of us, like me, who are not naturally light-hearted, of sunny disposition or given to easy optimism, living in South Africa is often akin to labouring under a dark and heavy cloud.

Each day's headlines bring a sense of gloom, of dread at what the future holds, at despair over the threat of physical violence and the spectre of economic ruin.

I recall the terrible sinking feeling in my stomach as I watched the egregious P W Botha bring our nation to its economic and moral knees with his unspeakable Rubicon performance. As sanctions tightened and their direct consequence, black unemployment, increased, my sense of depression drew deeper and stronger.

Thus, as President F W de Klerk, urbane, polished, the epitome of the reasonable and rational man, moved through his address to Parliament on Friday my spirit lifted, I was immensely cheered, hope rose in me. It was physical: I actually stood straighter and felt better. One could almost feel the national mood lift as this consummate politician painted his vision, outlined his plan of action and told us all: "The season of violence is over."

Some of us gathered in an office to toast the new South Africa, the cheers of black staffers were heard down the corridors, a usually unflappable editor confessed to me he had a lump in his throat and a tear in his eye. After office hours dozens from our company met in the surburbs to share libation and celebrate a new dawn. Notices on our bulletin boards invited staffers to join their colleagues at home.

All this brings me to the thoughts of another urbane and sophisticated man of affairs, the great Lord Keynes, author of the monumental General Theory of Employment, Interest and Money. An intellectual, not, like President de Klerk, a politician, Keynes was nonetheless very much a man of the world, a highly successful speculator in the markets who endowed his college at Cambridge with his fortune.

Keynes taught us that economic and social progress depends to a very great degree on what he called the "animal spirits". He wrote: "A characteristic of human nature is that a large proportion of our positive activities depends on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic.

"Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits — of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."

And he added: "Thus if the animal spirits are dimmed and the spontaneous optimism falters … enterprise will fade and die … It is safe to say that enterprise which depends on hopes stretching into the future benefits the community as a whole."

This then is the very great, even historic, service De Klerk has done South Africa. He has lifted the national mood, he has shifted us from hesitancy and uncertainty to confidence and action.

It will be no easy feat to maintain the momentum. But, almost immediately, business will adjust to what it perceives to be new realities and new opportunities. Keynes's animal spirits will go to work, investment decisions, long postponed, will be made, the stock exchange will be active and volatile, the currency probably strong.

Markets will respond, as they always do, absorbing and sifting all this new information, peering into the future as millions of new decisions are taken here and abroad which are all interconnected and which, taken together, shape our unfolding future as it happens.

We are part of the world. In order to prosper and create jobs, particularly for our black youth, we need access to the skills, technological advances and investment resources of the great Western economies. As De Klerk correctly put it: "Without contact and co-operation with the rest of the world we cannot promote the well-being and security of our citizens."

Those of us who believe in freedom and, therefore, in free markets have taken heart from the courage and determination of the deprived millions of eastern Europe as they struggle to throw off the yoke of communism, much as our black brothers and sisters struggle to throw off the equally evil yoke of apartheid.

President de Klerk dwelt on the historic phenomenon of the collapse of communism. "In eastern Europe," he recalled, "and even the Soviet Union itself, political and economic upheaval surged forward in an unstoppable tide. At the same time, Beijing temporarily smothered with brutal violence the yearning of the people of the Chinese mainland for greater freedom."

Economics, or rather the sort of economic system under which the new South Africa will function (or crumble), will be at the very core of the negotiating process when it starts. De Klerk made his bargaining position clear: "The collapse, particularly of the Marxist economic system in eastern Europe, also serves as a warning to those who insist on persisting with it in Africa. Those who seek to force this failure of a system on South Africa should engage in a total revision of their point of view. It should be clear to all that it is not the answer here either."

He might have added John Kennedy's remark that "a rising tide lifts all ships".

Businessmen will approve of the President's economic priorities. Reductions in state spending and its consequence, lower inflation, together with tax reform, export promotion and spurs to savings and private initiative — if these goals are assiduously pursued we could begin to look like the sort of high-growth, low inflation economic model which we are so very capable of being.

Bearding the white, largely verkramp, civil service will demand all the fortitude the President possesses. They have ridden the gravy train for far too long to disembark without putting up very serious resistance.

Our civil service *corpus* is a creation of the National Party. President de Klerk deals here with his own people who together are a considerable political factor. Decimating the civil service, as must be done, will for a National Party cabinet be as painful and bloody as self-amputation, and as risky.

Wrenching poverty, rampant crime, growing unemployment, the intense frustrations of black youth — these are only some of the seemingly intractable problems we now face. To address them, massive resources must be marshalled. This can only be accomplished, as De Klerk acknowledges, by allowing a vigorous private sector to create — and, more important, constantly recreate — the needed wealth. And, of course, the remaining evil pillars of apartheid have to be pulled down.

Finally, pragmatic businessmen, and not only those of conservative bent, will find it difficult to disagree with President de Klerk's view that the problems of heterogeneity do not simply disappear when equal rights are formally recognised. As Lord Acton taught us: "The most certain test by which we can judge whether a country is really free is the amount of security enjoyed by minorities."

No Owen column

Ken Owen is still ill, so his column does not appear today.

C/Tmt Tms 6/2/90 49

'Cuts, but services no longer free'

By **BARRY STREEK**
Political Staff

THE new budget would see the beginning of real cuts in government expenditure, but consumers would now have to pay for some services that were free or heavily subsidised, according to Minister of Finance Mr Barend du Plessis.

He also hoped individual taxpayers would be happier with this year's budget. However, the government did not have the scope to bring in all the anticipated tax reductions in one year.

Mr Du Plessis said in an interview, which was published yesterday in The Executive: "When you seek structurally to reduce expenditure pressure, and you put into place new machinery, a new style and new procedures to do it, then the real effect can only materialise over a number of years.

"What we will see in this budget is the beginning of a process aimed at real cuts, and some expenditure votes will be affected in the next budget."

He was confident his cabinet colleagues would co-operate in keeping expenditures to the levels that the budget required, as they shared a common determination to do that.

"I think there is a much better understanding among colleagues of what the long-term damage to the economy is if we don't stick to our figures.

"But most important is how we go about structurally reducing our expenditure pattern. In this respect, the appointment of Dr Willem (Wim) de Villiers and the penetrating questions he asks, and actions he suggests, from the vantage of his private-sector experience, is an advantage we never had before.

The government was approaching tax reductions on a longer-term basis.

"When we are dealing with say Defence cuts, once plans are curtailed or cut, the real benefit can only materialise after a certain delay.

"So when we talk about honouring our commitment to the taxpayer, we would like to make a significant beginning, then follow it through in subsequent budgets as additional scope is created by expenditure reduction.

"There is another most important point: In the process of cutting state expenditure, the public will have to adjust to accepting responsibility on a user-charge basis, to pay for certain services which in the past came for free or were heavily subsidised.

The government was committed to paying off public debt. For every R1 billion debt that was repayed, at least R160 million in interest was saved and it could be spent on important matters such as education.

The government's second priority was certain infrastructure, such as schools and housing, while the third item on the priority list was to support small business and industrial development, Mr Du Plessis said.

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POLITICS

High cost to SA of PW's 'wavering'

Own Correspondent

CAPE TOWN — Former president P W Botha lacked consistency in applying economic policy, according to Finance Minister Barend du Plessis, and in 1988 had even agreed to an extra R2bn in salary increases in spite of government's strategy not to increase expenditure.

"Changing priorities in this way consequently destroyed our financial credibility, severely damaged business confidence and demotivated our advisers," Du Plessis said in an interview published in the latest issue of the Executive.

He said he thought Botha fully understood the importance of the economy.

"But, judged purely from an economic point of view, what was lacking was the consistent application of policy.

"If we analyse his speech at the opening of Parliament in February 1988, and consider the actual economic outcome of that year, we see in fact that the wheels came off fiscal and monetary strategies that had been soundly constructed.

"It started when I suddenly had to find money for an interim increase in teachers' salaries, shortly after all such increases had been ruled out.

"The other departments followed, and ultimately we ended up with a general salary increase for civil servants for which we had not budgeted.

"Obviously, there is no way that you can achieve relatively stable interest rates, an end to government dissaving, tax reform objectives, or the essential objective of reducing the role of the state in the economy, if decision-making involving more than R2bn suddenly takes preference over a well-constructed, well-communicated and widely acclaimed economic strategy, within a few months of announcing that strategy," Du Plessis said.


● DU PLESSIS


● BOTHA

Since this decision had made nonsense of all plans — particularly in the private sector — made in terms of a previous strategy, an adjusted fiscal and monetary policy stance had been urgently required to restore some equilibrium in the economy after SA being forced into a unilateral debt standstill.

Eventually the private sector had responded and domestic expenditure had started increasing rapidly.

"We subsequently, and inevitably, paid an economic price for this change in priorities through increased inflation, major difficulties in managing in our current account of the balance of payments as a result of large quantities of imports to satisfy the high level of domestic expenditure, further depreciation of the rand, increased pressure on our gold and forex reserves, and a massive money supply hangover, which still causes us difficulties," Du Plessis said.

Sanctions restrict growth, says govt

(49)

B|Day 6/2/90

MIKE ROBERTSON

CAPE TOWN — SA could increase its economic growth rate three to four times if sanctions were dropped, Administration and Privatisation Minister Wim de Villiers said yesterday.

Addressing a briefing for parliamentary and foreign journalists, De Villiers said sanctions had reduced the growth of employment opportunities in the indutrial sector to just 1% a year.

If sanctions were removed, he said, SA could achieve growth rates of three to four times those which had been talked about in the past.

De Villiers said most of the utilities which government had earmarked for privatisation would have to go through a period of commercialisation first.

However, there would be an announcement in the budget on a privatisation issue scheduled for this year.

SA, he said, could no longer afford inefficiency in its parastatals.

Rather than investing in parastatals there should be investment in private sector industrial organisations which needed less capital in order to create more employment opportunities.

"We have enough infrastructure in this country. We have to get economic growth in those areas where we can create the most work with the least amount of money," he said.

Government, he said, was giving attention to measures designed to create employment opportunities in the industrial, agricultural, mining and construction sectors. An announcement on this could be expected in the budget.

Eskom, De Villiers said, had made great progress towards restructuring its operations which in future would be run on a return on capital basis.

Eskom and other utilities would have to compete in the capital market in future and not rely on loans.

The first target was to make Eskom a taxpayer which could happen in 1991/92. Only then would a decision be made on whether to tranfer ownership of the utility to the private sector.

The process of commercialising the operations of SATS and the Post Office would take between two and three years, he said.

Black schooling: for parity, read R21-bn

STAR 6/2/90 ([illegible]) (49)

Although steps have been taken to improve the level of education for black students in the past decade, a paper compiled by the Education Policy Unit (EPU) at the University of the Witwatersrand reveals the Government has not gone far enough. Education reporter **JANET HEARD** reports.

An estimated R21 billion is required in order to attain parity between white and black education, according to a paper compiled by the EPU.

It would require an increase of between two and three times the present total education budget, which, in 1988/9, was R9 billion for primary, secondary and tertiary education (black and white). This showed a nominal increase of 15,5 percent from the previous year.

During 1988/9, more than R4,096 million was spent on black, R3 727 million on white, R1,103 million on coloured and R404 million on Indian education.

These figures show an increase in total expenditure on black education over the years. In 1969, R46,9 million was spent on black education, compared to R314 million on white education.

The per capita expenditure for blacks of R12 in 1960/1 compared to R595 in 1987/8, and for whites R158 and R2 796 respectively.

The increase in per capiture expenditure for black education in the Eighties signals a certain intent on the part of the State to boost expenditure on black education, the study says. Nevertheless, the disparity between black and white spending is decreasing minimally: from 5,8 times as much for whites in 1980/81, to 4,7 times as much in 1987/88.

The pupil teacher ratios for black children in 1988 was 1:40, compared to whites, which had 1:16. In homeland primary schools in 1988, the ratio was 1:45.

Comparatively, in 1980, there were 49 pupils per teacher at black schools, and in white schools there were 25.

The authors point out that the white pupil-teacher ratio was decreasing because of decreasing white enrolments.

The authors warned that if the declining trend of white pupil enrolment continued, about a quarter of all white Johannesburg schools would be at risk of closure within five years.

Since 1979, at least 203 white schools closed due to low white enrolment, and in 1988 there were 270 000 vacancies in white schools across the country.

In Johannesburg last year, there were 13 150 vacancies in white schools. This figure was growing by about 1 600 vacancies each year, says the report.

Education for blacks a priority — Stoffel

STAR 6/2/90

(49)

Political Staff

CAPE TOWN — Black education was one of the highest priorities of the Government and would receive extra money as it became available, the Minister of Education and of Development Aid, Dr Stoffel van der Merwe, said yesterday.

Addressing a press briefing at Parliament, Dr van der Merwe pointed out that the budget for black education had risen from R143 million in 1978 to R1 952 million in 1989.

In 1978 there were 10 000 black pupils in matric, while in 1988 there were 132 000.

In the same years the number of Std 1 pupils had increased from 460 000 to 580 000.

In 1976 the number of school-leaving certificates issued were: whites 35 000, blacks 2 000, coloureds 1 000 and Indians 2 000. In 1988 the figures were whites 67 000, blacks 86 000, coloureds 14 000 and Indians 13 000.

SHIFT IN EMPHASIS

The budget increase for black education over the past few years "was not as dramatic as one would have liked to see, because the economy could not afford it".

Dr van der Merwe pointed out that the Government had shifted its emphasis from defence spending to social spending, but this would take a little time to be reflected.

Dr Wim de Villiers, Minister of Administration and Privatisation, said South Africa had to create employment opportunities for the rapidly expanding population in industry, agriculture, mining and construction.

Annoucements about this would be made in the Budget.

EQUAL OPPORTUNITIES

At the same time, equal economic opportunity for all had to be created.

Dr de Villiers said sanctions had the effect of not allowing the country to create employment opportunities.

If sanctions were removed, the growth rate would be three to four times the average 1,4 percent growth since 1981.

Dr de Villiers saw privatisation as a way of allowing free market forces to operate and create employment opportunities.

He said 63,7 percent of the fixed investment in the past 15 years had come from the Government.

The first step in privatising parastatals was commercialising them, Dr de Villiers said, meaning that they had to become used to working on a return-on-capital, profit-and-loss basis.

Institutional investors sound a warning note

STAR 6/2/90 (149)

By Ann Crotty

The hectic overseas interest in JSE blue-chip industrials evident on Friday and yesterday seems to be making local institutional investors quite nervous and could precipitate major changes in their investment strategies.

For a few weeks before last Friday's address by President FW de Klerk there had been indications of some international buying as sentiment towards SA showed signs of thawing, but nothing like the demand that sent the overall index shooting up from Thurday night's close of 3194 to yesterday's close of 3319 points.

The impact on the industrial index was similar; it shot up 212 to last night's close of 3145 points.

But the major local players do not appear to be too happy about these developments.

They see it as sharply disruptive of share valuations and believe it could make the JSE extremely volatile.

Feeling among some of the major institutions is that at this stage political developments are far too uncertain to assume a steady and reliable international presence in the local market.

As one investment manager said yesterday: "Overseas investors have over-reacted to Friday's good news... just as they tend to overreact to any bad news.

"At the first sign of a hiccup in political developments, they will become sellers at almost any price, just as today and on Friday they were buyers at almost any price."

Assuming that are many setbacks on the road ahead, then overseas perceptions seem destined to go through regular swings.

These swings will be matched by foreign investors moving in and out of the JSE and share prices shooting up and then falling down.

Although this may be an unpleasant prospect for the institutions, it could be good news for the smaller investor who is able to move in and out of the market with more agility.

Over the past few trading days the large institutions have done little but sit on the sidelines — unwilling to follow prices to unfamilarly high P/E levels (which they believe are not currently appropriate to SA conditions) and unwilling to be sellers of good-quality industrial shares.

But some of the smaller institutions and private investors have been tempted by the relatively high prices overseas investors are prepared to pay to get into the SA market.

In a few months or weeks, these international investors might become disillusioned with SA and be prepared to offload the shares for considerably less than they paid for them.

For the insititutions, another possible consequence of the appearance of foreign investors on the local scene is that they might have to extend their industrial equity selection beyond the 20 or so that have tended to dominate portfolios.

It looks as though foreigners are piling into the shares that make up the index and are ignoring the good-quality "non-index" equities.

If local institutions are reluctant to match the prices foreigners are prepared to pay (average P/Es are relatively low by international standards), they will have to turn to the second-liners to make up the equity short-fall in their portfolios.

In the process the general liquidity of the market should be lifted.

Overseas buyers send indices soaring

STAR 6/2/90 (49)

By Derek Tommey

South African industrial shares which have been shunned for several years by the world's investors have at last come in from the cold.

Since President de Klerk made his watershed speech on Friday, foreign investors have been heavy buyers of top class South African industrials with listings on the London (now International) Stock Exchange.

Since Friday morning the London price of Barlows has risen 28 percent from $13,10 to $16,77. The price of SA Breweries has risen also by 28 percent, from $9,57 to $12,26. Remgro's shares have risen 24,7 percent from $3,92 to $4,89 and Sasol shares have risen 20,5 percent from $3,71 to $4,47.

These price increases are larger than has been the case on the Johannesburg Stock Exchange where the strengthening financial rand has depressed prices.

In the two trading days since Thursday the financial rand has strengthened more than six percent rising from R3,43 to the dollar to R3,22 to the dollar, following heavy foreign buying. But for the foreign investment interest, this would have resulted in local share prices dropping by six percent.

Stockbrokers in Johannesburg said that foreign investors were buying large quantities of shares of companies with London listings, with an established track record and whose shares were freely available.

"The shares have to be liquid," said John Clemmow of George Huysamer and Partners. "Foreign investors are not interested in buying a mere 10 000 shares - they are making inquiries for millions,".

Apart from these four shares foreign investors are also showing interest in OK Bazaars and Iscor. But they are not receiving the attention they should as OK Bazaars shares are not freely available and Iscor does not have a London listing.

At present, foreign investors are buying South African shares listed in London at prices equal to 12 times their earnings. But Mr Clemmow believes that foreign investors could eventually pay a price equal to 16 times earnings which is the same as they are paying for their own blue chips.

However, because of the distortions caused by the financial rand, a P/E of 12 in London is equal to one of 16 in Johannesburg and this is disturbing local investors.

SA Breweries, in spite of the jump in its share price in the London market in the past two days, is still standing on a P/E of 12.

But in Johannesburg its P/E has reached 15,8 resulting in a claim that the share is now overpriced. Sasol's P/E in London is 13,1, in Johannesburg it is 16,7. Barlows has a P/E of 6,7 in London and 8,5 in Johannesburg. Remgro's is 10,3 here and 8,1 in London.

The financial rand discount is also resulting in foreign investors getting better yields than local investors. Barlows is yielding 3,15 percent in Johannesburg and 3,99 percent in London. SA Breweries is yielding 2,8 percent here and 3,5 percent overseas, Sasol 4,6 percent here and paying out 5,75 percent to investors abroad while Remgro is yielding 1,76 percent here and 2,23 percent in London.

These lower price-earnings ratios and higher dividend yields make South African shares attractive to foreign investors in spite of the remaining political risks.

In the light of this foreign interest the immediate outlook for prices of shares listed on the JSE is somewhat uncertain. Further sustained foreign buying may not lead to an increase in share prices in the local market but to a firmer financial rand and lower prices.

A firmer financial rand could also lead to weaker share prices, especially of those whose price is determined by foreign buyers.

But the outlook is not all gloom. With foreigners showing more confidence in South Africa and the prospect that some sanctions could be lifted, company earnings here could accelerate sharply and offset the eroding effects of the improvements in the exchange rates.

Opinion

The case for social democracy in SA

TWO FUTURES FOR NATION — A THRIVING ECONOMY OR DISASTER

CMT 1175 8/2/90 (49)

Extracts from the keynote address on economic policy by PIETER LE ROUX of the Institute for Social Development at the University of the Western Cape which was read to the recent Paris conference attended by ANC leaders and by South African businessmen, academics, unionists and politicians.

SOUTH AFRICA has two possible futures. Our country could be transformed into a democratic society with a successful and thriving economy, or it could become a disaster area.

South Africans will not, I believe, have the luxury of simply muddling through. Either we are going to get things right, and then there will be a great future for all of us, or we are going to make the same mistakes so many countries have made. And then, because of the explosive mix of political forces, we are going to destroy ourselves.

We will not simply stagnate a little bit, as England does when she makes the wrong choices. One day we will either be a Sweden, or we will be a Lebanon.

Which of these two possible futures await us, depends crucially on the choices we as South Africans make. The first choice will be whether we opt for a negotiated settlement, or for a drawn-out conflict. If there is a drawn-out siege, there will be very little chance to revive our economy at the end of the conflict, no matter what economic policy is adopted. We will be a nation in ruins.

Destructive conflict

If, in spite of formidable obstacles, there is a settlement soon, the type of economic mix chosen will be of crucial importance. If we choose a mix which, although not the same is akin to that which the communist countries of Europe had implemented, I predict that our economy will soon be in ruins in any case. On the other hand, if we choose a mix akin to that of the social democracies of the Scandinavian countries, Holland, Austria or Canada, then I believe that our great economic potential could be realised.

I am not confident that we South Africans will be astute enough to avoid a long and destructive conflict which is bound to irreparably damage our society. But this is not a forum where I have to argue the case for a negotiated settlement. However, I know that the case for a social democracy as the type of economic system which ought to emerge is more controversial. Some may consider this to be too socialist a system, whereas others are bound to regard it as too capitalist.

My contention is that it is the type of mix which has shown itself far more capable of meeting the aspirations of the people than either the traditional Marxist-Lenist or the out-and-out capitalist societies.

More radical socialist system

There are a number of reasons why we should take the social democratic vision seriously. Firstly, I am convinced that if there should be a negotiated settlement soon, it is most likely to be of a social democratic nature.

Those who have power today would rather enter a siege economy than to accept a more radical socialist system, the oppressed would rather continue their struggle than to settle for an economic system which does not alter the pattern of economic domination. A social democracy would thus constitute a compromise between right wing fears and left wing aspirations.

Secondly, and more fundamentally, social democracies, in contrast to Marxist-Leninist socialism and the capitalist systems, have the proven ability to rapidly enhance the political and the economic power of all those groups excluded under more exploitative and authoritarian systems.

'Life after death'

A social democracy, I would thus argue, is the only system which could rapidly eliminate the consequences of apartheid, where apartheid is defined as the system which has caused the radically-skewed distribution of economic and political power. Social democracy is the system which, under present circumstances, is by far the most likely to meet the aspirations of the poor and the suppressed.

Thirdly, it is important that we embark on the debate regarding the type of economic system at this stage, not only because it is necessary to plan ahead for future changes, but because our vision of a future society will in itself significantly influence whether South Africa will head for a destructive conflict or will find the route to political stability and economic prosperity.

As Breyten Breytenbach remarked the other day, there is dialectic between the visions of the future, and the choices made today. To think carefully now about the correct mix once one gets into power may in itself be an action which brings the settlement closer. A settlement is feared much less once it is realised that there is "life after death", to use a phrase Van Zyl Slabbert coined. The social democratic future constitutes a vision, I believe, which will enhance progress on the road to a negotiated settlement.

An unreflective adherence to old-style Marxist rhetoric, which stubbornly ignores recent developments in Eastern Europe, may have severe consequences for the future denouement. It may lead to actions which will destroy much of the productive capacity of our economy.

For not only will a drawn out conflict in itself be a tragic waste of South Africa's productive resources and leave scars which will be difficult to heal, but the continued flight of capital and skills might undermine the very productive capacity which needs to be re-directed to meet the aspirations of the poor.

Not strategically situated

During the past year or two more progressive social scientists have turned to an investigation of the question of how the goals of the Freedom Charter regarding housing, health, education, welfare and employment are to be met. Time and again the discovery has been made that cuts in the defence budget and an equalisation of welfare expenditure on all will not suffice to meet even the most pressing needs. Only rapid economic growth could provide the much-needed resources.

Given the fact that the Cold War is coming to an end and that South Africa is in any case not strategically situated, there is no chance whatsoever of receiving the massive aid given to countries such as Cuba and Taiwan. South Africa will primarily have to create the surplus for social expenditures itself.

Whether the South African government will be able to meet the just aspirations of the people of South Africa, as spelt out in the Freedom Charter, will thus in the first place depend on the rate of economic growth. Should South Africa grow at 4,2% a year, the National Income will increase by 50% in 10 years and 125% in 20 years.

On the other hand, should the economy grow at 7,2% it will double in 10 years time and quadruple within two decades. What is more, unemployment is likely to continue increasing, albeit slowly, at a 4,2% rate of growth, where as it will virtually all be wiped out at the end of 20 years at the higher rate of growth.

High rates of growth in themselves will, of course, not be sufficient to eliminate poverty and to redress economic inequities. There will have to be a significant redistribution if the crucial problems such as housing, education and health are to be dealt with successfully during the first two decades. The benefits of growth will have to be experienced primarily by those presently excluded.

High rates of growth

There are those who believe that policies attempting to redistribute out of growth would in the end destroy the growth potential of the South African economy. They argue that high rates of growth demand a limited government. To assure growth not much more than 20% of National Income must be spent by government.

I would argue that the reverse is true. Only if we continually invest more and more in the education, health and housing of our people, will it be possible to realise relatively high rates of growth. The history of social democratic countries such as Sweden, that started off with real per capita incomes similar to those of South Africa today, show that these types of social investments are soon beneficial for growth.

Only a social democratic economy, albeit one of the more radical nature than the Scandinavian model could, in the South African circumstances, overcome the structural obstacles to economic growth facing our country. It is the one socially just and truly democratic system which has proven its mettle in practice.

Has modern socialism failed?

B|Day|8|2|90

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JOE SLOVO

SOCIALISM is undoubtedly in the throes of a crisis greater than at any time since 1917. The last half of 1989 saw the dramatic collapse of most of the communist party governments of Eastern Europe.

Their downfall was brought about through massive upsurges which had the support not only of the majority of the working class but also a large slice of the membership of the ruling parties themselves. These were popular revolts against unpopular regimes; if socialists are unable to come to terms with this reality, the future of socialism is indeed bleak.

The mounting chronicle of crimes and distortions in the history of existing socialism, its economic failures and the divide which developed between socialism and democracy, have raised doubts in the minds of many former supporters of the socialist cause as to whether socialism can work at all.

Indeed, we must expect that, for a time, many in the affected countries will be easy targets for those aiming to achieve a reversion to capitalism.

Shock-waves of very necessary self-examination have also been triggered off among communists both inside and outside the socialist world. For our part we firmly believe in the future of socialism; nor do we dismiss its whole past as an unmitigated failure. Socialism certainly produced a Stalin and a Ceaucescu but it also produced a Lenin and a Gorbachev.

Despite the distortions at the top, the nobility of socialism's basic objectives inspired millions to devote themselves selflessly to building it on the ground. And no one can doubt that if humanity is today poised to enter an unprecedented era of peace and civilised international relations, it is in the first place due to the efforts of the socialist world.

But it is more vital than ever to subject the past of existing socialism to an unsparing critique in order to draw the necessary lessons. To do so openly is an assertion of justified confidence in the future of socialism and its inherent moral superiority.

Communists outside the socialist world and revolutionaries engaged in anti-colonial movements were the beneficiaries of generous aid. They correctly saw in Soviet power a bulwark against their enemies and either did not believe, or did not want to believe, the way in which aspects of socialism were being debased.

All this helps to explain, but in no way to justify, the awful grip which Stalinism came to exercise in every sector of the socialist world and over the whole international communist movement. It was a grip which if loosened either by parties (e.g. Yugoslavia) or individuals usually led to isolation and excommunication.

Marxist ideology saw the future state as "a direct democracy in which the task of governing would not be the preserve of a state bureaucracy" and "an association in which the free development of each is a condition for the future development of all". How did it happen that, in the name of this most humane and liberating ideology, the bureaucracy became so all-powerful and the individual was so suffocated?

The commandist and bureaucratic approaches which took root during Stalin's time affected communist parties throughout the world, including our own. We cannot disclaim our share of the responsibility for the spread of the Stalin cult and a mechanical embrace of Soviet domestic and foreign policies, some of which discredited the cause of socialism.

The implications for socialism of the Stalinist distortions have not yet been evenly understood throughout our ranks. We need to continue the search for a better balance between advancing party policy as a collective and the toleration of on-going debate and, even, constructive dissent.

We do not pretend that our party's changing postures in the direction of democratic socialism are the results only of our own independent evolution. Our shift undoubtedly owes a prime debt to the process of perestroika and glasnost which was so courageously unleashed under Gorbachev's inspiration. Closer to home, the democratic spirit which dominated in the re-emerged trade union movement from the early '70s onwards also made its impact.

But we can legitimately claim that in certain fundamental respects our indigenous revolutionary practice long ago ceased to be guided by Stalinist concepts. This is the case particularly in relation to the way the party performed its role as a working class vanguard, its relations with fraternal organisations and representatives of other social forces and, above all, its approach to the question of democracy in the post-apartheid state and in a future socialist SA.

Our party's programme holds firmly to a post-apartheid state which will guarantee all citizens the basic rights and freedoms of organisation, speech, thought, Press, movement, residence, conscience and religion; full trade union rights for all workers including the right to strike, and one person one vote in free and democratic elections. These freedoms constitute the very essence of our national liberation and socialist objectives and they clearly imply political pluralism.

Both for these historical reasons and because experience has shown that an institutionalised one-party state has a strong propensity for authoritarianism, we remain protagonists of multi-party post-apartheid democracy both in the national democratic and socialist phases.

We believe that post-apartheid state power must clearly vest in the elected representatives of the people and not, directly or indirectly, in the administrative command of the party. The relationship which evolves between political parties and state structures must not, in any way, undermine the sovereignty of elected bodies.

We also believe that if there is real democracy in the post-apartheid state, the way would be open for a peaceful progression towards our party's ultimate objective — a socialist SA. This approach is consistent with the Marxist view — not always adhered to in practice — that the working class must win the majority to its side: as long as no violence is used against the people there is no other road to power.

It follows that, in truly democratic conditions, it is perfectly legitimate and desirable for a party claiming to be the political instrument of the working class to attempt to lead its constituency in democratic contest for political power against other parties and groups representing other social forces. And if it wins, it must be constitutionally required, from time to time, to go back to the people for a renewed mandate. The alternative to this is self-perpetuating power with all its implications for corruption and dictatorship.

We dare not underestimate the damage that has been wrought to the cause of socialism by the distortions we have touched upon. We, however, continue to have complete faith that it represents the most rational, just and democratic way for human beings to relate to one another.

Humankind can never attain real freedom until a society has been built in which no person has the freedom to exploit another person.

The ultimate aim of socialism to eliminate all class inequalities occupies a prime place in the body of civilised ethics even before Marx.

The all-round development of the individual and the creation of opportunities for every person to express his or her talents to the full can only find ultimate expression in a society which dedicates itself to persons rather than profit.

The opponents of socialism are very vocal about what they call the failure of socialism in Africa. But they say little, if anything, about Africa's real failure; the failures of capitalism.

Over 90% of our continent's people live out their wretched and represssed lives in stagnating and declining capitalist-orientated economies. Western outcries against violations of human rights are muted when they occur in countries with a capitalist orientation.

Socialism can undoubtedly be made to work without the negative practices which have distorted many of its key objectives. But mere faith in the future of socialism is not enough. The lessons of past failures have to be learnt. Above all, we have to ensure that its fundamental tenet — socialist democracy — occupies a rightful place in all future practice.

☐ **Slovo is secretary-general of the SA Communist Party. The above text is an excerpt from a paper published last month in Lusaka.**

LETTERS

Riot loss: R28,3-m for bus operators

Argus 8/2/90

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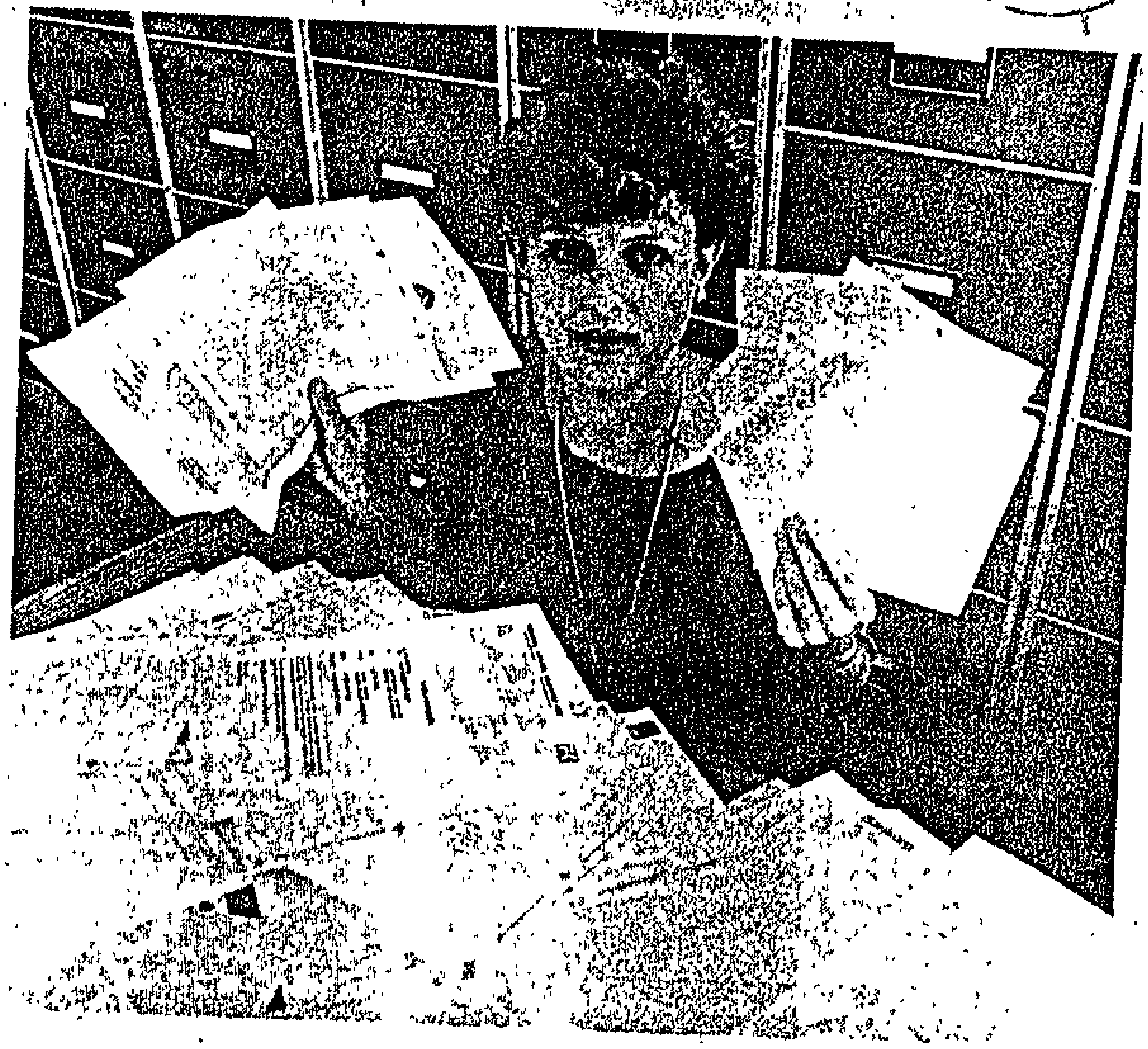
By MICHAEL MORRIS, Political Correspondent

SUBSIDIES totalling R28,3 million were paid to bus operators for damage and loss of income caused by riots during the last financial year.

This is one of the points in the Auditor-General's 380-page report on the Appropriation and Miscellaneous Accounts for General Affairs for 1988-89, published yesterday.

Other points of interest are:

- R14 million was spent on recovering the Helderberg flight recorders and wreckage and on the investigation, bringing the total spent up to March last year to R22,8 million.
- The police paid compensation of R2,6 million in 490 cases, including unlawful arrest and injuries and damage, resulting from police action in riots and normal duties. The Department of Justice paid compensation of R18 950 to four claimants for unlawful arrest and detention.
- The Department of Foreign Affairs wrote off R36 244 for medical and other expenses on behalf of Mozambique after Samora Machel died in an air crash. The money was not recovered from Mozambique.
- Farmers owed R198,9 million on Land Bank loans. R83,3 million of this had been overdue for more than a year.
- Defence force losses totalling R65,3 million during the last financial year included R33,4 million for an aircraft which crashed. An air force inquiry found the crash was "a serious and avoidable accident due to the fact that the pilot's judgment — because of a low stress threshold and too little continuous flight training — had deteriorated to such an extent that he did not identify a potentially dangerous situation correctly".
- Altogether 7 251 police vehicles were involved in collisions during the year, representing a loss of R3,5 million.



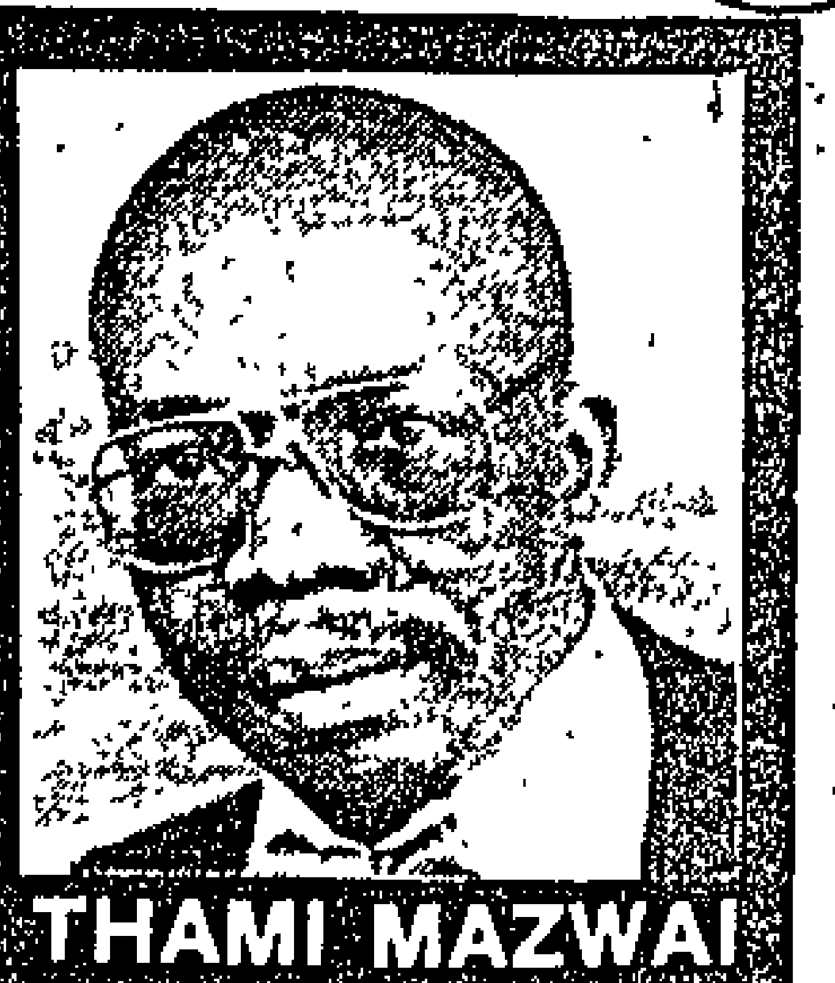
Picture: BRENTON GEACH, The Argus.

FAN MAIL GALORE: Mrs Lanois Coetzee sorts through some of the hundreds of congratulatory telegrams and letters that flooded the State President's Office after Mr F W de Klerk's steps to normalise South African politics. Responses poured in from all population groups — individuals and companies — and many from overseas, including the United States and West Germany.

It's time to start moving, chaps

49

It's my business



THAMI MAZWAI

AFTER FW de Klerk's stimulating speech last Friday, one is once more forced to ask: as we are now definitely headed for change, how is black business poised for a stake in the country's future economy?

For the record, that speech caught everybody flat-footed - even the ANC and PAC.

I was stunned. I never thought the man would have the gumption to go that far.

The bottom line is that De Klerk has set the country on the road to negotiation. The real work to create a non-racial South Africa must now start. While everybody is pinning their hopes on negotiation, it must be pointed out that what will be negotiated is the political future and the broad outlines of the economy.

The real economy, the business itself, remains the responsibilty of industrialists, black and white. They must see that it caters for the needs of the country as a whole and not for the minority. For this to happen it must be controlled by South Africans, and not white South Africans as in the past. This is the challenge facing our entrepreneurs.

Enterprises

Since last week there has been much speculation on the future economy. Most black organisations are calling for nationalisation. White South Africa on the other hand wants the economy freed from any form of state control, save normal laws to protect markets.

While the debate on the -isms is not at this stage for the likes of me, I do know that running those enterprises, nationalised or not, will be the responsibility of businessmen.

To illustrate my point, one of the common denominators between a planned and a free market economy are economic units. These may be called collectives, businesses, or co-operatives etc. If their function is the production or provision of goods and services, they can only operate on the accepted golden rule - output must exceed input. Only business minds have the skills to ensure that output does outpace input. God forbid that politicians ever be entrusted with such a responsibility.

The collapse of economies worldwide, capitalist and socialist, is testimony to the ineptitude these nice gentlemen and gentleladies have in reconciling their idealism and strong sense of righteousness with hard economic realities, the facts of life.

Some of them are so involved in bettering mankind that they sometimes "by mistake" roll national wealth into their pockets. But that is another story.

Knowledge

Looking at the Government's opening of white central business districts to black entrepreneurs, it is now history that through no fault of their own, very few of our entrepreneurs could survive competition from their white competitors. Even deregulation has seen whites get into the previously all-black taxi industry.

Superior white know-how and resources have put paid to many black hopes, and this is still going to feature in our lives. Liberation is not going to create a corps of black businessmen able to stand their ground against white competitors.

That is why I fear for the future of the black entrepreneur. It should now be more evident that black economic empowerment, still in the realm of the metaphysical and the surreal, must be made a reality.

Last year *Sowetan Business* organised big business to subsidise advertising by black entrepreneurs by 50 percent, a programme which started on September 28. Companies such as Barlow Rand, South African Breweries, Anglo American, Genmin, Sasol, AECI, Anglovaal, Hoechst and many others - for instance SAB today - were involved.

Although the response from our entrepreneurs was heartening, it was not as it should be and we came across some strange reactions. Said one entrepreneur: "that R50 is needed for stock". Said another: 'the subsidy must be 100 percent".

Tragic. What the first was telling us was that he is prepared to keep on buying stock even if he does not tell buyers of his wares. The second was saying he is not prepared to invest his money on advertising his business, and somebody else must risk his money for him to make a profit.

This is the type of thinking that makes one weep, it allows whites to run roughshod over us in the marketplace.

We still want to fight their superior resources with picks and shovels.

Now that the country could well be on the way to a non-racial South Africa, I can only hope our businesses will realise that the situation is grave. The country's economy will continue to stay in white hands, this time not because of colour, but skills. If we want to control this economy, or part of it, it is time we developed the skills that will ensure this. Let us leave the politicians to do what they enjoy most - talking about kings and cabbages. There is a nobler calling - creating wealth. In that pursuit is man's independence, innovation, integrity and dignity enshrined. The way to go about this is to make black economic empowerment a consciousness transcending political divisions.

(49)

BUSINESS

Just how does FW expect to pay for his new look?

Just how does FW de Klerk propose to address social inequities like housing and education - and also cut state spending? By HILARY JOFFE

STATE President FW de Klerk was not expected to say much new about economic policy in his speech opening parliament last week — and he didn't. But the tenor of his speech did suggest some important questions.

Most important of these is how the government proposes to address the urgent social needs to which he referred more than once — employment, education, housing — and at the same time to pursue the programme of fiscal discipline which he stressed.

The government intends both to cut spending and to address social issues — by new strategies, rather than by substantial amounts of new money. Essentially it has been trying to shift much of the financial burden for social services off its own shoulders. But it is not clear that this will work.

De Klerk said a changed dispensation implied more than political and constitutional issues. "Poverty, unemployment, housing shortages, inadequate education and training, illiteracy, health needs and numerous other problems still stand in the way of progress and prosperity and an improved quality of life."

He then went on to emphasise the government's efforts to cut the public sector's role in the economy, noting that substantial progress had already been made through restricting capital expenditure in parastatal institutions, privatisation, deregulation and curtailing government spending.

Government spending was "thoroughly under control" and the current expenditure budget would be the most accurate for many years, he emphasised.

Economists confirm that government spending for the current fiscal year ending February 28 is likely to be on target at about 15 percent above last year — no real increase. But government revenue is expected to be much higher than budgeted, thanks to higher import surcharges and customs revenue, and higher than expected economic growth which brought in more tax revenue than expected — revenue is likely to be R3-billion above budget, even without the R3-billion proceeds of the Iscor privatisation. This means the deficit before borrowing will be lower than the budgeted R9,9-billion. Nedcor Group economist Edward Osborn estimates it will be around R7-billion, or under three percent of gross domestic product rather than the budgeted 4,1 percent.

FW De Klerk ... can he address the country's social needs?

And the line from the government is that a further slowdown in government expenditure — and a lower deficit — can be expected next year. Finance Minister Barend du Plessis recently said there would be real cuts in this year's budget. At the same time he emphasised that education, primary health and preventative medicine and the housing shortage would be priorities.

How the government expects both to cut spending and to pay more attention to these social needs was indicated in De Klerk's speech. He said existing strategies and aims were undergoing a comprehensive revision and there would be "important policy announcements in the socio-economic sphere" during this parliamentary session.

And he suggested the direction of such policy thrusts: De Klerk said the "community at large", especially the private sector, had a major responsibility for the welfare of South Africa's people.

While the private sector has increasingly become involved in areas which used to be the monopoly of government such as black housing and health, there is mounting evidence that the private sector cannot address the needs, particularly of the poorest.

In housing, for example, the Urban Foundation has launched innovative schemes to help the private sector move "downmarket". But although its new loan guarantee scheme makes it worthwhile for developers to provide housing for those with lower incomes, the UF acknowledges the housing needs of almost 60 percent of urban black people can still not be profitably addressed by the private sector.

In health too, private provision is extremely limited by the very low incomes of most black people. The proportion of black people who are medical aid members has increased substantially, although it is still under 10 percent. The state-run hospitals have in recent years introduced the principle of "user charges", making even the poorest pay for services according to a means test. But hospitals have found this adds very little to their revenue, since so many of their black patients fall into the lowest income group.

It appears the government can rely on private welfare provision only to a limited extent. But even if this were viable in housing and health, education remains the "soft underbelly". Improved black education is economically vital and the government has not suggested "privatising" it. But it does not have the money to tackle the black education problem effectively.

Non-racial private schooling caters for only a tiny proportion of black scholars, as the private schools themselves acknowledge. And even though government spending on black education has risen rapidly over the past few years, this has had only a limited impact on the problem.

A recent study by Wits University's Educational Policy Unit found the pupil:teacher ratio for black children was 40:1 in 1988 compared to 16:1 for white children. The EPU estimated R21-billion would be required to attain parity between white and black education — around a third of the government's budget for 1989/90, compared to the 18,6 percent set aside last year.

If the government aims to continue cutting expenditure, its scope for addressing issues such as health, education and housing is likely to be extremely limited in the coming year.

"There is not much space other than that created via the redistribution of spending," says Osborn.

Both De Klerk and Du Plessis have talked about changing the priorities of government expenditure.

The government has launched an investigation under privatisation minister Wim de Villiers aimed at increasing efficiency and cutting spending across the board. This may release some funds for social spending, as will the cuts in defence spending.

Already changing priorities may be reflecting in the spending of different government departments, with defence, Trade and Industries and Transport below budget while Health, Police, the House of Representatives and Development Planning have spent more than the budget figures.

But if De Klerk's "new dispensation" is to have any meaning for those in need of jobs, healthcare, houses and schooling, it seems that more may be needed than the government is willing to offer.

F/M 9/2/90 (49)

ECONOMIC SCENARIOS FM 9/2/90

Best case

(49)

Since President F W de Klerk breached the probability barrier, with his momentous speech on Friday, all things seem possible. Having lived for most of the 42 years since the NP came to power with a political policy devised in the Dark Ages, and an economic dispensation designed to reverse rather than promote development from the Third to the First World, South Africans are slowly adjusting to the thought that, just maybe, everything won't go wrong.

Much must still be accomplished. The path to prosperity is strewn with booby traps. But, apart from the domestic implications of government's new policy, the doors of the international economic community, slammed in 1985, may just be prised open.

In case this should happen, it is as well to look at best-case as well as worst-case scenarios — of which we have had our fill in recent years. We need a clear idea of what a return, or partial return, to normality will mean for economic growth: what it can achieve — and what it can't.

Roll-overs of debt and possible negotiation of new debt will reduce anxiety about the BoP and the need for a surplus on current account. Policy-makers will not feel obliged to curb spending growth at the first sign of its resurgence because of fears that demand for imports will deplete reserves and make it impossible for us to meet debt obligations. With funds flowing in on capital account, the economic cycle can be allowed to take its natural upwards leg, while its downward one will not be intensified and prolonged.

An attempt may be made to hold down the commercial rand for a while to allow the gap with the financial unit to close. It is known that, though there is no plan to abolish the financial rand, Reserve Bank Governor Chris Stals would like to see the two move together (*FM* February 2).

But, if things persist in going right, sooner or later the commercial unit will rise. This will relieve pressure from imported inflation and increase the benefits of the recent strengthening of the currency.

There is, of course, a snag: the impetus inflows of foreign funds will give to growth in money supply. Unless monetary policy keeps a tight rein on domestic credit growth, money supply — already growing at unacceptably high levels (M3, the broadest aggregate, grew 21,83% in the 12 months to December) — will grow even faster.

As Bank chief economist Jaap Meijer observes: "In the Fifties and Sixties we had large inflows of foreign capital without undue inflation. So it can be done." But this would be so only if monetary policy countered the liquidity flowing in.

It must be inflationary if growth in money supply far outstrips that of GDP. Capital inflows will increase GDP growth but not anywhere near present money growth.

What Meijer calls a "realistically firm" monetary policy will be essential. He says: "If interest rates are pitched high enough to encourage savings and foreign borrowing you could have a non-inflationary environment and a sound BoP."

Estimates of potential GDP growth, in a speech by the late Governor Gerhard de Kock in May, were:

☐ With a net outflow of capital equal to about 4% of GDP during the next 10 years, as in the past four years, average GDP growth would be limited to about 2%;

☐ With no net inflow or outflow, 3%;

☐ With a net inflow of about 4%, 4%-5%.

So anything more than 5% remains in the realms of our wildest dreams.

The most important consequence of renewed capital inflows will be to stimulate real capital investment (or GDFI), which generates wealth. This is desperately needed after more than four years of exclusion from world credit markets and large-scale withdrawal of foreign capital.

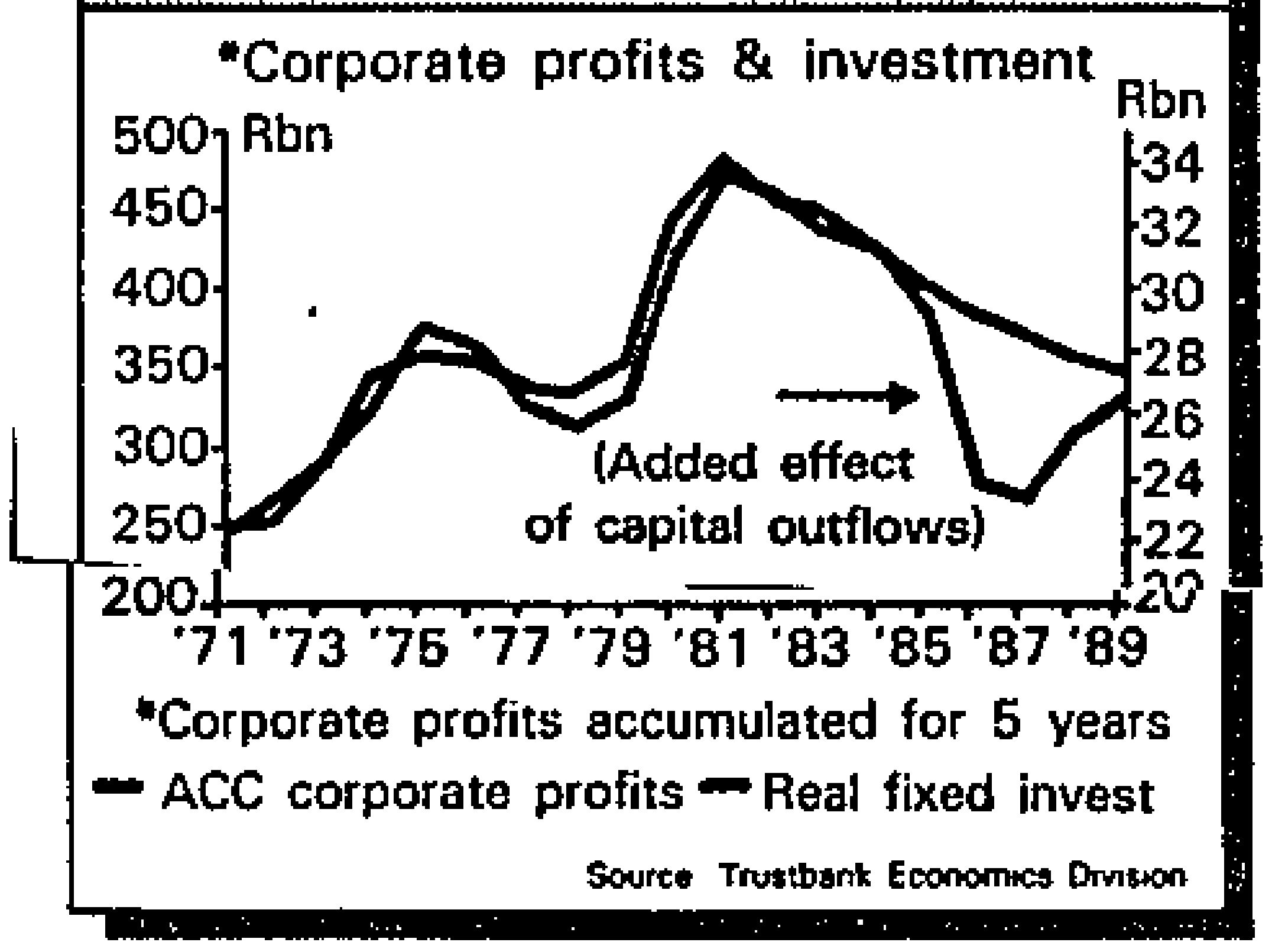
The decline in GDFI preceded sanctions. Since the start of the Eighties the trend has generally been down. However, there was a huge decline after the introduction of credit sanctions in 1985. Recent research by Trust Bank economist Nick Barnardt gives some indication of the impact of capital outflows on GDFI in those years.

He analyses the relationship between corporate profits and GDFI, and how it was seriously distorted between 1985-1987 (see graph). "While many factors affect GDFI," he says, "the closest correlation is with corporate profits. Statistics from 1971 show they move in tandem. But, from the start of 1984 to the end of 1987, they diverged sharply, GDFI declining at a far steeper rate than cumulative corporate profits."

Since then the gap has narrowed, with a recovery in GDFI. But, by the end of 1989, it was still wider than at any other time since the three years after the 1976 Soweto riots.

"The downward bulge," says Barnardt, "could be ascribed to the additional effects of capital outflows." A return of capital flows could induce a bulge in the other direction and give the chance to recover some of SA's lost productive potential. ■

Battle of the bulge



Source Trustbank Economics Division

REFORM AND THE ECONOMY

FM 9/2/90

Waiting for the response

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The debate around nationalisation will be a key to the ANC's credibility

Only a few months ago, the extent of any reforms announced by a Nat State President would have been judged by the depth of chagrin on the Right. However, after President F W de Klerk's profound and far-reaching statements on Friday, what Andries Treurnicht had to say in parliament this week appeared both predictable and irrelevant.

De Klerk has freed the National Party — if not the whole Afrikaner tribe — from the confines of its own ideology. He has not so much emancipated the unenfranchised blacks as prepared the way for his own people to use their considerable skills, talents and resources for the benefit of the whole region.

The response that matters, and is still substantially being awaited as the *FM* goes to press, is the considered view of the ANC and what it plans to do now. For it, too, if it chooses to be magnanimous, could by clever use of the greater freedoms now open to it lift the whole southern African region on to a plateau of peaceful prosperity which would have seemed an impossible dream only a short time ago.

Southern Africa has abundant natural resources, the exploitation of which requires technical skills and capital. SA has the industrial and financial infrastructure that could enhance this exploitation to the substantial benefit of people of all races and cultural backgrounds in the region.

There has been economic decay, partly as a result of Nat policies here and the collectivist ideals of the liberation governments to the north. But there has been nothing like the economic devastation that 70 years of communism has brought to Soviet Russia and, since World War 2, to eastern Europe. Simply put, a peaceful southern Africa — stripped of its political fantasies — could offer private foreign investors some opportunities far more lucrative and secure than much that might be found in eastern Europe.

Indeed, it might well be argued that while the ANC may be capable of disrupting and delaying this prosperity, it is unlikely to be able — even if it were so inclined — to thwart the process entirely.

For the ANC, slow and unimaginative as it has shown itself to be, is losing — and could lose faster — its credibility and support in the developed world. If it adheres to violence and scorns the opportunity to seek democratic justification openly and peacefully, it will nurture the seeds of its own destruction.

Its weapons supplies and tactical support systems are already in jeopardy as a result of the explosion of the Marxist myth of equality and plenitude through collectivism in eastern Europe and Russia. The Nordic countries, which have given support naively and unstintingly, have some economic problems of their own to face and have already shown some impatience at African political intransigence.

But the country with the wild cards could be the US, for it is capable of turning the threat of removing sanctions into a powerful inducement to the ANC and other black bodies to negotiate seriously with Pretoria.

Conversely, the developed world has little else with which to belabour SA, even if it wished to. The real sting to this economy came from the 1985 capital freeze and subsequent disinvestment. That is not only incapable of repetition but the process is being reversed. Disinvestment is but a trickle and capital inflows, while still small, are gathering momentum.

Greeting the news ... but the eastern models don't work

Trade sanctions, as we have argued for some time, are no longer really an issue. They are unlikely to be tightened — especially after De Klerk's reforms — and the economy has shown itself to be remarkably resilient in finding new markets. Sanctions are an unnecessary impediment to growth but they are incapable of strangling it.

Nor are the developed countries, which control substantial aid flows, likely to be impressed by economic policies in Africa that have been shown to reduce self-sufficiency, encourage poverty and uphold dictatorships. They no longer regard the extent of their charity to the Third World as a measure of virtue. Those who have been instruments of their own impoverishment are not popular in the West.

The ANC has more than the eyes of anxious SA whites on its policy utterances. It has the developed world as well as the eastern European, whose own experience belies the economic sense of much of what the ANC has been saying about a post-apartheid society.

Take, for instance, what Comrade Alfred Nzo, ANC secretary-general, has to say about nationalisation: "The nationalisation of key elements is necessary to get resources for the democratic government to carry out its programmes ... (It) could not allow its plans to be thwarted by lack of resources." The truth is that nationalisation deprives government of the resources it requires.

Nzo, who clearly has no grasp of elementary economics, has only to look at the shortages of food and other basic commodities and sad queues of disappointed customers in eastern Europe to see the manifest deprivation of nationalisation. As British Liberal Prime Minister W E Gladstone found by chance in the last century, rising government revenues come from lower taxes and excises that encourage private commercial and industrial endeavour.

Moreover, if the mines, banks and what the ANC calls monopoly industries here were nationalised, more than 60% of the companies quoted on the JSE would be owned by government, which would have to run them. If that were to happen, foreign investment capital and technical skills would simply not flow in our direction. The press would be effectively nationalised and the flow of commercial information frustrated and distorted.

Scarce economic resources would, in consequence, be wasted through misallocation by a pricing system that received the wrong signals. Price controls, hyperinflation and a concentration of wealth into fewer hands would be the inevitable outcome.

Economic history has shown repeatedly that a rising level of prosperity comes from governments that foster private initiative and aim for the fastest possible economic growth rate that is capable of being sustained. Those that sacrifice growth to income or asset distribution inevitably end up with a poorer populace, offering fewer jobs and declining real incomes.

No matter how sound these economic arguments, we suspect the ANC will require some form of heroic economic gesture from government and business before it leaves the negotiating table — regardless of what poli-

P.T.O.

CAPITAL MARKET

Falling short

FM 9/2/90 (49)

Rates, declining since mid-December, should fall further as stock becomes scarce. "This will perpetuate the inverse yield curve for long- and short-term interest rates," says an economist. "Rates on the long end could fall to around 14% while on the short end prime could fall to 18% by the end of the year." Technically, an inverse yield curve heralds a decline in inflation.

The stock shortage is expected for several reasons.

Foreign buyers are likely to hold investments made last year while local issuers have indicated they will borrow less than in 1989.

Government will start the 1990/1991 fiscal year with a large cash surplus — at the end of December it was about R7,4bn. Moreover, it is cutting expenditure. So Treasury, the major capital market issuer, may raise only about R2bn on the open market, compared to R4bn budgeted in 1989/1990.

No official figure for government borrowing requirements will be available until the Budget on March 14. But a possible indication comes from finance DG Gerhard Croeser, who suggested in October that government should make a contribution to savings by further reducing the deficit target for 1990/1991, to less than 3% of GDP.

Based on GDP of say R280bn, this would mean a deficit before borrowing of at most R8,4bn — an improvement on the 1989-1990 budgeted R10bn, which was 4,1% of GDP. (The actual figure, of course, could be considerably lower, at only R6bn. By end-December the deficit before borrowing was R4,4bn against a pro rata R6,7bn.)

A major part of the deficit before borrowing is taken by the Public Investment Commissioners, which previously invested all its funds in gilts and semi-gilts. It is one of the main sources of Exchequer financing. In 1989/1990, it was budgeted to contribute R5,2bn (without redemptions) to government finances. It is likely to grow by about 15% in the coming fiscal year, which means it will provide about R6bn — leaving little for the rest of the market.

Eskom, also a large borrower, has already raised "a substantial portion" of its budgeted R2,3bn funding requirement for 1990. Low rates caused mostly by foreign buying allowed it to do a lot of pre-funding cheaply.

According to a Post Office spokesman, when its fiscal year ends on March 31, it could find it borrowed much less than the expected R700m. The 1990/1991 budget is being prepared and capital market requirements probably won't be any higher than 1989/1990 actual borrowings.

With privatisation approaching, Sats has cut back expenditure and says it will "have minimum demand on the local market." In 1989/1990, borrowings are said to have amounted to about R400m. Next fiscal year a Sats spokesman expects borrowing to be between R300m and R400m.

Expectations, of course, must be tempered by the knowledge that nervous foreign buyers could easily turn into sellers if events take a discouraging turn. ■

SUNDAY TIMES, Business Times, February 11, 1990

Economic pledges look for real this time

(49)

THE leap across the political Rubicon last week at the opening of Parliament was accompanied by a strong economic agenda.

It may well prove to be the supporting pillar that will sustain any political changes still to come We have heard nearly all of it before — reducing the size of the public sector, freeing the economy through deregulation, and privatising State entities to reduce the public debt

Thrown in for good measure are always the promises of disciplining State finances and reducing inflation

Surprisingly, President De Klerk confused a surplus cash flow with a Budget surplus It is true that when one has borrowed more than is needed, there is a surplus. But that is not quite the surplus that materialises when one has spent less than one's earnings

Obviously, the speech was too important to be scrutinised by any economic adviser beforehand, but it is slips like these that give an unsettling insight into the minds of our politicians

It does highlight how difficult previous years must have been when the State was forever running out of money, surrendering itself to the printing press

The Government's game plan to reverse SA's slide towards Latin American conditions has been around for at least four years

As on the political front, determined implementation has been missing in spite of a start with deregulation and privatisation. This seems to be changing with a vigour that will catch some of us by surprise.

President De Klerk correctly deferred to his Minister of Finance to spell out the coming changes in fiscal policy when he reads his Budget in five weeks' time.

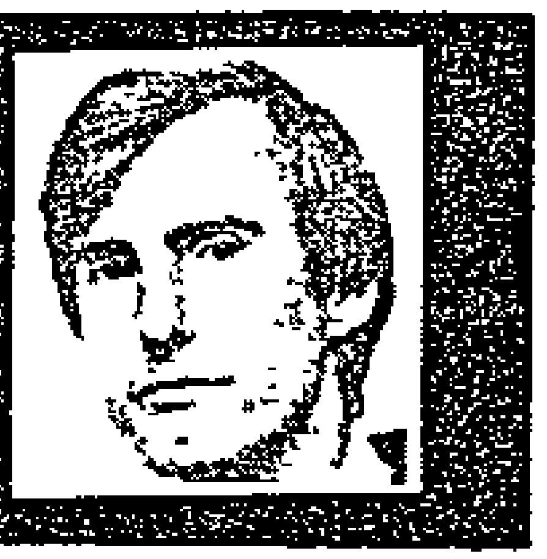
[redacted]

Together with the changes in monetary policy already under way, and with renewed vigour regarding structural policies such as deregulation and privatisation, the economic agenda is also one of revolutionary change. This time it sounds much more plausible and for real than ever before.

Conspicuous by its absence was any reference to inward industrialisation Instead, pride of place was given to the encouragement of exports as the impetus for industrialisation and earning foreign currency.

REX

Cees Bruggemans reviews the local and world scene



It could have been a slip of the tongue, but then again the whole emphasis of policy, political and economic, seems to be aimed at rejoining the world, and to pursue First World standards.

What else can be read in the aim to gradually reduce inflation to levels comparable with those of our principal trading partners?

The laager mentality is dead, and with it any ideas of going it alone by becoming more self-sufficient — no more strategic white elephants either

Instead, the emphasis is shifting to entering world markets, following the lead of so many other nations that have successfully preceded us in manufactured exports.

There has been a temptation to leapfrog reality and announce the end of sanctions as well This must be a figment of the imagination because the hardest part of any change still lies ahead

In this respect, President De Klerk's position is no different from Mr Gorbachev's in Russia. Imaginative changes to the rules by which the game is played are one thing Actually creating a productive reality quite another.

However, the absence of any material easing in sanctions is not the drawback that it may appear to be.

In the aggregate, trade sanctions have so far proven to be a hollow threat, to which South African business has successfully adapted Any lifting of such trade sanctions is likely to add only minimally to our export performance, which remains far more dependent on domestic business than foreign political attitudes

[redacted]

There could be some easing on the capital account of the balance of payments in that foreign trade financing may be more easily arranged and maturing debt may be more easily rolled

This should assist in a faster rebuilding of the foreign reserves, rather than creating greater scope for more imports and domestic growth.

In this respect, SA's strategic position may well be strengthened more quickly than originally contemplated and the date be brought forward when this constraint on stronger economic growth is slightly eased.

One should not, however, overstate the importance of a breather while also obviously not understating its usefulness Underlying the economic agenda one perceives a survival wish that now also seems to be gripping the public sector.

The past few decades have been marked by economic policies that all of a sudden no longer appeal when one is contemplating political negotiations and changes of the kind that lie down the road

Instead of accepting overmanning, the politics of subsidies, absence of financial controls, and an exponentially growing tax burden, survival suggests a change of culture.

Faced by a majority among whom unemployment is endemic and whose underprivileged current status has unlimited potential for subsidy demands, a quick change in policy approach is apparently called for.

Henceforth, State spending is to be more equally spread, with higher standards for certain social goods (such as education) attracting additional user charges.

Privatising previously public activities has a similar effect in that such spending can no longer rely on support from the tax base, but instead levies its burden directly on its users through market prices The privatisation proceeds reduce the public debt and thereby the financing costs of borrowing that have up to now boosted State spending so much

By stabilising the State's burden on the private sector, the latter can get on with creating growth and job opportunities

[redacted]

Instead of slowly disappearing into the socialistic quagmire of inefficient public sector activities, overmanning and overtaxation, the thrust is the other way towards a more efficient and egalitarian public sector supporting a vigorous free enterprise system.

It would appear that the demise of Eastern Europe and Russia came just in time for us.

In contrast, most of Africa apparently gained its independence three decades too early and thereby was contaminated by a Utopian economic dream that has cost the continent dearly — to the point of devastation

Business confidence index takes a turn for the better

STAR 12/2/90 · (49)([redacted])

The South African Chamber of Business (SACB) and Seifsa say the volume of orders expected in January will exceed those recorded in December.

The latest survey of confidence levels in the manufacturing sector show that that the index rose from 98 in November to 118 last month.

The organisations say that 100 is the base line and that figures below that level reflect decreasing confidence.

Those above reflect increasing confidence.

However, the two organisations say: "It should be noted that because of the lower level of activity in December, there will be a fairly strong seasonal impact in January, so the latest figures cannot yet be interpreted as representing a change in the trend of the level of general activity, which has been declining since February 1979."

The survey ssays the index of expected sales volumes for the next 12 months rose to 128 in the January survey, compared with 118 in November.

It says: "The reasons for the increase can be chiefly ascribed to political developments, which have been interpreted favourably by industrialists, since there has been little change in the economic fundamentals to support the higher level of optimism.

"There are nevertheless clear signs that the manufacturing sector expects to show positive real growth in 1990, despite the economic slowdown that is clearly under way."

The survey says that the outlook in Pietermaritzburg and East London is marginally better than in the Durban, Cape Town and Port Elizbath regions.

It says the reason for Pietermaritzburg's attitude is governed by the favourable outlook of the engineering industries in the region.

This suggests that the prospects for fixed investment this year could be better than expected. —Sapa.

6 The Star Tuesday February 13 1990

Land situation 'has to be addressed'

Nationalisation no holy cow – Slovo

(49)

The Star's Africa News Service

South African Communist Party leader Mr Joe Slovo says the question of nationalisation of sectors of the South African economy is something to be negotiated and discussed by all parties.

And, in a surprise statement, he said although economic inbalances would have to be redressed he did not believe nationalisation necessarily changed anything.

Mr Slovo's statements were made two weeks after Mr Nelson Mandela said in a statement from jail that key sectors of the economy would have to be nationalised.

Mr Slovo, also a leading member of the ANC, said in a long BBC interview, monitored in Johannesburg, that the exiled leadership would not accept any kind of future based on group political rights but indicated that minority rights could be negotiated.

Majority rule

"Our bottom line when we get to that table is that there must be an acceptance of the principle of moving towards majority rule and moving quickly. Apart for that there's lots of things that can be tossed about.

"The question of constitutionally guaranteeing language rights, cultural rights, religious rights, guaranteeing the existance of a multi-party system, are things that can be discussed and are up for negotiation,' he said.

"What isn't up for negotiation is entrenching community group political rights and giving each group a veto over what can be done in the future," Mr Slovo added.

He said the land situation in South Africa had to be addressed as blacks were only allowed to own 13 percent of the land in South Africa.

"This does not mean necessarily that every piece of land that a white man owns will be confiscated or that there will be no compensation if the process of redistribution takes place.

"These are issues that have to be worked out, but there is no way where people will move towards a situation where all they have is a right to put a cross in a ballot paper every five years."

Thus, Mr Slovo said, the whole question of redistribution of land and industry was something that eventually would have to be attended to, althtough this did not necessarily mean sectors of the economy would have to be nationalised.

"In South Africa for a long time you had State ownership of basic sectors of the economy and that did not mean advantage for the people or socialism.

"So the whole question of how we move towards generating resources so that injustices of the past are addressed is something that has to be worked out.

"The pace and approach on this question is something which can be discussed."

International markets react to ANC plan

SMK 13/2/90 **Finance Staff** (49)

International markets signalled thumbs down to the African National Congress nationalisation stance by dumping the financial rand and South African shares.

Euphoria has changed to caution as foreign investors who bid shares up to extreme heights on the Johannesburg Stock Exchange last week once again reflect on political risk.

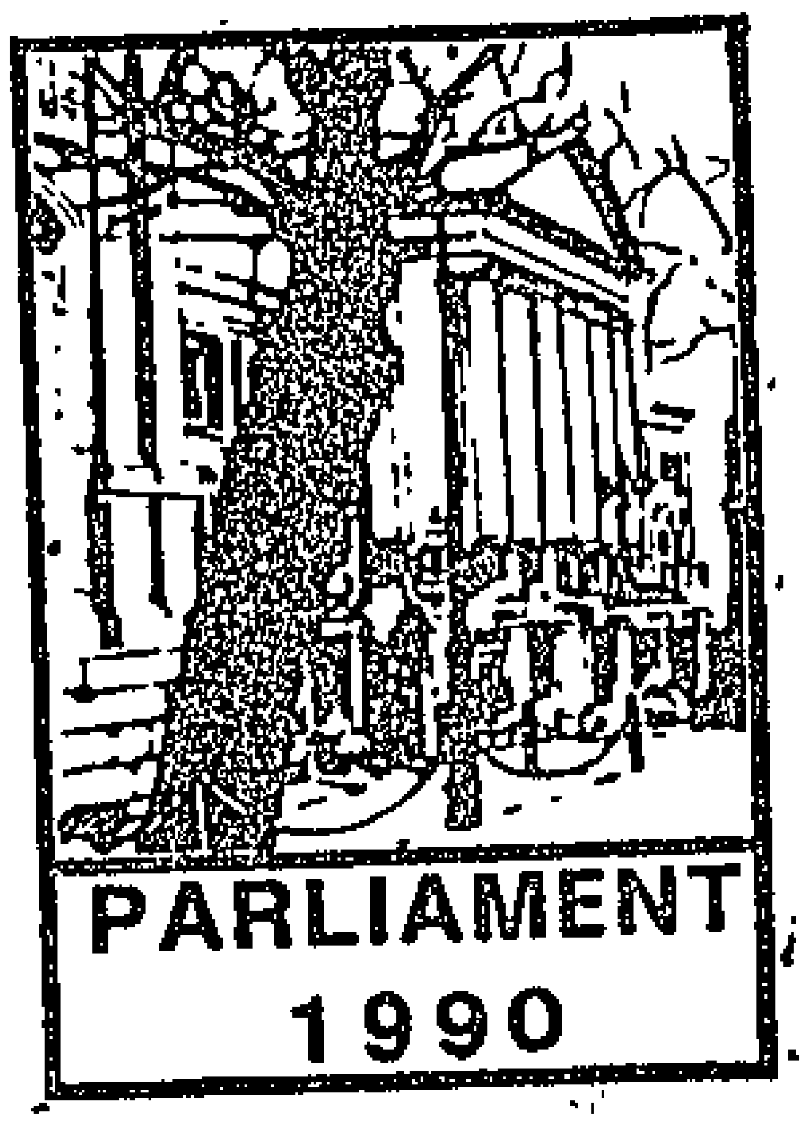
Unless the gold price moves to much higher ground, fickle foreign money will leave South Africa for a new play in the global financial casino.

The financial rand reflected the more cautious approach. The investment currency slumped to 27 US cents from 30,50c before reviving to 28,50c.

Gold shares tumbled by five to 10 percent on the JSE.

● See Page 16.

STAR 13/2/90 (49)



Barend asks joint sitting for R20,8-bn to tide State over

The Minister of Finance, Mr Barend du Plessis, presented a R20,8 billion part appropriation budget to a joint sitting of Parliament yesterday.

The mini-budget is to tide over State financing from April 1 until the main Budget comes into operation about July.

The R20,8 billion was broken down as follows: Central Government (including Administration for Own Affairs) R17,3 billion; Transvaal Provincial Administration R1,4 billion; Cape R1,050 billion; Natal R700 million; and Free State R350 million.

Mr du Plessis said the amount for central Government and administrations for Own Affairs exceeded last year's part appropriation by R2,1 billion (13,8 percent). The total amount for the provinces had risen by about 12,9 percent.

Mr du Plessis said the part appropriation budget was merely an interim measure to provide for State spending in the first months of the new financial year.

It furnished no basis on which to forecast the possible course of the main Budget.

A full review of the present state of the economy and the prospects for the coming year would be given when the main Budget was delivered to Parliament (in March).

Mr du Plessis said, in terms of Section 4 of the Exchequer Act of 1975, funds voted in the Part Appropriation Bill had to be used only for services for which expenditure during the previous financial year was authorised by an Appropriation Act or Act of Parliament. — Sapa.

'A new phase of history'

The strengthening of SA's reserves and the good performances on the Stock Exchange during the last few weeks could only, to a limited extent, be attributed to economic reasons, **Dr Zach de Beer, Parliamentary leader of the Democratic Party,** said yesterday.

Speaking in debate in the Part Appropriation Bill, he said it was due to political factors and the impression gained by investors that SA was eventually on the road to normalising its political rules and structures.

"Thirty years ago, after the Sharpeville tragedy, Dr Paul Sauer said the South African history books should be closed and a new one started. It did not happen, but today things are different.

"I believe that yesterday's release of Mr Nelson Mandela has closed one phase of our history and we have started with another.

"During the past years, the Government retained all the initiative and other players occupied minor roles. Yesterday this came to an end.

"Whether we like it or not, Mr Mandela is the symbol of a new dispensation. From now on, the Government will not be able to act unilaterally and dictate the passage of events.

SPECIAL EFFORT

"Although the formal power and control will still rest with the Government, the wellbeing of the country will be determined by the interplay between the Government and extra-Parliamentary organisations.

"I plead that everyone who takes part in negotiation must make a special effort to understand the other person's problems, and everyone must understand our mutual interdependance. We are, irrevocably, one nation with one future." — Sapa.

Spotlight swings to ANC economic policy

Cpt Times
13/2/90

Negative reaction to Mandela statement

(49)

By AUDREY D'ANGELO
Financial Editor

HOPES that foreign bankers would now be more willing to roll over SA debt receded — at least for the time being — yesterday. The Johannesburg Stock Exchange fell, and the financial rand weakened, following a statement by Nelson Mandela that the ANC would nationalise banks and mines.

Economists and stockbrokers said that any hint of nationalisation made foreign bankers nervous and would discourage them from giving SA more time to pay.

But some considered that Mandela's statement yesterday, and his call on Sunday to continue the struggle and for sanctions to remain, were "posturing" for the benefit of his supporters and in preparation for negotiations.

The financial rand fluctuated wildly yesterday before closing at R3,58 to the dollar compared with $3,33 on Friday, indicating a loss of confidence by foreign investors.

A lower gold price also helped to depress the JSE. The over-all index fell to a preliminary close of 3 271 from 3 341 on Friday. The industrial index was 28 points lower at 3 158 from 3 178.

And the all-gold index fell 80 points to 2 091 as the gold price fell to $415,25 before recovering slightly to an afternoon fix of $418,85.

Trust Bank chief economist Nick Barnardt said: "The attitude of foreign bankers and their willingness to reschedule loans will depend very much on the statements Mandela makes.

"The spotlight has swung round from apartheid to the ANC's economic policy. The more there is talk of nationalisation the more negative the reaction will be.

"We all understand that there are certain subtleties in the internal dynamics of the ANC position. People cannot lose their constituencies and make themselves irrelevant.

"But these statements of intention to nationalise undermine SA's chances of attracting investment from overseas, necessary for economic growth.

"I believe they are only posturing. As I see it, the government will put the remaining vestiges of apartheid on the table and the ANC will put its economic policy on the table and that will form the crux of negotiations."

Glenn Moore of Personal Trust said: "The fall in the financial rand does not indicate positive foreign reaction. I believe there has been movement out of mining houses and banks.

"As long as nationalisation remains a cornerstone of ANC policy, it will be frightening for shareholders."

Moore said the reaction by SA shareholders "does not indicate a wholesale sell-off. But there is probably quite a bit of apprehension."

Sanlam chief economist Johan Louw said he thought statements about nationalisation should not be taken too seriously. "Once it gets to the negotiating table it will probably be traded off.

"But, as far as the outside world is concerned, such statements are unfortunate at this stage. They have created uncertainty and stopped the inflow of foreign investment. Hopes of rolling over SA's foreign debt have certainly receded."

Louw said he thought uncertainty would cause prices on the JSE to decline even further. He thought SA institutions would step in and buy — but not until prices had fallen more, to a level that offered good value.

"I think we are entering a period when the stock market will be much more volatile."

Manny Pòhl of the stockbroking firm Davis, Borkum, Hare said he thought the falling market offered a buying opportunity.

"Only very naive people thought that change would come quickly and without trouble.

"Overseas investors are fickle. They rushed in and now they are rushing out again."

However, Pòhl said, two callers from New York yesterday asked him to send research material of SA shares after he had given his view of the situation.

He pointed out that, in Namibia, Sam Nujoma had talked of nationalisation but Swapo had agreed to a constitution "which pleasantly surprised us. When the ANC goes to the negotiating table, sanity will prevail".

Stockbroker Frank Brewer of Frankel, Kruger, Vinderine said he was "still bullish on gold".

He thought the industrial sector was still a bit high, judged purely on its fundamentals. But he thought gold mining shares and mining financials offered a buying opportunity.

Matt Brenzel, head of research at Syfrets Managed Assets, said Mandela's speech on Sunday "must have had a dampening effect as people realised there was still a long way to go".

He thought it might result in a 15% or 20% correction in the stock market. However, with the weight of institutional funds on the sidelines — including money being invested for the SA Transport Services (Sats) pension fund — a steep fall might be avoided. "It might ratchet down slowly."

And he thought gold, which was "down for a bit of a breather", would dominate the share market. The market would, however, be "very volatile".

● MANDELA

● SLOVO

49

'I still believe in nationalisation'

B|Day 13|2|90

MIKE ROBERTSON

CAPE TOWN — Nelson Mandela said yesterday he fully supported the ANC's policy of nationalising the mines and other sectors of the economy.

But, in an interview with the BBC at the weekend, SACP general secretary Joe Slovo called for whole issue of nationalisation to be the subject of negotiations as he believed it was not necessarily the answer to redressing economic imbalances in SA.

Mandela was asked at a Press conference whether he had in any way modified his views on the redistribution of wealth.

He said: "No. My views are identical to those of the ANC. The question of the nationalisation of the mines and similar sectors of the community is a fundamental policy of the ANC and I believe that the ANC is quite correct in this attitude and that we should support it."

Later, challenged to justify his claim that the SA economy "lies in ruins", Mandela said full employment, productivity and social responsibility had to be considered when discussing a country's economy.

He said he felt SA's economy was not performing well in these aspects.

Slovo, indicating that the whole question of the ANC's economic policy was being re-examined, said that while any democratic government would have to address the whole issue of redistribution, this did not necessarily mean that sectors of the economy would have to be nationalised.

Slovo said in SA there had been State ownership of basic sectors of the economy for some time, but this did not mean advantage for the people or socialism.

He added that the approach towards generating resources to address injustices of the past would have to be negotiated.

Slovo said that if redistribution of land took place this would not mean that all land owned by whites would be confiscated or that there would be no compensation.

Du Plessis unveils R20bn mini-Budget

BDay 13/2/90

(49)

CAPE TOWN — Finance Minister Barend du Plessis presented a R20,8bn Part Appropriation budget to a joint sitting of Parliament yesterday.

The mini-Budget is to tide over government financing from April 1 until the main Budget comes into operation about July.

The R20,8bn he proposed was broken down as follows: central government (including Administration for Own Affairs) — R17,3bn; Transvaal Provincial Administration — R1,4bn; Cape — R1,050bn; Natal — R700m and Free State — R350m.

Du Plessis said the amount for central government and Administration for Own Affairs exceeded last year's Part Appropriation by R2,1bn (13,8%).

The amount for the provinces was up by about 12,9%.

He reminded members that the Part Appropriation was merely an interim measure to provide for government spending in the first few months of the new financial year.

It furnished no basis for a meaningful calculation of percentage changes on which to forecast the possible course of the main Budget.

A full review of the present state of the economy and the prospects for the coming year would be given when the main Budget was delivered to Parliament (in March).

Du Plessis said that in terms of Section 4 of the Exchequer Act of 1975, funds voted in the Part Appropriation Bill had to be used only for services for which expenditure during the immediately preceding financial year was authorised by an Appropriation Act or in some other way by Act of Parliament.

Speaking in the debate on the mini-Budget, DP parliamentary leader Zach de Beer said the strengthening of SA's reserves and the good performances on the stock exchange during the last few weeks could only, to a limited extent, be attributed to economic reasons.

He said the improvement was due to political factors and the impression gained by investors that SA was eventually on the road to normalising its political rules and structures.

"Thirty years ago, after the Sharpeville tragedy, Dr Paul Sauer said the SA history books should be closed and a new one started. It did not happen, but today things are different.

"I believe the release of Nelson Mandela has closed one phase of our history and we have started with another.

"During the past years, the government retained all the initiative and other players occupied minor roles. Yesterday this came to an end.

"Whether we like it or not, Mandela is the symbol of a new dispensation. From now on, the government will not be able to act unilaterally and dictate the passage of events.

"I plead that everyone who takes part in negotiation must make a special effort to understand the other person's problems; and that everyone must understand our mutual interdependance. We are, irrevocably, one nation with one future." — Sapa.

Slovo: Only democracy can work

Cape Times 13/2/90

Own Correspondent

LONDON. — South Africa must become a multi-party democracy — and the chaos caused by Eastern Europe's "dive" into nationalising and land-grabbing socialism will not happen, says Mr Joe Slovo, general secretary of the South African Communist Party.

Interviewed by BBC radio's Africa Service, Mr Slovo dismissed fears that some form of mindless communism would try to impose itself on the country.

"No single party, communist or not, has a right to rule, except under the processes of democracy for the South African people," he said.

Dismissing panic as unnecessary, he said: "I dont't believe that nationalisation, or a change in legal ownership, changes anything."

He said the SACP had learnt from the hard lessons of Eastern Europe's economic chaos.

"You have had in South Africa for a long time state ownership of some very basic sectors of the economy which has by no means meant an advantage for the people or socialism."

He said the SACP alliance with the ANC had "grown firmer over the years and will continue into the future".

"Of course, as a party, we stand for an ultimately socialist South Africa (although) the ANC does not embrace that as an ideology.

"It (the ANC) is a sort of multi-class organisation which welcomes all within its ranks whether communist, non-communist or socialist.

"But in the immediate perspectives for a post-apartheid society, there is hardly anything which divides the SACP from the ANC."

On land, he said the present position by law was that blacks could buy land in only 13% of the land area. "That has to go," he said.

"That does not mean necessarily that every piece of land that a white man has owned will be confiscated, or that there will be no compensation if redistribution takes place. These things have to be worked out."

Cape Times 13/2/90

Mandela supports policy of nationalising mines

(49)

Political Staff

MR Nelson Mandela said yesterday that he fully supported the ANC's policy of nationalising the mines and other sectors of the economy.

But in an interview with the BBC at the weekend, SA Communist Party general secretary Mr Joe Slovo called for the whole issue of nationalisation to be the subject of negotiations as he believed it was not necessarily the answer to redressing economic imbalances in South Africa.

Mr Mandela, asked at a press conference whether he had modified his views on the redistribution of wealth, said: "No. My views are identical to those of the ANC. The question of the nationalisation of the mines and similar sectors of the community is a fundamental policy of the ANC and I believe that the ANC is quite correct in this attitude and that we should support it."

Indicating that the whole question of the ANC's economic policy was undergoing re-examination, Mr Slovo said that while any democratic government would have to address the whole issue of redistribution, this did not necessarily mean that sectors of the economy would have to be nationalised.

He said that in SA there had been state ownership of basic sectors of the economy for some time, but this did not mean advantage for the people or socialism.

The approach towards generating resources to address injustices of the past would have to be negotiated.

If redistribution of land took place this would not mean that all land owned by whites would be confiscated or that there would be no compensation, said Mr Slovo.

Star 14/2/90

(49

If I were Barend—by

AND A CHANCE FOR REA

BUSINESS TIMES asked seven professional economists to say what they would do if they were drafting Finance Minister Barend du Plessis's Budget.

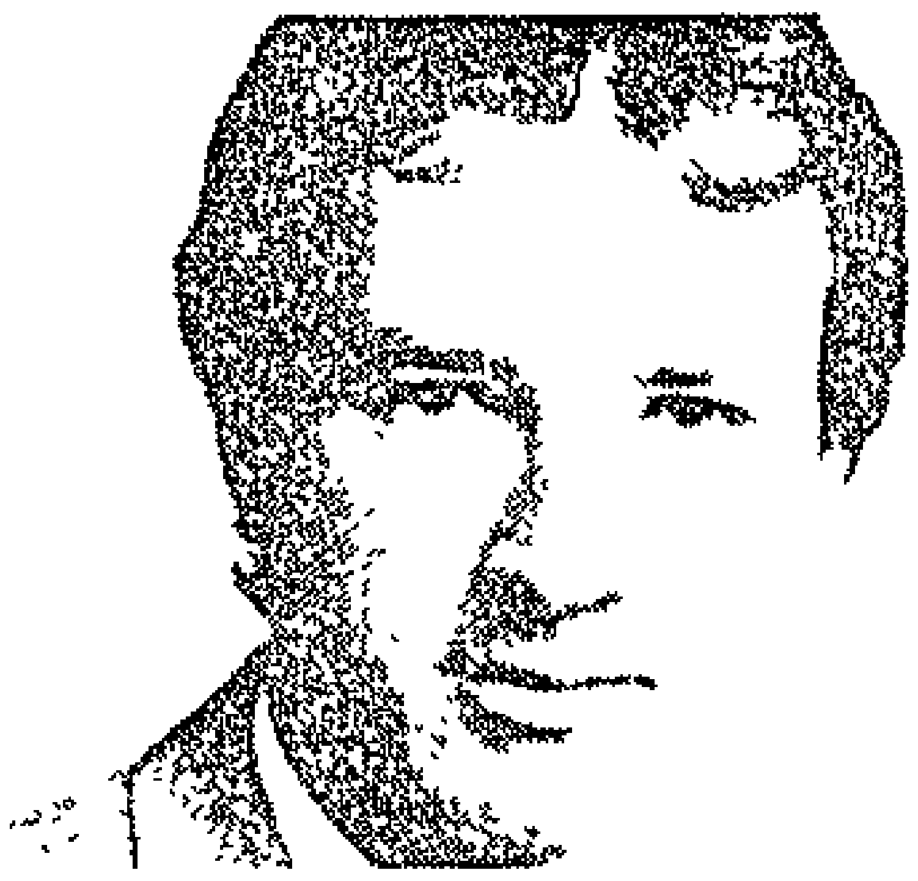
Their suggestions range from that of Mike Daly of Southern Life that Mr Du Plessis abandon his "fetish" about a Budget deficit of 3% of gross domestic product to strong advice from Johan Louw of Sanlam and Jan Sadie of Stellenbosch University that Government dissaving be attended to.

Readers have until Wednesday to submit their Budget Business Times.

The best will be rewa Methuselah (six-litre) monsig sparkling wine. T five prizes for runners-up of 3 l jereboams.

Simonsig's is the wine in SA made by the champenoise method.

Post entries to: If I Business Times, Box 1090 burg 2000, or fax to 011-8 834-1408. The judges' be final (and possibly a



MIKE DALY, Southern Life

THE first significant savings in expenditure on defence are expected in the coming fiscal year as a result of ceased hostilitites on the Namibian border.

In addition, the first significant efforts by the Government to streamline services and false prdouctivity across the board are expected to start showing results.

Any attempt to use the savings to reduce the (admittedly high) level of Government expenditure in the economy should be postponed in favour of raising the allocation of funds to other key areas.

These include national education, particularly black teacher training, remuneration of educationists, police and the nursing profession. A zero real increase in overall expenditure, or a 13% increase in nominal terms, should be aimed at.

It is certain that the deficit before borrowing in the current year will show another huge drop as a percentage of gross domestic product (GDP) to 3% from more than 5% in 1987-88, which in rand terms will become R7-billion.

Revenue should be budgeted at a level which allows a significant rise in this deficit to R9-billion — R10-billion, or 3,5% of expected GDP. The 3% GDP number has become a fetish in recent years and is unnecessary because Government debt has fallen sharply as a percentage of GDP from 41% in 1978 to 34% in 1988 in spite of deficits averaging 3,5% of GDP in the past decade.

Dropping the obsession with a low deficit will allow tax cuts to be made that last year could not be "afforded".

The first priority is to lower individuals' marginal tax rates to avoid yet another real rise in the direct tax burden and in bracket creep.

Second, the import surcharge should be reduced sharply.

Tax relief for individuals

NICK BARNARDT TrustBank

I WOULD give tax relief to the individual taxpayer.

To encourage savings, I would remove tax on interest income.

Funds should be devoted to a national campaign for numeracy and literacy and to a read and write campaign.

We should give financial incentives to limit family size.

We should devote funds to a national electrification campaign.

To head off political and social unrest at this delicate stage, there should be cheap but effective job creation programmes.

Inducements for savings

JOHAN LOUW, Sanlam

I WOULD present my proposals so that the Budget was moderately restrictive on the whole because the economy has not yet cooled sufficiently.

I would certainly not rely on any sharp rise in the gold price.

In conjunction with this:

- I would cut Government expenditure to a level which would represent a decrease in real values (defence expenditure will drop steeply, while spending on education will be increased drastically); and
- I would strive to bring about a reversal in dissaving by the Government. I would keep the deficit before borrowing as low as possible — say, R7-billion, which would be 2,5% of GDP — and finance it in a non-inflationary way.

I would lower the surcharge on imports since this measure has not really proved to be effective in limiting imports and also because they are starting to fall in conjunction with a slower growth rate in the economy. A reduction in the surcharge would also have a positive effect on the inflation rate.

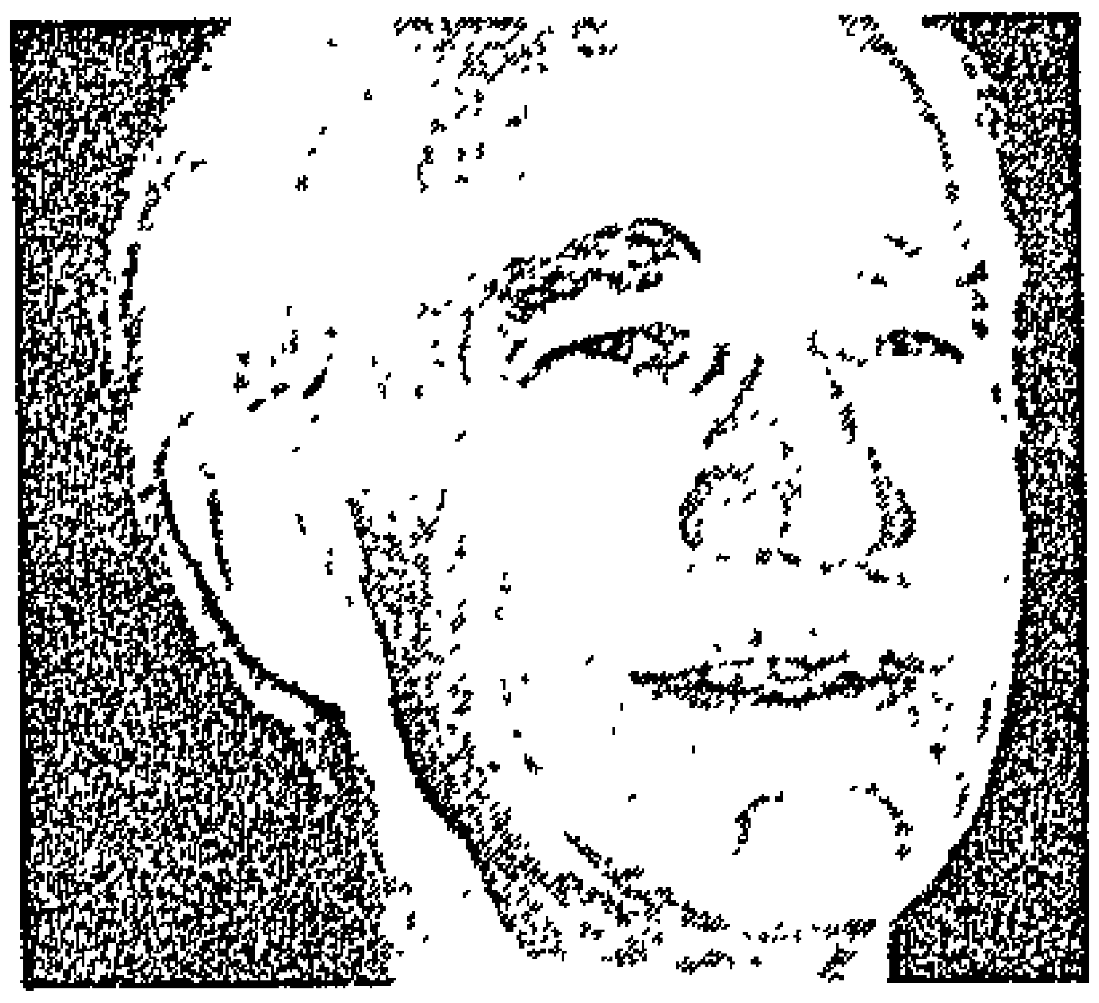
I would announce guidelines regarding the taxability of capital gains and I would also try to reduce the burden of individuals by adjusting the tax scales to allow for the effect of bracket creep

Another important goal would be to stem the acute deterioration in our personal saving. I would therefore:

- Raise the amount in interest income exempt from tax from R1 000 to at least R1 500; and
- Sharply increase the maximum of contributions to retirement annuity funds which are deductible from income.

I would give generous increases to social pensioners who are helpless in the face of inflation.

Vain hopes for tax cuts



JAN SADIE, BER, Stellenbosch University

I SINCERELY regret that, as a result of the pre-election promises and, more recently, the announcements about the restructuring of the Defence Force, the public was led to believe, and hopes were raised, that there would be significant tax relief in the offing.

Anybody who is conversant with the economic realities and the economic demography of this country would know that this is an impossibility in the long run. Whatever the taxpaying public might make on the swings the roundabouts. For prospect there are three sons.

First, for many years has not been paying its since 1984, the Govern rowing to the tune of defray current expenses.

That means that future to fork out more than R1 year merely to service in the process.

When we tried to reduce was capital projects trenched, which of nothing to the reduction deficits.

It must, therefore, be ever financial leeway mitted, its first priority the rot and, at best, to which can be used to fi ed capital formation. T ing recipe of yesteryear anti-cyclical policy, not cess.

Second, the Gover support and facilitate international debt by mechanism which consists savings over investment.

So far fiscal activity impeding the process. T the balance of payments which, in the result, did desired level, had to be most undesirable policy able throttling the shows some reasonable

The latter had to be the only policy tool at also one of the worst: rate to dizzy heights.

Politically, a rise in the gage does sound better in taxes; but it reduces power of households no selective, and gives a to the rate of inflation.

Third, the most South Africa is that the responsible for 90% of numbers and due to be future for an equivalent rising expenditure on housing and social some 31% of personal contribution of appro

y seven economists

ADERS

dget suggestions to
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most profound fact of life in
is that the population group
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due to be responsible in
equivalent relative share in
on education, health,
social welfare, earns only
personal income. It makes a
of approximately 19% to government revenue, and has a rapidly diminishing portion of its labour force employed in the modern sector.

Because of rapid urbanisation, rising school grade survival and entitlements, the increase in service demanded from the Government is exceeding the population growth rate.

The latter exceeds the growth rate of the GDP, or whatever other index of economic change is used. In per capita terms, this group, if not the total population, is becoming poorer.

To expect a reduction of the tax burden (not to be confused with a change in tax structure) in these circumstances is imagery in futility.

Brakes to be kept on

DAVID MOHR
Old Mutual

ON cyclical considerations, mainly driven by the capital account of the balance of payments and inflation at this stage, the Budget has to fall into the neutral to restrictive category — domestic demand should not receive a fiscal stimulus, directly or indirectly.

To begin with, I would use any surplus from the previous fiscal year to reduce the State's outstanding debt to the Reserve Bank. I would also adhere religiously to the three goals of fiscal policy, namely:

- No real growth in Government spending (preferably a decline in current spending.
- No dissaving (in other words, equate current spending to current revenue).
- A Budget deficit of less than 3% of GDP. This will naturally follow from the abovementioned goal because at present the capital spending Budget is less than 3% of GDP.
- On a longer-term structural basis, I would address the educational and training needs of the economy, bearing in mind that these are not only solved by increasing teachers' salaries.

In addition, I would focus on urbanisation-type investment, such as housing. I would limit the rise in the total salary bill to below the expected increase in nominal GDP (plus-minus 15%), but not announce any general increase and instead concentrate on differentiation.

Scope for increased spending in certain areas should originate from spending cuts in others, such as defence.

Within this framework, assuming a defence spending cut of 25% (such an approach appears realistic) and working on a reasonably conservative estimate for revenue (about 14% on an unchanged tax base) and a spending increase of 12% the Budget deficit should be less than 3% of GDP.

Such a scenario would leave limited room for tax cuts. The first priority should be to provide some relief from fiscal drag. Furthermore, the twin goals of a sound balance of payments and lower inflation must be addressed.

Tax on interest income should receive attention (either a low source-based tax, i.e. financial institution collects the tax directly from the individual, or significant tax relief in respect of interest income earned).

Lastly, any further scope (if it exists) should be used to reduce import surcharges — preferably to be abolished, but if this is not possible, then at least a lower uniform rate.

The finance of a Budget deficit lower than 3% of GDP would not be difficult.

Disciplined — and bold

DENNIS DYKES, UAL Merchant Bank

FOLLOWING the bold political moves by President De Klerk it would be refreshing to see a bold Budget.

The Minister of Finance's first step should be to neutralise the large Government cash surplus which has resulted from higher-than-expected revenue receipts in 1989-90 (and not, unfortunately, from lower spending).

Paying off some of the forward-exchange losses would be an effective way of removing the temptation of spending the money later in the year.

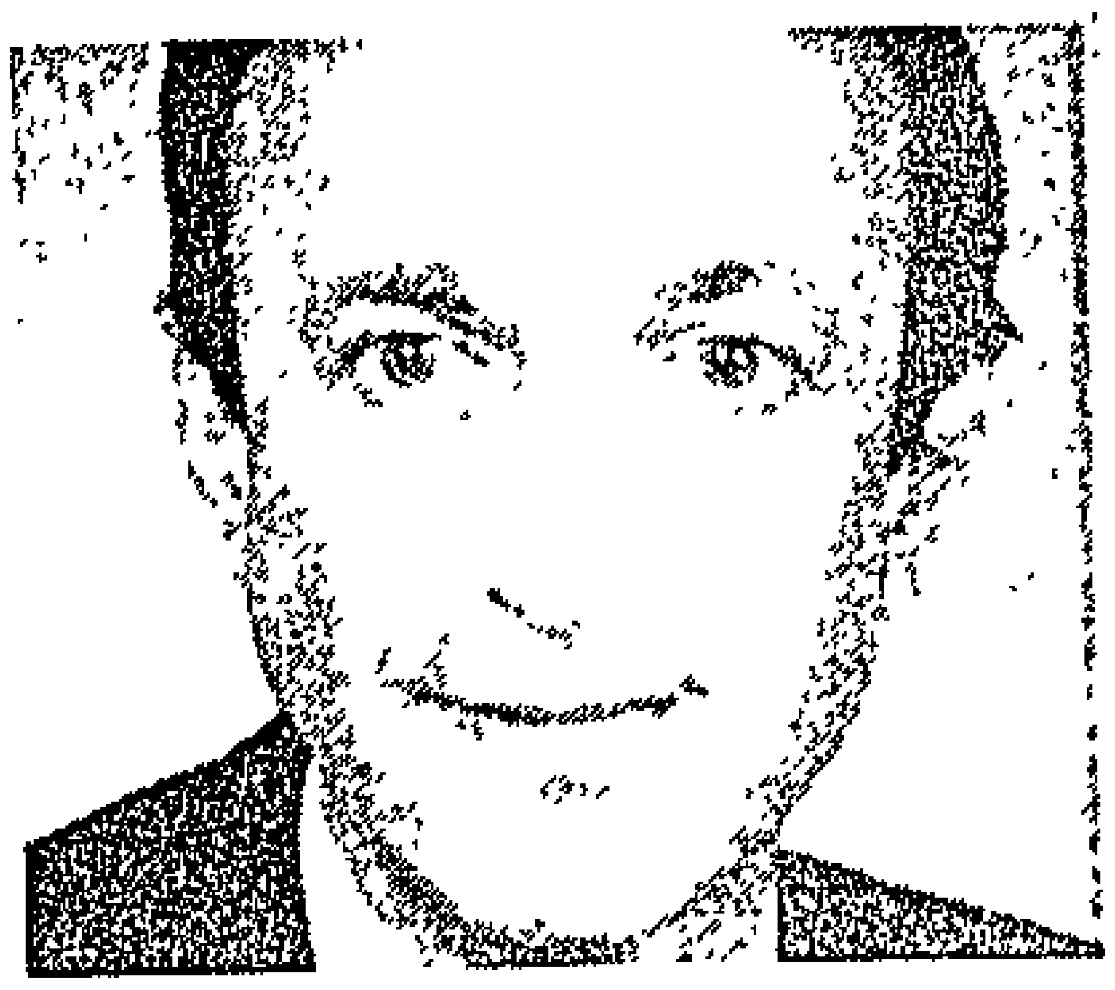
The main task on the revenue side should be to start simplifying and reducing direct personal taxation. The import surcharge is in danger of becoming institutionalised and should go before it affects SA's longer-term competitiveness.

Clarification should also be attained about issues such as capital gains tax and the phasing out of taxation on savings.

Any tax reductions would have to be matched by spending cuts — otherwise the Budget could be too expansionary. Total expenditure must be curbed in real terms, defence taking the brunt, but education, police and health gaining an increasing share of the pie.

The Budget should send a clear message to the markets that discipline will be maintained. However, the overall impact should not be too contractionary, given the sensitive political climate and the possibility of a recession developing later in the year if any of the currently fashionable assumptions — higher gold price, reduced foreign-debt commitments — prove too optimistic.

Opportunity for everyone



AUBREY DICKMAN, Anglo American

THE Budget encapsulates the essential economic problem: resources are limited, wants are unlimited.

Expectations that spending in socially desirable avenues can be accelerated or the burden of taxation alleviated as a result of trimmed defence and other non-productive allocations will have to be tempered by two underlying constraints.

First, the precise nature of the savings that can be effected in the coming fiscal year and, second, the priority that can be accorded to competing claims in the light of structural defects and the overall cyclical position. A careful balance will have to be struck between meeting social needs and reinforcing the foundations for sustained growth.

This Budget cannot achieve all these ends simultaneously, but it can instill a firm sense of direction, consonant with broader socio-political initiatives.

Last year's Budget review contained the remarkably prescient observation that the decade drawing to its close would witness the demise of central planning, already apparent in the disarray of the doctrinaire Left.

The Government had started to curb the role of the State in order to set the people free. Let the 1990-91 Budget build on the liberal philosophy in line with the worldwide rejection of a malign ideology. All planned spending and tax changes must be conceived within this context and the commitment to freedom of opportunity and sound development for all.

Foreign selling depresses JSE

STAR 14/2/90 (49)

By Sven Lünsche

Shares continued to slide on the JSE yesterday, as Nelson Mandela's call for the nationalisation of key industries, including mines, reversed the recent wave of foreign investor interest.

Ignoring a slightly weaker financial rand and firmer precious metal prices foreign selling pushed down the overall index a further 59 points to 3214, following Wednesday's 68 point plunge.

Mining shares have been at the core of the selling wave. Following Wednesday's 82 point slide the all gold index yesterday shed a further 61 points at 2029.

Gold share prices have tumbled on average by 6,5 percent in rand terms this week, but the drop in dollar terms is much greater because the financial rand has weakened by about 10 percent over the same period — the finrand yesterday closed at R3,45 to the US dollar.

The overall effect is that in dollar terms local gold shares have lost over 15 percent of their value and analysts fear that the slide could continue.

"Many foreigners have taken fright after Mandela's call for the continuation of the armed struggle and the nationalisation of key industries and are selling golds," one dealer said.

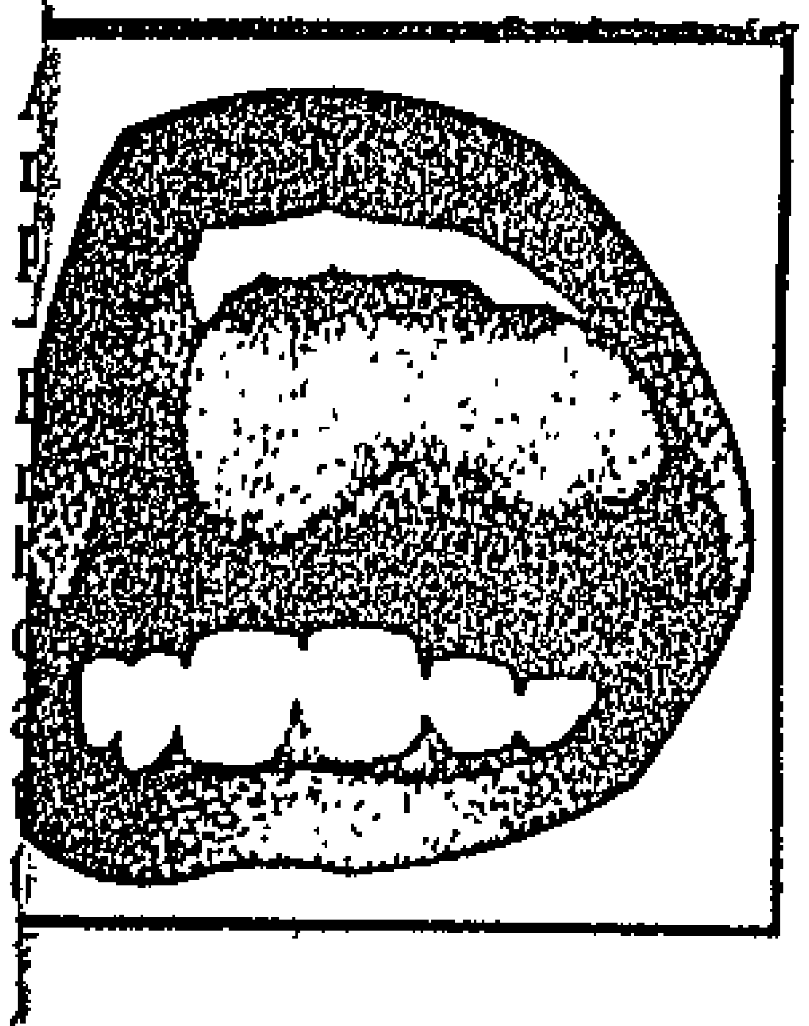
The sluggish performance of gold shares has also been ascribed to the failure of the gold price to breach the crucial $420 to $425 levels.

Bullion yesterday rose to about $421 in early London trading, ironically on fears that ANC nationalisation of the mines would disrupt supply of the metal, but it failed to hold that level and fell to an afternoon fix of $418,25.

The setback occured as analysts took the view that Mr Mandela and the ANC were positioning themselves ahead of future negotiating talks and would in the end abandon the idea of nationalisation.

Neil Behrmann reports from London that uncertainty about the coming negotiations and reaction to Mr Mandela are just excuses for gold's setback.

Far East and Middle Eastern demand has sagged, whilst South American central banks, notably Brazil and possibly Colombia have stepped up sales of bullion. The South African Reserve Bank and the USSR have also been active sellers at higher prices, say dealers.



STAR 14/2/90 (49)

Govt advisers want more land for black farmers

Two top Government advisers yesterday called for blacks to be allowed to enter the farming industry on a larger scale than at present.

Mr Warren Clewlow, chairman of the State President's Economic Advisory Council, and Dr Simon Brand, chairman of the Development Bank of Southern Africa, both told the Agricultural Outlook Conference of the need for agricultural land to be made available.

Dr Brand questioned agriculture's contribution to the economy from an equity point of view, particularly distribution of "welfare or prosperity" between different groups.

Dr Simon Brand.

"Agriculture appears to have played a constructive role in economic development in ways specifically related to local economic circumstances. Questions do arise, however, about the nature of the past contribution and its sustainability in the future."

He said one of the inequalities existing in agriculture at present "has been the access to land as determined by the Land Act, the Subdivision of Land Act, and other legislation restricting free access to agricultural land in South Africa.

"Without going into the political or social aspects of the matter, it must clearly be expected that this question of the distribution of access to land between different groups will increasingly become a burning issue in respect of the rural areas, as it has already become in respect of urban areas."

Dr Brand said the issue could become "emotional . . . especially when linked to radical proposals for land reform."

He added that if restrictions were relaxed "it need not necessarily have a negative effect on production and the efficiency of resource use in agriculture as a whole." It could even enhance the industry, particularly is access to farm support services were provided — something which is only supplied in limited form at present.

"Such a pattern of development is also likely to have a positive impact on employment generation in agriculture," Dr Brand said.

Mr Clewlow told the conference, attended by 300 top agricultural experts and marketing executives, that "as political reforms continue, black people will gain ownership of agricultural land, possibly legally. There will be a huge demand for many black small farmers to be accommodated."

Existing land currently deemed to be "unproductive" could be handed over to "peasant farmers" who would be able to make use of modern bioengineering.

B/Day 14/12/90

(49)

Concern over correct 'mix' of labour, capital

SA's economic policy makers have been concerned with the "correct" mix of capital and labour to produce SA's GDP for some time now, which partly reflects worry about unemployment. They are keen to remove distortions in the relative prices of the two factors of production.

The preoccupation with the use of capital relative to labour was recently highlighted in the tightening of the tax write-offs against depreciation of capital assets. Deputy Finance Minister Org Marais said capital was too cheap in relation to labour — and a stricter depreciation allowance was a move to a "more correct" price.

Manpower

Reserve Bank senior Deputy Governor Jan Lombard often said capital, the scarce production factor relative to labour, had been priced too cheaply because interest rates had been negative in real terms. Arguing this had resulted in a wasteful application of domestic savings, he said it had "seriously distorted the capital-labour·ratios in the production processes. The outcome was lower employment, albeit at higher rates of output per worker, and a serious drop in capital's productivity."

Because capital was priced too cheaply, investment had been aimed at replacing manpower rather than increasing production and was aggravated by an overvalued rand.

"For an economy like SA, with its rapidly growing urban labour force and the heavy demands on its domestic savings, this trend is obviously heading in the wrong direction."

GRETA STEYN

Concern about the "correct" mix of capital and labour in production was echoed by Bank Governor Chris Stals in his speech at the Financial Mail investment conference. It was used as an argument for positive real interest rates. However, some economists, including finance special adviser Japie Jacobs, argue that care must be taken not to understate the cost of labour when looking at relative prices of labour and capital to explain the mix. The argument is that the cost of industrial action such as strikes and stayaways should be added to wages to determine the cost.

Nedcor's Edward Osborn said it was unlikely too-low real interest rates had resulted in distorted capital-labour ratios — inflation relating to capital equipment had been so high that the interest rate factor could not have had this influence.

"It is more likely that the increasing cost of labour and the problems of dealing with unions have contributed to the trend. Otherwise the driving consideration with regard to the capital/labour mix is that of technology and efficiency."

Marais notes pay rises exceeding productivity increases can lead to labour being replaced by capital.

"The imbalance between wages and productivity has the negative effect of capital deepening replacing semi-skilled workers and increasing the demand for professional labour."

The mix of production capital and labour was probably the result of a number of factors — interest rates, wage rates, labour productivity, inflation and the exchange rate.

In the early '80s, SA was replacing labour with capital at a breathtaking pace. According to National Productivity Institute figures, the index for the capital-labour ratio (base 1985) in the manufacturing sector jumped from 86,5 in 1982 to 95,3 in 1983 and 100 in 1985.

There has subsequently been a sharp turnaround — ascribed largely to higher interest rates in 1985, a lower rand and a stagnant fixed capital stock. In 1986 the capital-labour index for the manufacturing sector declined to 97,6 and continued down to 91,1 in 1988. In this period, labour inputs remained relatively constant while capital inputs dropped.

Additional

In the manufacturing sector, fixed capital stock has declined in real terms every year between 1985 and 1988. Spending on fixed investment during the past upswing was largely to replace obsolete capital stock.

The ratio of capital-to-labour improved; but there was no meaningful increase in the employment of labour. The improvement lay in a more productive employment of capital.

Nedcor's Osborn predicts additional production in the mining and manufacturing sectors will not result in proportionate increases in employment. The additional production is likely to flow in the main from capital investment because of technological and efficiency considerations.

The current focus on the capital-labour mix serves to highlight that the formal sector does not provide nearly enough jobs to absorb the growing number of job seekers. This is likely to be the case even if distortions in relative prices are removed.

Goal of social and economic upliftment

[redacted] **Business Day Reporters** (49)

HISTORY had shown that apartheid stifled growth, created mass unemployment and led to a situation that undermined living standards of the majority of the people, both black and white, ANC leader Nelson Mandela said yesterday.

He told more than 120 000 people packed into Soccer City in Johannesburg that only a participatory democracy involving all the people in the structures of decision-making at all levels of society could ensure that this was corrected.

"We will certainly introduce policies that address the economic problem that we face." BDay 14/2/90

He said the ANC was just as committed to economic growth as present employers claimed to be, but was also committed to ensuring that a democratic government addressed the inequalities caused by apartheid.

Much debate had been sparked off by the ANC policies on the economy relating to nationalisation and the redistribution of wealth, he said.

"We believe that apartheid has created a heinous exploitation in which a racist minority monopolises economic wealth while the vast majority of oppressed black people are condemned to poverty."

Expressing his alarm at the high crime rate, he said he was disturbed that there were "those who say they are part of our movement, who hijack and set alight vehicles — they are criminals".

He said SA was a wealthy country which had been built up by the labour of black workers who could not be excluded from sharing in the wealth.

"Our people need proper housing not ghettos like Soweto. Workers need a living wage and the right to join unions of their own choice and to participate in determining policies that affect their lives."

He called on employers to recognise the fundamental rights of workers and added that SA was marching to a new future based on foundations of mutual respect achieved through bona fide negotiations.

The ANC patriarch went on to urge all workers, black and white, to join hands in Cosatu.

On the issue of education, he said: "The crisis in education that afflicts us demands

☐ To Page 2

Upliftment

BDay 14/2/90

[redacted] (49)

☐ From Page 1

special attention. The education crisis in black schools is a political crisis, it arises out of the fact that our people have no vote.

"Education is an area that needs attention from all our people, students, paents, teachers, workers and all other organised sectors of our community. Let us build a united teachers' organisation, parents and inter-student organisations and the National Education Crisis Committee."

Mandela also condemned harassment of innocent people in the name of the struggle. "Our victory must be celebrated in peace and joy. I call on our people to take decisive action to end the mindless violence."

Mandela again addressed the issue of white fears, saying: "I am as opposed to black domination as I am to white domination. We must clearly demonstrate our goodwill to our white compatriots.

"A new SA has to eliminate racial hatred and suspicion and secure for all, peace, security and prosperity."

He called on whites to join the struggle for one man, one vote, based on a common voters' roll.

'Nationalisation naive, irresponsible'

Govt delivers first response to Mandela

BDay 14/2/90

(49)

MIKE ROBERTSON

CAPE TOWN — Nelson Mandela's comments on nationalising mines and other sectors of the economy were naive and irresponsible, Constitutional Development Minister Gerrit Viljoen said yesterday.

However, delivering government's first considered response to Mandela's pronouncements since his release, Viljoen also welcomed the ANC leader's commitment to find a solution that addressed white fears of black domination.

That, in addition to the warmth and generosity Mandela had displayed towards President F W de Klerk, Viljoen said, boded well for future negotiations.

Viljoen said that despite Mandela's reaffirmation of support for the armed struggle, he believed it was clear the ANC leader was in favour of peaceful solutions.

He said Mandela's speech on the day of his release and subsequent statements had clearly been made within the confines of existing ANC policy.

"Much of ANC policy dates from a few decades ago and stands in need of urgent revision, in the light of recent developments in SA."

On the eve of the ANC executive's meeting to decide on a response to recent actions by government, Viljoen said there was need for the organisation to match the large strides government had taken with meaningful steps.

He called on the ANC to re-assess its position on sanctions as well as to display a clear willingness to enter discussions with government to remove remaining obstacles to negotiations.

Viljoen said he believed the violence at Sunday's rally on the Grand Parade here resulted from problems with crowd control rather than any willful action on the part of the ANC.

Asked if there was common ground between government and the ANC, Viljoen said: "I would say yes. I was particularly impressed by the formulation which Mandela used to couch his reply regarding concerns of whites... That statement bodes well for frank and reasonable discussions in the negotiation process."

But, attacking Mandela's statements on nationalisation, Viljoen said the NP would use the political terrain to pillory the ANC's economic policies.

● See Pages 3, 4 and 13
● Comment: Page 12

He believed the debate on economic policies was strongly loaded in favour of those who believed in a market-oriented system which took into account the need to improve the quality of life of disadvantaged sections of the community.

Government accepted the need to expand services provided to communities that had been disadvantaged in the past. But, this could only be achieved by a strong economy which created the additional wealth needed for such advancement.

Nationalisation would result in a one-off redistribution. Thereafter those industries would run at a loss and the state would be distributing poverty rather than wealth.

Asked to explain what form minority guarentees could take, Viljoen said the NP

☐ To Page 2

Response

BDay 14/2/90

had no specific proposals at this stage.

But, what it was looking for was a meaningful guarentee for minorities, expecially whites, in regard to certain vital decisions.

Viljoen declined to say what actions government would take now to keep the momentum towards negotiations going.

Much, he said, depended on the ANC's response. Government believed the organisation should be given a chance to consider this, but its eventual reaction would determine what the next steps would be. "I hope they will be sensible," he concluded.

KIN BENTLEY reports from London that Foreign Minister Pik Botha continued government's conciliatory approach to the ANC, praising statements by Mandela as moderate and balanced.

He told British television viewers that government accepted that any future constitution had to have majority support.

Botha also indicated that issues such as the release of political prisoners and the return of exiles would have to be resolved before negotiations could start.

In the BBC's Panorama programme, broadcast from Johannesburg late on Mon-

(49)

☐ From Page 1

day night, Botha said Mandela's initial speech in Cape Town was "a moderate, balanced statement for a man who hasn't had freedom for 27 years".

Asked about Mandela's continued commitment to the armed struggle and sanctions, Botha said: "I expected it. I really believe we should look at his statement as a whole and not pick out individual sentences...

"Also his press conference. Basically he committed himself to a peaceful resolution of the country's problems. He stated categorically that he fought white domination and he fought black domination. I think when he says that he hopes, soon, that the state of emergency will be lifted, implies that the ANC would then also change their position.

"Mandela has a constituency. He had just received his freedom. He stated categorically that he would first wish to consult with his followers and ... with people in executive positions in the ANC.

"All of these things taken together mean one thing: that he would wish to achieve reconciliation."

Yes, Mr Slovo, modern socialism has indeed failed

B/Day 14/2/90

MICHAEL O'DOWD

(49)

JOE Slovo, secretary-general of the SA Communist Party, asks "Has socialism failed?"

To answer his question, we have to decide both what we mean by "socialism" and what we mean by "failed".

As to the first, it is perfectly clear from the excerpt of his paper published in Business Day on February 8 that Slovo means the Marxist variety of socialism that used to be known as communism. The followers of this doctrine have always denied that the system practised by Harold Wilson or Francois Mitterrand was socialism, so for our present purpose we can leave that out of account. It has failed as well but that, as Kipling would say, is another story.

Social systems do not fail in an absolute sense as a bridge might fail; for practical purposes a system fails in competition with alternatives. If the huge majority of those who have experienced a system wish to change it, not just in general terms but for an available alternative, then it has most certainly failed.

In that sense, slavery failed and apartheid has failed and Marxist socialism has failed.

Slovo sets out most of the recent evidence of this fact, but the rejection of socialism by those who have experienced it is not a sudden event of the last few months. It was not for fun that from their first inception communist governments denied genuine elections to their people.

What has happened recently is not that the people of Eastern Europe have changed their minds about Marxist socialism but that for the first time they have been allowed to speak their minds. We may recall, as Slovo does not, that revolts against the communist regimes in East Germany, Hungary and Czechoslovakia have at different times been put down by the Russian army with great bloodshed.

More people were killed in Hungary in 1956 than have died in civil disturbances of all kinds put together in SA since the end of the SA War.

The evidence that the rejection of socialism in Eastern Europe is of very long standing is provided not only by the absence of genuine elections in these countries from 1945 until late last year but by the restrictions all of them, excluding Yugoslavia, imposed on their people leaving their countries.

The Berlin Wall, which stood not just around West Berlin but all along the 1 000km frontier of East Germany, was put there at great expense, both material and moral, to prevent people from voting with their feet against Marxism after 5-million Germans had moved from East to West Germany because they preferred to be workers under capitalism (and presumably, according to Slovo, to be exploited) rather than workers under socialism.

One of the greatest problems for all Marxist apologists is why no significant number of people seem to want to move from capitalist to socialist countries. Why did the Soviet Union and East Germany fortify their frontiers to keep people in while the US is engaged in a large-scale but very unsuccessful attempt to keep people out? Why do the 6-million people of Hong Kong, presumably, according to Slovo, exploited, not all run away to Red China? If West Germany, with 60-million people, could absorb 5-million refugees, surely China, with 1 000-million, could absorb 6-million? The movement is the other way and Hong Kong, too, has to keep people out.

Slovo proposes a new and absolutely unprecedented form of Marxism, which adopts a large number of institutions and practices, which he himself, and his friends, have spent their adult lives denouncing as bourgeois and capitalist: among others, freedom of speech and association, freedom of conscience, free trade unions and multi-party democracy with regular genuine elections.

Their past criticisms are correct. These things are capitalist. They came into existence in capitalist countries following the rise of capitalism, and they have never existed anywhere in the world except in predominantly capitalist countries.

Slovo apparently still holds a high opinion of Lenin but it was Lenin, not Stalin, who in Russia overthrew by force the only democratically elected assembly that has ever been held there (in which his party had received about a third of the votes) and instituted a one-party dictatorship, suppressed freedom of speech and worship, subjugated the trade unions and shot strikers.

In terms of Slovo's new vision, it would be interesting to know what Lenin ever did right.

Slovo's startling conversion to bourgeois values puts him back in the position the Marxists were in before the Russian revolution, when socialism was validly criticised as being mere utopian dreaming. Its critics said that it could not work.

The reason why Marxists all over the world were such enthusiastic admirers of Stalin is that he proved what passed for socialism could work. Stalin produced a quite respectable amount of economic development in Russia.

But Stalin produced his results by his methods, not by means of a multiparty state, with freedom of speech and association and free trade unions. Only capitalism has produced high rates of growth combined with these institutions.

What Slovo would have us believe is that Lenin, Stalin, Mao, Pol Pot and Castro were just foolish and misguided and that he knows better (that is, if he really means what he says. Some of these others also made promises when they achieved power very different from their practices when they achieved it.)

I think rather that they were merely realistic. They did what they had to do if they were to secure and hold power in terms of the Marxist ideology. The world has seen only one form of Marxist socialism and there is no historical evidence whatsoever to suggest that any other form is possible.

There are a number of reasons for this but I will refer here only to two. The first is the impossibility of exercising civil rights when the government has the monopoly of all forms of power, including the control of all media of communication and all places of assembly. How are the free trade unions going to fare dealing with a single monolithic employer which also owns every newspaper, radio and television network and indeed every printing press, owns every meeting hall, owns every bank, so that trade union funds are in the employer's hands, and is the landlord of every worker and every trade union official in his private dwelling, in addition to controlling the police force?

Trotsky (no less) said: "When the state is the only employer 'he who does not work shall not eat' comes to mean 'he who does not conform shall not eat'."

The second, and in the long term far greater problem, is the stifling of initiative and progress implicit in Slovo's hatred of "profit".

Profit is what comes about when anybody creates new wealth by ingenuity or innovation. One of the most remarkable things about the 40 years in which Marxist socialism has coexisted on a large scale with capitalism has been the way in which the socialist world was parasitic on the capitalist world.

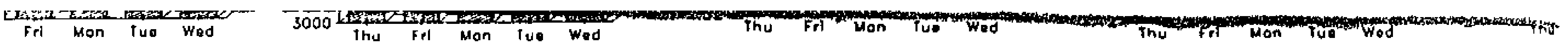
The Soviet Union and Tanzania had to be fed with capitalist food. For years the governments of Poland and other East European countries were kept afloat by loans from Western capitalist banks. (Was this exploitation?) But these facts pale into insignificance compared with the way in which the socialist world depended on the capitalist world for innovations, following in its footsteps, buying, borrowing and copying its technology.

Without dictatorship and terror, a socialist state stagnates and becomes steadily poorer. This has been the fate of Yugoslavia which has become steadily poorer relative to all Western countries, and also to Turkey, over the past 30 years.

Yugoslavia has kept going only by sending large numbers of migrant workers to West Germany. Presumably, in Slovo's terms, they are exploited there. Perhaps that is why they did not go to East Germany or to the Soviet Union, which would not have been prepared to exploit them. But what would have become of them if nobody had been prepared to exploit them at all?

If, as Slovo apparently wants us to believe, the workers of Switzerland are exploited and the workers of Romania are not, perhaps exploitation is not such a bad thing after all.

☐ **O'Dowd is a director of Anglo American and chairman of the Anglo American and De Beers Chairman's Fund.**



Share prices crash on overseas sell-off

STAR 15/2/90 (49)

**By Magnus Heystek,
Finance Editor**

Overseas selling of South African equities, evident since Monday morning after the release on Sunday of ANC leader Nelson Mandela, turned into an avalanche yesterday, resulting in sharp falls in share prices across the board.

Gold shares were particularly heavily marked down, with the gold index shedding 108 points to close at 1921.

The overall index lost 123 points to close at 3091.

Even industrial shares, which barely ten days ago went into orbit on news of Mr Mandela's release, came in for heavy profit-taking. The index closed 84 points lower at 3051.

Mr Mandela's statements on the nationalisation of mines went down like a lead balloon among international investors.

Since Monday the gold index has shed 250 points, with fears of widespread nationalisation of state and private sector assets by an ANC government taking hold in London and New York.

While local financial markets have been showing distinct signs of nervousness since Monday morning, yesterday's panic selling in the afternoon session caught most brokers and analysts by surprise.

The market was flooded with selling orders from London and New York.

The failure of the gold price to breach the $420 level served convincingly to undermine further the already shaky sentiment towards gold shares, although a measure of support was noticeable during the last half-hour's trading.

Gold was fixed at $416 in the morning session in London but dropped back further to an afternoon fix of $414,60. At the close gold was trading in London at $416,50.

On other finanacial markets the reaction to Mr Mandela's position was the same.

The financial rand gyrated around R3,50 to R3,60 for most of the day, while the bellwether capital market rate of the Eskom L168 rose by another 25 points for the second day in succession to close at 15,75 percent.

The market was described as extremely nervous, with dealers unwilling to take any positions.

Sensible explanation

Analysts were last night trying to put together some sensible explanation for the reaction by overseas investors.

"For years overseas investors have been pressuring the Government to release Mr Mandela. Now that he's released, they're getting rid of our shares at any price," said James Cross of broking firm Fergusson Bros, Hall Steward and Co. He called it "a naive over-reaction".

Most analysts agreed that Mr Mandela's statements on nationalisation should not be taken literally, saying they were bound to be part of the ANC's strategy in the run-up to negotiations.

Ron Klipin, an analyst at brokers Frankel, Kruger Vinderine, was particularly perplexed by the sudden turnaround in sentiment on the part of overseas investors.

"Last week they were clamouring to buy a stake in SA Inc at any cost; this week they are sellers of SA Inc on a massive scale.

"This reaction indicates an enormous amount of naivety on the part of overseas brokers. They are focusing on the negative statements made by Nelson Mandela and are totally ignoring the conciliatory noises he is making."

Local institutions were virtually absent from the market yesterday and Tuesday. But according to some dealers some "nibbling" at selected shares was noticeable later in the day.

But all were unanimous that the market would continue to be uncertain for an indefinite time, particularly with a non-performing gold price.

Genrec acquisitions bear fruit

STAR 15/2/90

By Ann Crotty

Genrec, which is involved in the construction, engineering and manufacturing industries, has reaped considerable benefit from the previous year's acquisitions and reported a 93 percent surge in turnover to R252,7 million (R130,6 million) for the six months to end-December.

Operating profit surged to R8,3 million f)rom R2,9 million and attributable profit was up from R2,9 million to R7,5 million, equivalent to earnings per share of 65c (28) a share.

An interim dividend of 12,5c a share has been declared.

The directors are confident that earnings in the second half will be higher than those achieved in the first.

This optimistic outlook is based on the fact that the tank container export market remains buoyant.

"This, together with the recent award of the Marion draglines and our share of the Hook-up contract for the Mossgas offshore platform, has added in excess of R100 million to the forward order book," they say.

Chin up ... Mr Nelson Mandela grimaces at an assistant attaches a microphone to his lapel before an interview with CBS anchorman Dan Rather in Soweto yesterday.

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3, 16 and 17.

Nationalisation unlikely — Relly

STAR 5/2/90 (4a)

LONDON — There was little chance that an ANC-dominated government would carry out a wholesale nationalisation programme, Mr Gavin Relly, chairman of Anglo American, suggested yesterday.

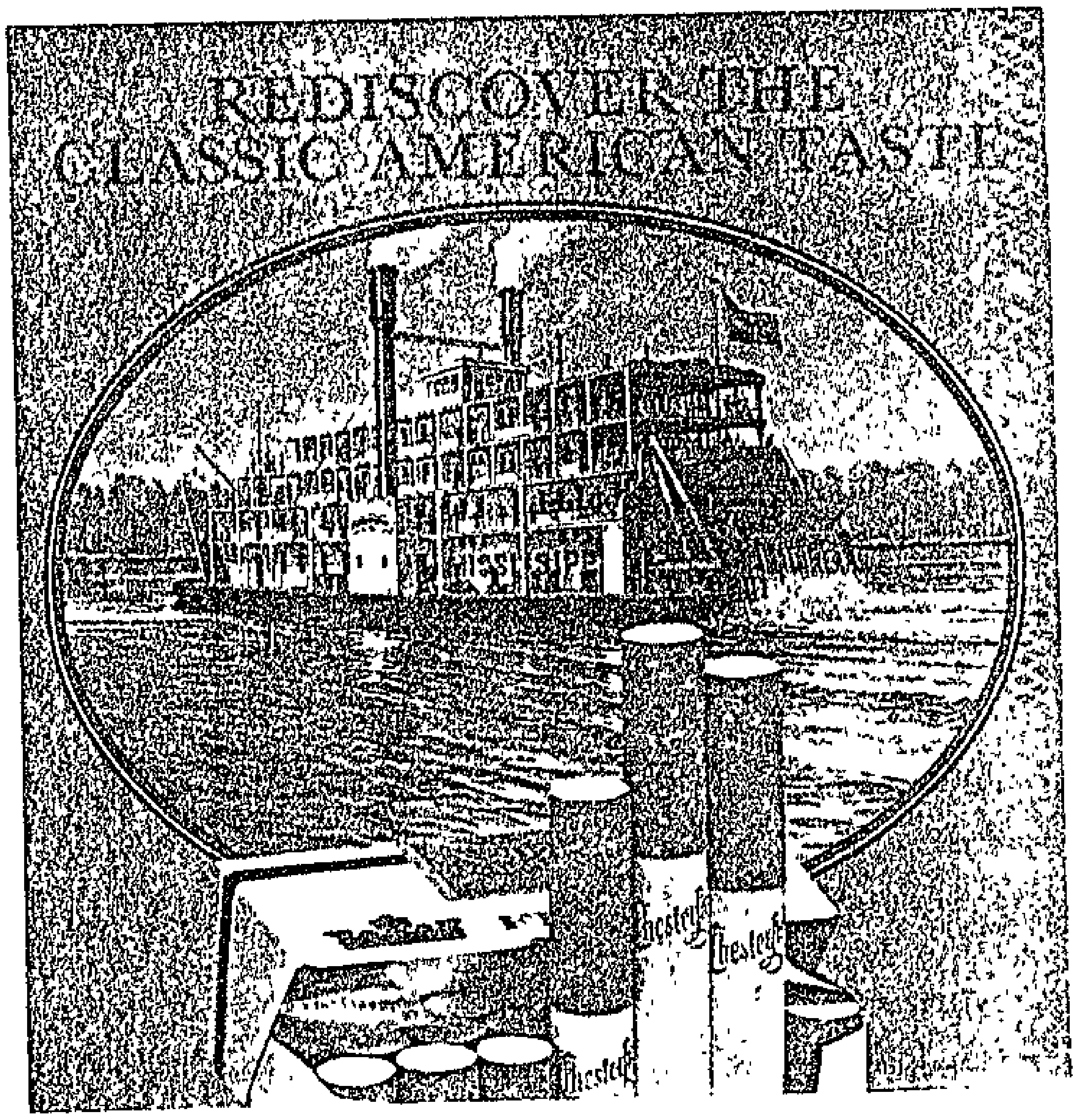
He said his contacts since 1985 with ANC leaders had convinced him their position was that they would do better by private enterprise.

Mr Relly said: "Our neighbours in southern Africa are acutely aware that if the South African economy doesn't prosper they don't have a snowball's chance in Hades."

He insisted that a Whitehall-style democratic government, with its winner-take-all constitution, would not work for South Africa because it would lead to a one-party state and one-party states were economically incompetent.

● United Democratic Front official Mr Terror Lekota told a press conference in Washington the future government would have to nationalise sectors of the economy to raise capital to buy land for black housing and improve education.

Mr Lekota said the UDF was looking to various countries for resources, in particular Britain and the US. It also planned to encourage blacks to occupy empty white housing and Government land in defiance of laws. — Financial Times News Service.



Sowt 15/2/90 (149)

Scuttles of skittish investors

GRAHAM LINSCOTT reflects on sensitive stock markets in the face of populist political speeches.

Former president Mr P.W Botha makes a speech in the Durban City Hall and they have to close the Stock Exchange to halt the deluge of funds from the country.

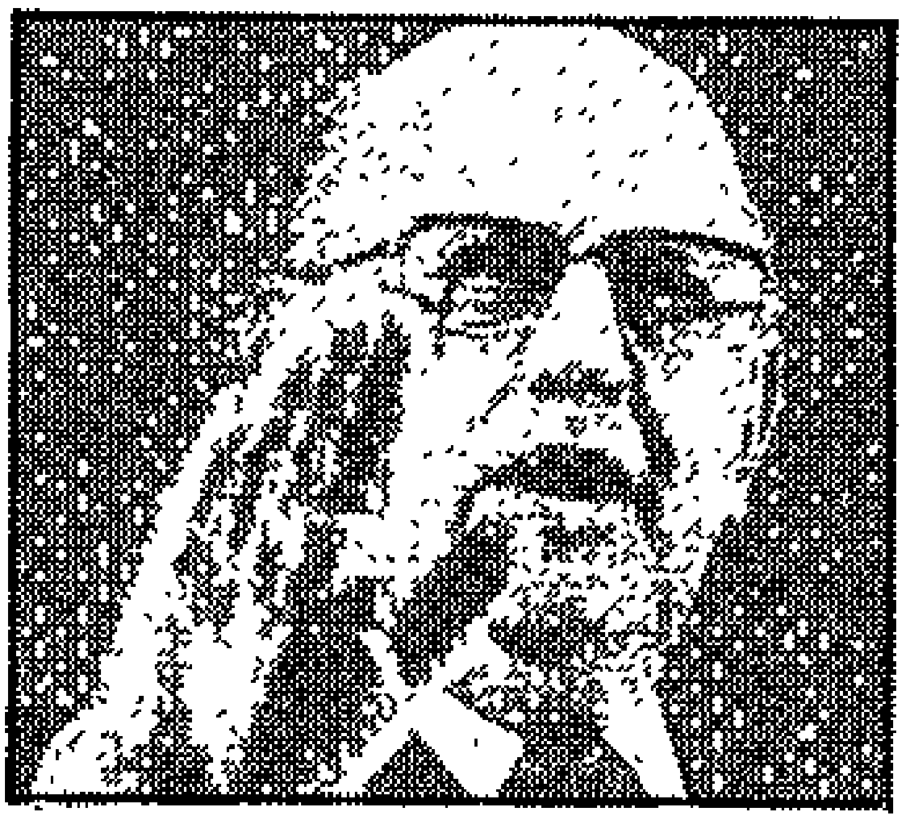
Mr Nelson Mandela makes a speech from the balcony of the Cape Town City Hall and the financial rand plunges 14,5 percent.

I did not think Mr Mandela's speech particularly hardline, given the circumstances (release from 27 years in jail for offences which were trivial in comparison with much of what has happened since), his audience and the fact that with him on the platform were some of the angriest men of South African politics.

But, as with Mr Botha, the television cameras of the world were on him. And overseas investors take no account of the subtle pressures on political figures, the nuances of what they say.

Overseas investors calculate profit against risk. They are highly sensitive to the risk factor, positively skittish. Populist speeches might not be intended for their ears, but they reach them — not least when the vicinity bristles with the microphones of the international media.

Post-apartheid South Africa is going to require reconstruction on a massive scale. Nobody is going to supply Marshall Aid — that is headed for Eastern Europe.



Mr P W Botha . . . a deluge of funds from SA after his Durban "Rubicon" speech closed the stock exchange.

The only way we will attract funds is on our merits as an investment opportunity. Those skittish investors dislike even rhetoric about populist struggle or nationalisation of private sector enterprises. They scuttle away in a trice.

South Africa could obviously be very close to negotiations to set us on the high road. But nothing meaningful can be negotiated in the absence of business confidence and steadily spreading prosperity.

Following from the above, it would surely be helpful if we were not to become bogged down in a national debate over the desirability or otherwise of nationalising such institutions as the mines and banks.

It is not so much that public ownership has proved a disaster in the countries where it has been tried (and there are many, not least the Soviet Union and mainland China).

It is that the question is hypothetical. It implies that the present government is about to negotiate such matters with the ANC.

It surely is not. The Government plans to involve the ANC in constitutional negotiations leading to a new form of government.

It is only once this has been achieved — and it is likely to be a protracted process — that it becomes relevant to debate whether South Africa can become the one spot on Earth where Marxism-Leninism can be made to work.

Meanwhile, investors get the jitters all the same.

Nationalisation unlikely — Relly

STAR 5/2/90 (49)

LONDON. — There was little chance that an ANC-dominated government would carry out a wholesale nationalisation programme, Mr Gavin Relly, chairman of Anglo American, suggested yesterday.

He said his contacts since 1985 with ANC leaders had convinced him their position was that they would do better by private enterprise.

Mr Relly said: "Our neighbours in southern Africa are acutely aware that if the South African economy doesn't prosper they don't have a snowball's chance in Hades."

He insisted that a Whitehall-style democratic government, with its winner-take-all constitution, would not work for South Africa because it would lead to a one-party state and one-party states were economically incompetent.

● United Democratic Front official Mr Terror Lekota told a press conference in Washington the future government would have to nationalise sectors of the economy to raise capital to buy land for black housing and improve education.

Mr Lekota said the UDF was looking to various countries for resources, in particular Britain and the US. It also planned to encourage blacks to occupy empty white housing and Government land in defiance of laws. — Financial Times News Service.

WCTA supports seizing of state assets

Cape Times 15/2/90

(49)

The Western Cape Trader's Association (WCTA) says it fully endorses and supports the ANC's intention as a future government in South Africa to reclaim state assets such as Iscor.

In a statement yesterday, Mr Dawood Khan, spokesman for the WCTA, said his organisation would "go so far as to state that no compensation be made in cases of such reclamation of state assets.

"WCTA also strongly favours a mixed economy with the emphasis on the redistribution of wealth" and will therefore totally support nationalisation".

"As a major player in the economy of the Western Cape, WCTA will ask a future ANC government that the development of the Victoria Basin by a small group of whites for the benefit of a few wealthy whites be reclaimed and nationalised without compensation," Mr Khan said.

● Mr Raymond Parsons, director-general of the SA Chamber of Business said that the ANC's current economic views are hardly a recipe for survival in a highly competitive world.

Cape Time 15/2/90

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Market must adapt to needs of the people

By GORDON KLING
Executive Editor

DON'T blame Nelson Mandela for the alarming slide in share prices on the Johannesburg Stock Exchange since his release.

He has said nothing particularly unexpected, unreasonable or detrimental to the economy. The market should look to itself if Mr Mandela's broad reiteration of ANC policy on nationalisation of the mines and monopoly industries was responsible for the price decline and bear in mind, too, that the JSE is still standing at near record highs.

Who could possibly expect the arguable leader of most South Africans to come out soundly on the side of an institution which far from relating directly to the vast majority of the population, white or black, is effectively dominated by a handful of business magnates?

Latest research by McGregors On Line Information shows that only four groups — Anglo American, Rembrandt, SA Mutual and Sanlam — control 80,7% of the market capitalisation of all shares on the JSE. Only a minuscule percentageof those shares ever change hands in a given year and most of that trade is conducted by the groups themselves. The JSE is, of course, simply a reflection of a badly distorted economy controlled by what is seen by the disaffected majority as an unholy alliance between government and big business; an old boys' club that apportions the wealth of the land according to its own priorities.

Since they effectively own the thing, gloom on the part of big business has to be self-fulfilling on the JSE.

On threshold

Certainly events in Eastern Europe have proven the ruinous folly of communist and socialist centrally planned economies, but the masses in South Africa clearly do not believe they have fared appreciably better under a system masquerading as the opposite. The ANC has evidently not updated its economic policy in the wake of that juddering collapse with its massive implications but, as Alex Irwin, one of its key theoreticians, made clear at Madame Mitterrand's Marly-lé-Roi conference, now is no time for slinging economic rhetoric.

We don't have anything like a genuine capitalist, free enterprise system in South Africa. We have failed totally to involve the majority in the fruits of the free market system. And while it is becoming widely appreciated that the communist economic model could never work, few blacks could be expected to accept that the past 41 years of Nationalist apartheid rule has been a threshold of great opportunity.

So-called capitalism in South Africa hasn't done enough for enough people.

Yet here lies the rub. The system does work. We just haven't tried it, despite the urgings of an almost sycophantic financial Press. Ask yourself: who do your friends work for? If you are white, the overwhelming odds favour the answers government, parastatal or big business. Your financial security is closely intertwined with the performance of mega-taxpaying big business on the JSE, the performance of which also directly affects your pension and insurance policies.

Progress

If you're black, it probably doesn't matter at present and any black leader worth his salt would have to recognise the fact that the performance of the JSE is not the barometer it should be for the economy.

Progress has been made by Anglo American and others on extending the principle and benefits of share ownership to employees but most whites don't own shares in their own or any other company; virtually no blacks do.

So why all the fuss over how the market is doing?

For starters, we ourselves don't generally realise what warped capitalists we have become. If we did we might begin to appreciate that no transition could be much worse financially than what we've had: a pariah economy badly administered by an unrepresentative, racist, minority government on behalf of a hamstrung business clique incapable of generating sufficient growth for reasonable employment levels let alone higher standards of living for those with jobs.

The capitalist West might have understood our difficulties but that didn't make SA a better investment, and if our past performance has bred a backlash against the real thing, the free market system, they would be correct to fear for our future.

And why the grave mutterings in the marketplace over any suggestion of possible action against the big business cartels?

If the American administration could use anti-trust laws to actually break up a gigantic conglomerate such as AT&T, we should be able to withstand the possibility of deconcentration of economic power in the private sec- [illegible] public sector; government no longer relish being saddled with responsibility for unprofitable undertakings, albeit rhetoric to the contrary. Thanks again to the revolution in Eastern Europe, the inefficiencies of big government in the West stand every chance of being seen as less desireable than ever.

Mixed economy

Gung-ho free marketeers don't like the idea of a mixed economy, arguing that the free enterprise system can provide better opportunities and eventually sort out distortions by itself. Correct. But years of unfathomable inequity have debased the ideal, hopefully only in the short term. Instead, the "mix" of the mixed economy is probably what the future is all about and there is every reason to believe it should be an improvement on the phony capitalism of the past.

Nationalisation: taking from the rich to give to the greedy?

B/Day 15/2/90

HENRY KENNEY

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THE market euphoria over President F W de Klerk's speech at the opening of Parliament was immediately and understandably dashed by the ANC's continued commitment to take over most of the economy.

It is especially sad that Nelson Mandela has himself reconfirmed his support for the nationalisation clauses of that ancient document, the Freedom Charter — "the mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole".

Even when it appeared in 1955, the Freedom Charter's economies seemed fairly primitive. (To be fair, a member of the Wits Economics Department has spoken to me with approval of Mandela's reaffirmation of the old-time religion.) But to those who did not know or care about economics, nationalisation seemed a mighty fine thing. It was "simply a world trend", Prof Z K Matthews, the ANC's foremost intellectual and himself no socialist, told the court at the treason trial in 1963.

Now the world trend is quite the reverse, and accelerating. But, like the Bourbons who have learnt nothing and forgotten nothing, the ANC does not weary of repeating the discredited jargon of times past.

There are those, like my Wits colleague, who will not agree with any of this. They will say that if nationalisation has been having a bad Press it is because it has not been done properly. The answer to the ills of state ownership is to have better, more effective nationalisation.

They will argue that, especially in a country with such extremes of affluence and poverty as SA, nationalisation is essential to reduce economic inequalities. The virtual abolition of profits will mean that more wealth will be available for distribution to workers in nationalised industries. Consumers too will benefit in the form of lower prices and better service. Industrial democracy will emerge as workers acquire positions of trust and responsibility in the new public enterprise; their capitalist-induced "alienation" will disappear.

Alas, if the world were so simple, universities would be less crowded with hacks claiming to have special insights into the way it works. The truth is that the record of nationalisation in those countries which have ventured upon it has been wretched in a big way.

In Britain, state ownership has conspicuously failed to bring forth its expected benefits. Captive consumers have had to pay more and not less for the products of nationalised industry. Inefficient management and poor productivity growth have offered few incentives for large investors to acquire assets yielding so poor a return.

Those who did do well for themselves were the workers in state-owned enterprises as their trade unions acquired a monopoly closed shop over the supply of labour vital to key sectors of the economy. But by the same token strikes were endemic to nationalised industry as governments felt compelled to intervene to limit pay rises which crucially affected the economy as a whole.

Not only in Britain, but elsewhere, has nationalisation failed to deliver on its promises. To quote Matthews again: "No, I am not myself particularly enamoured of nationalisation. We have a certain degree of experience of it in this country in connection with the railways. As a user of the railways myself I wouldn't say nationalisation has been particularly successful."

There is no special mystery about the failure of state ownership and the global trend towards privatisation. Managers in public enterprises face different incentives from those in private enterprises. Managerial inefficiency in private firms will be reflected in declining share prices.

Managers will be aware that they are liable to be replaced by an alternative set of managers if they fail to deliver. The market for managers is a powerful incentive to efficiency. It is an incentive largely absent from public enterprise where managers know that incompetence cannot result in a change in ownership. They simply have less reason to perform well. This is also why private monopolies (extremely rare creatures, incidentally) are still preferable to public monopolies.

So we can imagine what will happen if the Freedom Charter shapes economic policy. Costs on the nationalised mines will escalate as a sympathetic government allows for larger pay rises than before. But marginal mines will be kept in operation, at public expense, to prevent unemployment. Profitability will decline and new investment will keep its distance.

Eventually the government will have to intervene to prevent excessive pay rises in a sector so vital to the economy. The industry will become increasingly strike-prone.

For the banks and "monopoly industry" the prospects will hardly be better. By controlling the banking system the government could regulate the flow of credit into "appropriate", bureaucratically approved channels. Loans would be made according to "needs". Ability to repay or to service the debt would become of lesser importance.

As for "monopoly industry", organisations like Anglo American and Sanlam are, of course, nothing of the kind. They are large and diversified enterprises often benefiting from economies of scale. Their transfer to state ownership would in fact do much to promote monopoly.

The truth is that adoption of the Freedom Charter's economic proposals would mean massive state involvement in the economy. Nelson Mandela's apparent continued faith in such a course can most charitably be ascribed to the understandable economic illiteracy of a man who was in prison for too long. Even our Nationalist rulers have only recently begun to display some degree of economic sophistication.

Intellectual error is not so disturbing. People have been known to change their minds. What is really depressing is that the strong support for nationalisation and hostility to privatisation within the ANC and black trade unions may largely be due to the prospect of plunder.

Previous rulers of SA, like the Nationalist generation of 1948, have set a memorable precedent. After their victory the Nationalists set about with a will to make the SA economy safe for the Afrikaner. The size of the public sector expanded steadily. Its composition changed dramatically, so that by 1968 twice as many Afrikaners were in government jobs as before the 1948 election.

But what happened under the Nationalists will seem small beer if the ANC is ever able to implement the economic clauses of the Freedom Charter. Far larger areas of the economy than in 1948 will lie at the feet of a new urban elite eager to get its hands on the swag.

What we are liable to see is the kind of redistribution which may even make interventionist professors from Stellenbosch blanch — in fact, taking from the rich to give to the greedy. Economic growth is bound to be a casualty. The rural areas will become more impoverished as they benefit neither from higher growth nor from a redistribution in their favour.

Had the Freedom Charter been implemented in 1955, SA today would almost certainly have resembled some of the more backward states to our north. Perhaps, after what happened in Eastern Europe, even the ANC is capable of learning from experience.

☐ **Henry Kenney lectures in Business Economics at Wits University.**

LETTERS

Where are they now?

MC45 15/2/90 49

ISSUES

Hugh Roberton

THE mere mention of the word "nationalisation" by Mr Nelson Mandela has sent share prices tumbling on the Johannesburg Stock Exchange and not surprisingly exponents of free enterprise, including latter-day converts in the National Party, have urged the ANC to think again. But their tut-tutting has done nothing to help Mr Mandela and the ANC find a viable alternative to a problem which is encapsulated in the statistic 0,66.

This is the Gini coefficient for South Africa, a formula widely used around the world to measure the degree of inequality between a country's rich and its poor. Of the 57 countries for which statistics existed in 1978, South Africa's Gini coefficient was the highest and, since then, fulfilling the old maxim, the rich have got richer and, relatively, the poor have got a lot poorer.

To think that a future government acceptable to the black majority would not take vigorous and effective steps to redress the balance, is wishful thinking.

Some comparisons used in last year's Second Carnegie Report into Poverty and Development: Almost 98 percent of black households in 1975 had annual incomes of less than R3 000, but only 11 percent of white households had incomes that low. Although South Africa produces enough food to provide well over 6 000 colories per person for the entire population (more than double the recommended level), the death of one out of every seven black children under the age of five is caused by inadequate nutrition.

In 1970 the richest 20 percent of the population (mainly whites) owned 75 percent of the country's total wealth, and while this declined to 61 percent during the 1970s, the total number of poor (mainly blacks) rose from 13-million to 15-million through the natural increase in population.

What all this represents is a daunting political challenge to the ANC (or any other party which would hope to secure the support of the black majority).

It is a challenge proportionately far greater than that which faced the National Party when it tackled the poor white problem in the wake of the First Carnegie Inquiry into Poverty — and about which those NP spokesmen who have raised eyebrows at Mr Mandela's mention of "nationalisation" now have little to say.

The NP's antidote to white poverty was a form of socialism. Massive state-funded industries were launched, which provided employment (and in many cases sheltered employment), housing, medical care, and pensions primarily to whites. The public service, likewise, was relentlessly expanded to the point where, today, one out of every 27 South Africans has a state job — and the numbers keep growing.

Regulation

For decades central planning regulated who could get what jobs, specifically excluding people of colour.

While the Western world moved away from regulation, South Africa, in common with the Marxist countries, moved towards tighter state controls aimed at protecting white interests. After all, how long ago was it that the those bastions of free enterprise, the central business districts, were opened to entrepreneurs of all races?

Even now, when the NP is rushing to change direction, the extent of its past socialist excesses can be seen from the fact that a former state enterprise like Iscor stood fifth out of all the companies on the JSE in terms of taxed profit in the very year of its "liberation".

Perhaps some of those who influenced the contents of the Freedom Charter looked with some interest at the NP's methods of addressing white poverty. After all, at the time of the Freedom Charter's genesis, socialist doctrine still enjoyed a degree of respectability and exponents could point to some modest achievements in the Soviet Union, Eastern Europe — and white South Africa.

But the world has changed and Marxism has been rejected as a means of creating general wealth in those very countries which embraced the doctrine most assiduously.

This, however, does not solve Mr Mandela's and the ANC's problem. They still need to put forward a plausible plan for channeling far more of South Africa's wealth to the black majority — or else, translated into political realities, they will be smartly booted out.

Free enterprise is held up to them as the answer, but as many of the leading exponents of free enterprise acknowledge, the concept does not enjoy a scintillating reputation among blacks.

While some would argue that free enterprise has not been given a decent chance in South Africa and that the country is only just emerging from the Marxist-like shackles of the past, the fact is that the exponents of free enterprise have failed to put forward a plan which can attract popular black support.

Allure

"Nationalisation" and socialism have a potent allure for people who have gained little or nothing from an economy they perceive as having been "capitalist" so far. And above all, free enterprise has been done a savage injury by being adopted as the credo of those who have enforced apartheid.

If a preferable alternative to "nationalisation" does exist, its proponents would do well to get off their derriers and do something to popularise it, rather than expect Mr Mandela and the ANC to come up with an alternative for them.

Organised commerce and industry did not lack the temerity to plunge headlong into the political waters during the tricameral referendum — on the side of the sinners.

So, where are they now?

Simply saying that socialism has failed in Eastern Europe is a soggy answer to a towering problem; a problem which the scions of free enterprise will have to solve — or allow the scions of socialism to do the job for them.

No quick fix for SA — Du Plessis

STAR 15/2/90

([illegible]) (49)

The Government would be doing future generations a great disfavour if it began following soft options in the economy now, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said in reply to debate on the Part Appropriation Bill that Mr Cecil Herandien (DRP Macassar) had complained that house payments, food prices and GST were too high, and that the State's ledgers should not operate to the detriment of the man in the street.

This was, however, the most shortsighted policy one could follow.

Governments elswehere in the world which had gone for the soft option and did not apply monetary and fiscal discipline had inflation rates of several hundred percent.

The process of removing that which was bad from the economy would unavoidably be painful, Mr du Plessis said. — Sapa.

'Gap in education spending growing'

STAR 15|1|90 **Political Staff** 49

Government spending on white education is four times higher than on black education, according to the Democratic Party spokesman on black education, Gardens MP Mr **Ken Andrew**.

This massive and growing gap emerged from the latest figures, he said in a statement.

He said an average of R3 082 was spent on every white child, while only R764,73 was spent on every black child.

Per capita expenditure on every white child grew by R360, while that of every black child by only R169.

Parliament and Politics

ANC policies on industry just theft — Du Plessis

CAH
Tn 'B
15/2/90
(49)

Mr Du Plessis

Political Staff

THE ANC'S economic policies amounted to nothing other than theft, Finance Minister Mr Barend du Plessis said yesterday as the government stepped up its attack on the organisation for propagating the nationalisation of mines and other sectors of the economy.

Speaking in Parliament, Mr Du Plessis said that following the reaction of the markets to Mr Nelson Mandela's statements on nationalising mines, the ANC leader should now realise the danger of indulging in such loose talk.

He said there was no shortage of development opportunities in the newly industrialised world and in Eastern Europe and it should be accepted that only a small portion of development capital would be available for investment in sub-Saharan Africa.

South Africa could not afford to create suspicions that it would change its economic policy away from a free-enterprise system to a "socialist system with nationalisation and that kind of theft", he said.

Earlier, Mr Du Plessis said attempts to isolate South Africa were crumbling. Sanctions had not brought the country to its knees and it was a mistake to think President F W de Klerk had been forced by them to make concessions.

He agreed with other speakers that there were tremendous gaps in income, wealth and standards of welfare in the country, but said it had to be realised that before SA could begin redistributing wealth it had to be created.

Only the free-enterprise system, which allowed people to exercise their talents, would be able to achieve this.

Referring to criticisms of state pension funds, Mr Du Plessis said commercialisation of these funds would have to be carried out with great circumspection.

It had to be borne in mind that these funds had only been able to invest in government bodies.

As compensation they had been given a larger contribution from the exchequer than would otherwise have been the case.

Sowetan Business

Nationalisation: Black business reacts

49

By JOSHUA RABOROKO

BLACK business organisations have responded to a statement by African National Congress leader, Mr Nelson Mandela on the proposed nationalisation of certain sectors of the economy.

The National African Federated Chamber of Commerce and Industries (Nafcoc) and the Foundation for African Business and Consumer Services (Fabcos) said they believed in the economic advancement of black people.

They were reacting to a statement by Mandela after his release on Sunday. Mandela confirmed the ANC's policy of nationalisation of mines, banks and monopoly industries, and that a change of the ANC's views in that regard was inconceivable.

The statement said black economic empowerment was a goal fully supported and encouraged, but in South Africa State control of certain sectors was unavoidable.

ANC secretary general Mr Alfred Nzo said the statement was part of the organisation's policy.

Nafcoc president Dr Sam Motsuenyane who had met Mandela at Victor Verster Prison, said while nationalisation would not necessarily solve South Africa's socio-economic and political problems, it could undoubtedly contribute to providing some answers.

He said: "We must be in a position to determine whether there are other ways of achieving wealth other than through nationalisation. There are a few options which could be examined as alternatives to nationalisation."

He suggested the following alternatives:

* Corporate restructuring of the economy in which companies are persuaded to hive off chunks of their assets and pass these to the disadvantaged;

* Affirmative action backed by the Government and business to facilitate the process of black economic participation by creating the necessary climate and appropriate legal and funding structures;

* The creation of trusts designed to enable blacks to acquire a meaningful stake in the economy.

Motsuenyane said Nafcoc and the ANC supported the concept of a mixed economy, although Mandela had told him the organisation did not have an economic policy.

"The economy should have public, private, small-scale family and co-operative sectors, ie the Government will have to run some State enterprises in almost the same way as is done all over the world," he said.

A Fabcos spokesman said State control of certain sectors of the economy is unavoidable.

"Furthermore, it is extremely difficult to jump to conclusions regarding nationalisation of certain aspects of the economy, as these are early stages of a negotiated South Africa.

"It is our view that Mandela's statement is not a fait accompli from a black point of view, but a proposition, given the give-and-take character of negotiations, to the South African Government," the spokesman said.

Nelson Mandela ... "nationalisation of some sectors of the economy is unavoidable".

Nationalisation is theft — Du Plessis

49

B/Day 15/2/90

MIKE ROBERTSON

CAPE TOWN — The ANC's economic policies amounted to nothing other than theft, Finance Minister Barend du Plessis said yesterday as government stepped up its attack on the organisation for propogating the nationalisation of mines and other sectors of the economy.

Speaking in Parliament, Du Plessis said that following the reaction of the markets to Nelson Mandela's statements on nationalising mines, the ANC leader should now realise the danger of indulging in such loose talk.

Du Plessis said there was no shortage of development opportunities in the newly industrialised world and in Eastern Europe. It should be accepted that only a small portion of development capital would be available for investment in sub-Saharan Africa.

SA could not afford to create suspicions that it would change its economic policy away from a free enterprise system to a "socialist system with nationalisation and that kind of theft", he said.

Earlier Du Plessis said attempts to isolate SA were crumbling.

Sanctions had not brought the country to its knees and it was a mistake to think President F W de Klerk had been forced by them to make concessions.

While financial sanctions had forced a ceiling on SA's ability to grow, the country was now returning to a period of higher growth.

The process of removing what was bad in the economy would undoubtedly be painful, but SA could not afford to follow soft options.

Du Plessis agreed with other speakers that there were tremendous gaps in income, wealth and standards of welfare in SA.

But it had to be realised that before SA could begin redistributing wealth it had to be created.

Only the free enterprise system which allowed people to exercise their talents would be able to achieve this.

Referring to criticisms of state pension funds, Du Plessis said commercialisation of these funds would have to be carried out with great circumspection.

It had to be born in mind that these funds had only been able to invest in government bodies.

As compensation they had been given a larger contribution from the exchequer than would otherwise have been the case.

With the pension funds moving in the direction of defined contributions — away from the present system of defined benefits — the burden of generating this compensatory amount would shift from the exchequer to investors in the funds.

Numsa focuses on economic future

STAR 16/2/90 (49)

South Africa's economic future was an underlying concern of the National Union of Metalworkers' trailblazing bargaining conference last weekend. **DREW FORREST** reports.

Numsa members whoop it up during the 1988 national metal industry strike. The union's new bargaining strategy paves the way for co-ordinated strikes across sectors.

As with many developments in the labour field, the National Union of Metalworkers first national bargaining conference last weekend has a deeper significance than meets the eye.

More than 200 delegates from all sectors of the 220 000-strong union met in Johannesburg in a bid to hammer out a common bargaining platform for the engineering, motor component, auto assembly and tyre and rubber industries in national negotiations this year.

Details of proceedings, termed "historic" by unionists, were not disclosed, but delegates are said to have adopted a demand for a R2-an-hour minimum wage rise in all Numsa-organised industries.

The engineering, motor and rubber sectors are likely to face common demands on a range of other issues, including:

● The overhaul of the industrial council system to make it more democratic and to extend its coverage to all workers.

Numsa complains that although it has more members than all the other council unions put together, it is still outvoted on key issues.

● Job security. A major Numsa worry is the growing use of temporary labour.

● Job creation.

● Industry-wide training schemes that allow workers to acquire enough basic education to qualify for skilled work.

● The Labour Relations Act. The union will seek an employer undertaking not to use "anti-union" provisions.

The adoption of a common negotiating platform for the whole union is a vital step in Numsa's push to centralise bargaining and boost its power through greater unity.

In the past, each sector has gone its own way.

The plan now is to hold a second conference in June where the whole union will decide whether to strike or settle in each sector — raising the possibility of co-ordinated strike action across industries.

But the conference had a broader, political aim. The intention was clearly to give an economic dimension to the shaping of South Africa's future.

In a keynote speech, Dr Bernie Fanaroff, national organising secretary, said Numsa's demands should aim to mobilise workers for a new, democratic order.

Warning against "economism" — a preoccupation with wages rather than the economic system as a whole — he said the union had to lay foundations for revamping the economy on socialist lines.

Stressing that national negotiations had a key role in this restructuring process, Dr Fanaroff accused Barlow Rand of undermining the industrial council system with Department of Manpower backing.

And as socialism could not be built in one factory, workers had to overcome "factory tribalism" — an excessive concern with plant-based issues — and participate fully in national campaigns.

In a searching critique of union practice, Dr Fanaroff said factory organisation in Numsa had never been weaker and this was a reason so many strikes were being lost.

"We can't win anything this way. Especially, we can't help to build socialism," he said.

Numsa's long-term aim, Dr Fanaroff said, must be to reshape the metal and all other industries to provide living wage and a decent life for all. Union demands on job security, training and job creation were basic to this process, he stressed.

Mandela dismisses business concern over nationalisation

STAR 16/2/90 (H9)

SOWETO — Nelson Mandela yesterday dismissed the concern which the ANC's commitment to nationalising big industries has caused South Africa's white business community and foreign investors.

"The question of nationalisation is being looked at from the white point of view alone, and not from the point of view of the whole country. That is why they are turning these somersaults," Mandela told international journalists.

He said white South Africans, who had previously supported state ownership, had now started to back privatisations because of the growing prospect of blacks winning a share of power.

"The whites are now changing their minds, saying let's privatise, because they want to keep wealth to themselves."

Mandela said blacks could not benefit from the sell-off of state assets, only the wealthier whites.

Since his release on Sunday, Mandela's backing for the African National Congress (ANC) policy on nationalisation of mines and other industries has perturbed foreign investors, prompting heavy selling of South African stocks and bonds.

Stockbrokers said foreign investors had suddenly got cold feet after enthusiastically buying South African stocks in expectation that the changes would lead to an easing of foreign sanctions and economic recovery.

"There has been an overreaction," Ron Klipin, analyst at brokers Frankel, Kruger Vinderine Inc, said of the selloff.

South African analysts said they were baffled by the intensity of foreign reaction to Mandela's comments, in which he has merely restated longstanding ANC policy on the economy.

They said Mandela could not dissent from agreed policies of his movement and anyway needed to preserve such principles intact as ammunition for when he reached the negotiating table.

"The problem is that when these shares are in such a high-risk price area, any little spark could set them off," Nick Goodwin, of stockbrokers E.W. Balderson Inc, said.

If prices had been lower and stable, Mandela's comments would have had little effect, but South African shares, and especially gold shares, were overbought, Goodwin added.

"My view is that the market is still dangerous" he said, adding further sharp falls were possible — Sapa.

Finrand cushions JSE share losses

STAR 16/2/90 (49)

By Derek Tommey

It was only a week ago the business world was speculating that the financial rand could soon disappear.

Thiat was after State President FW de Klerk's speech at the opening of Parliament which caused euphoria among foreigners.

This week the business world was extremely grateful the financial rand was still around to protect once again the value of their investments from panic selling by foreigners.

Since Nelson Mandela repeated his call on Sunday for the nationalisation of several major industries, share prices have fallen sharply on the JSE.

His call has created considerable uncertainty in investment circles overseas.

Many people there are not quite sure what he means by nationalisation — whether he intends to compensate the owners of the assets or simply to seize them if he achieves power — and do not want to take any chances on the latter being the case.

The situation has not been helped by the statement in Washington yesterday by UDF offical Terror Lekota.

He said a future South African government would have to nationalise sectors of the economy to raise huge amounts of capital for black housing and education.

The fact that he is planning to sell what the Government does not own did not clarify matters.

It is possible it was the cause of the further heavy selling of SA gold shares in New York last night, which gave prices a further push lower.

So far the prices of gold shares on the JSE have fallen 14 percent since Mr Mandela's speech.

But overseas the losses have been much greater. In London, the Financial Times gold share index has fallen almost 25 percent since the middle of last week, and the prices of many SA gold shares have fallen by even larger amounts.

In New York, the price of SA gold investment share ASA has fallen almost 20 percent, as have the prices of SA blue chips Anglo American and Amgold.

These heavy declines have knocked millions of dollars from the prices of SA shares listed overseas. But so far SA investors have been cushioned against these large falls by an almost 15 percent decline in the financial rand.

Without this decline from R3,19 to the dollar to R3,74 last night, losses on the JSE would have been on a par with London's almost 25 percent.

Brokers in Johannesburg say that almost all the panic selling was from the US.

Obviously the perception there about what was likely to happen in South Africa has changed dramatically since Sunday.

But South African investors are accustomed to rapid changes in sentiment by foreign investors,

So, for the time being, local investors are using the lower prices to pick up bargains.

The institutions are in the market and a fair number of gold shares are believed to be going to the Old Mutual's new gold unit trust.

However, South Africa badly needs foreign capital and it is a fact of life that once foreign investors leave, few come back.

Such shocks as the market has experienced in the past few days have long-term detrimental effects.

Jessie Jackson, the visiting American politician, in describing Mr Mandela yesterday, said: "When he speaks, share markets tremble."

One wonders whether Mr Mandela really wants such a reputation.

● Local brokers are concerned about the failure of the gold price to break above $420.

Whenever it reaches $420, heavy selling develops and knocks its back down again, a broker says.

While this happens there is little incentive for investors to hold large stocks of gold.

However, the ability of the market to absorb the heavy selling without the price falling below $400 is seen as a factor favouring gold in the medium and long terms. It seems that $400 can now be regarded as its floor price.

'Public now pays about 30% GST' (49)

STAR 16/2/90

About 1,7 percent of the total tax-paying public pays 73 percent of the country's tax, **Deputy Minister of Finance Mr Org Marais** said yesterday.

Speaking during the second reading on the mini-budget, he added that the State must spend its money more efficiently.

SA gold mines were taxed 78 percent while Australian gold mines had, until this year, not been subject to any tax. That would change this year.

Tax evaders were also a big problem in SA, but it was not a good idea to raise personal tax.

"We must also give attention to the phasing-out of general sales tax," Mr Marais said.

GST higher than 10 percent led to tax evasion and put pressure on the retailer.

Ultimately, the public was not paying 13 percent GST but almost 30 percent because the product had been taxed at every stage it went through before being sold to the public.

To audit GST was almost impossible because of the number of inspectors needed.

If the Government administered its expenses well, and the correct tax system was used, "we can look at extras for health and education". — Sapa.

Agricultural production rises

GDP shows 2,1% growth

CM Tms 16/2/90

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By AUDREY D'ANGELO
Financial Editor

SA's gross domestic product (GDP) for 1989 was 2,1% — down from 3,7% the previous year — figures released by the Central Statistical Services (CSS) show.

There was a real increase of 10,3% in production by the agricultural sector, which contributed 0,5% to the growth rate. Without this, the drop in total GDP would have been even sharper.

"The real GDP for the non-agricultural sector was only 1,6% in 1989," the CSS points out.

The mining sector showed almost no growth in the course of 1989.

The director of the Stellenbosch Bureau for Economic Research (BER), Ockie Stuart, said these figures would cause some businessmen to urge the government to stimulate the economy "after this substantial slowdown".

But, in spite of the danger that rising unemployment went hand in hand with unrest, he thought SA could not afford to relax monetary policy at this stage.

"Given the need to rebuild our reserves, and possibly a continuation of the high capital outflow, there is a need for our strict monetary policy to remain in place."

Stuart said that, even without much stimulation, he thought the economy would continue to grow at a rate of 1%.

"Any additional stimulation could result in too high a rate of growth."

Discussing the effect of politics, Stuart said it was possible that, as the year went on, additional tensions would develop between the left wing and right wing.

"But foreign attitudes towards SA are bound to improve."

Glenn Moore of Personal Trust said the uncertainties of the political situation made it almost impossible to forecast what would happen in the current year.

With the present slowdown in the economy, it would be reasonable to expect the decline to continue into the third or fourth quarters.

"But it is a brave man who will make a forecast today, given the present political factors.

"There is a possibility of a quicker recovery in our economy if the world authorities see the State President's speech, and the changes taking place, in a favourable light. Growth would be much faster if the pressure on our balance of payments (BoP) were relieved.

"On the other hand, Mandela and the ANC have come out with a slightly different perspective. Mandela's statements on nationalisation are causing uncertainty and a great deal will depend on the reaction of foreign bankers."

Moore pointed out that there was a risk that the government might have to resort to "military type action" to keep unrest under control and this would have an effect on world opinion.

He was also concerned by the fact that long bond rates were moving up in West Germany, the US, Japan and Britain. This indicated inflationary expectations "and long interest rates have a habit of pulling short-term rates up with them".

If interest rates rose overseas it might mean another rise in interest rates in SA, instead of an expected decline by mid-year.

But Stuart said he was confident that SA interest rates had peaked, and would come down this year.

"Stals is on record as saying that interest rates will depend on the rate of inflation, and inflationary pressures now are downwards."

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ASSESSING THE RELEASE

Social costs, indeed

Nelson Mandela's release, despite the needless deaths and violence it has entailed, cannot be anything else but the best of news for this country. He was incarcerated for far too long; he and his supporters' exclusion from political involvement has not been to all our benefit; and the material deprivations caused by the social policies under which his imprisonment occurred will have to be addressed with reparation.

That, today, is common cause among the majority of people in this country. But the harsh reality is that, if the outdated and discredited policy to which he stubbornly adheres — the nationalisation of the mines, banks and "monopolies" — is applied here, social wrongs cannot be righted nor adequate reparations made.

There is overwhelming evidence to show from OECD countries that the lower the share of governments' spending as a proportion of the value of total output (GDP), the better able those governments are to finance consistently — and to sustain — a high level of social spending.

In some European social democratic countries, where government spending has risen and nationalisation has been actively pursued, national debt is in consequence roughly equal to GDP. Consequently, there is a danger, in countries like Italy, that in the years ahead the cost of servicing national debt alone will spiral out of control.

But, to be more specific: according to the JSE Actuaries index, the market capitalisation of shares listed in Johannesburg exceeds R150bn — of which 28% represents gold mines, 14% other mines and 19% mining houses and mining holding companies. Banks, financial service companies and insurance companies amount to 6%. The combination accounts for two-thirds of the total amount of shares.

If the mines were nationalised, the mining financial companies, if not included, will in any event probably disappear. The size of the JSE would shrink to a fraction of what it is now. The ability of insurance companies, pension funds and unit trusts to meet the expected needs of their policyholders and members — let alone shareholders — will be drastically curtailed.

Foreign investors would disinvest. The rand would be devalued to a fraction of what it is now. And foreign banks would press for repayment of their loans more rapidly than even the temporary standstill agreement allows.

This country's financial services industry, which provides not only pensions and other forms of savings but millions of jobs for blacks as well as whites, would virtually collapse. It would, indeed, be ruined.

Without foreign capital or the savings mobilised by the financial services industry, with skilled labour in shorter supply and wage costs rising, the outlook for the gold mining industry is indeed grim. The average life of existing gold mines is relatively short.

It is essential to open new mines so that they come into production by the year 2000 if the closure of existing mines is to be offset. Most new mines are expected to be very deep and cost between R2bn and R3bn at today's prices. They will cost much more as time goes on, at a 15% annual rate of inflation, just about doubling in five years.

There is no time for us here to just muddle through and relearn the lessons of the Sixties and Seventies. The population of this country is expanding rapidly and we have one of the fastest rates of urbanisation in the world. If the wrong economic decisions are made over the next few years, the abject poverty that uhuru has brought to central Africa is a certainty, not just a possibility.

Moreover, in order to foster prosperity, this country needs substantial and continuing investment in such social needs as education, health and housing. Without re-investment in mining and banking, there is no hope of the economic growth that alone will provide the wherewithal for that social expenditure.

Whatever Mandela has been doing for the past 27 years, he has not been studying either elementary economics or the SA economy. To stand on the Grand Parade in Cape Town on Sunday and say that our economy has collapsed is nothing short of ignorance. Mining and banking are the cornerstones of this economy; they are the creation of free enterprise and they have transcended the constraints of apartheid. Let him nationalise them and then see what economic collapse really means.

The sooner Mandela gets to eastern Europe and central Africa to see the consequences of the policies he advocates, the better for South Africans of all races. Indeed, India, where poverty today is probably, in relative terms, worse than it was under the British Raj and where the growth of nationalised industries has not led to a remotely adequate system of social services (if they exist at all), would be a good place to start.

But perhaps the most depressing point of all is what Mandela's statements on nationalisation indicate for his strength of character, intellectual vigour and quality of leadership, a subject on which we dwell in the next article. It took a hoary old Marxist like Joe Slovo to qualify the remarks of a man from whom so much had been expected for so long.

Mandela is right in one respect. He is certainly no messiah. Maybe he is, as he says, no more than the servant of his own party — and captive to his own ideology. But if he adheres to the views he expressed this week, which appear not to have advanced since he was jailed in the Sixties, he is certainly not the servant of all the people of this country, which is no more than we had modestly hoped from him.

No wonder there was a sharp reaction in the price of the financial rand as foreign investors weighed up what he had to say. There will be many who will argue that we are insufficiently understanding of the man after his long incarceration. That may be so. But it was Mandela himself who, in his first public speech, referred to harsh realities. ■

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BUSINESS

nationalisation

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The acceptable face of possible

W/Mail 16 - 22/2/1990

Perhaps there are good reasons for Nelson Mandela to assert the state's right to intervene in the economy on behalf of the masses, argues ALAN HIRSCH

IF nothing else, the flurry on the stock-market and on world minerals markets in response to Nelson Mandela's statements on nationalisation indicates the shallowness of the approach of investors or their advisors. Why should they have expected that Mandela would depart from African National Congress policy on this or any other major issue?

Perhaps the stock-market had believed government proganda, put out to justify its changed position and to protect itself against the far right, that Mandela was departing from ANC policy and took a more centrist postion.

Since his release, Mandela has confirmed that he did not enter negotiations with the government about the shape of the country's future; only about conditions under which negotiations could take place. Mandela has been notably insistent about his accountability to the ANC and its democratic processes.

Nevertheless, many might find it difficult to understand why Mandela has adopted such a firm and unambiguous position on the nationalisation of the mines, banks, and monopoly firms.

It is probably easier to understand why Joe Slovo, general secretary of the South African Communist Party, has adopted a more conciliatory position. In an interview on BBC television two weeks ago, Slovo referred apologetically to the idea of a "socialist utopia, if such a thing exists".

More recently he is reported to have called for the whole issue of nationalisation to be the subject of negotiations. While he acknowledged that any democratic government would need to address the issue of redistribution, this did not mean that sectors of the economy had to be nationalised. He is also reported as saying that if land was redistributed it did not mean all white-owned land would be confiscated, or that former owners would not be compensated.

Slovo's reported statements reflect the SACP's new positon on the crisis in the USSR and Eastern Europe, which backs economic reform and a multi-party political system. It is a timely shift in position for the SACP, for it comes just as the possibility of real political negotiations enters the picture. 15 years ago it didn't really matter if Slovo favoured the free market or the dictatorship of the peasantry and the proletariat.

Today Slovo, the communist, seems to offer a more flexible position on the economy than Mandela, the democratic nationalist with socialist sympathies.

But are Mandela's ideas on nationalisation 30 years out of date, and simply a reiteration of an old policy, now under review? Perhaps there are still good reasons why a political leader might reassert the right of the the state to intervene powerfully in the economy on behalf of the mass of the people.

Calls for economic justice are very high up on the list of demands of many black South Africans. Individual trade unions and the Congress of South African Trade Unions, as the major representative body, have consistently pushed an uncompromising socialist position which appears to resonate very strongly with their members.

Workers do not need to be told that the South African economy is one of the most highly monopolised in the world, and that the power to allocate economic resources is currently held in a very small number of white hands in the private and public sectors.

It is worth noting that when Stellenbosch economist Attie de Vries recently told a conference that it was imperative to "privatise the private sector", a Chamber of Commerce officer responded in an offended and incomprehending way. As De Vries implied, the white monopoly of economic power in the private sector remains a major obstacle to equitable economic growth.

It could also be argued that the reaction to Nelson Mandela's statement is as over-the-top as many recent responses to the economic crisis of Eastern Europe. The economies of Poland, Hungary and so on are now portrayed as devastated wastelands, testimonies to the failure of command economies in general and of nationalisation in particular.

It is forgotten that in the early post-war decades Eastern Europe grew far more rapidly than Western Europe, and that when commumist regimes seized power in the late 1940s, most Eastern European countries were the exhausted economic colonies of their neighbours East and West.

To suggest, as many have, that the rapidly growing economies of the Far East can attribute their success simply to the free market, is less than accurate.

Japan's development in the 1950s and 1960s was directed to a large extent by powerful government ministries and a by state-owned investment bank.

South Korea's rapid growth was based on

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P.T.O.

IDEOLOGY F/M 16/2/90

Mellower views

A veteran communist and old ANC member, banned for nearly 40 years, believes Nelson Mandela and the ANC may not be seriously considering nationalisation.

Rowley Arenstein (71), a former attorney until he was disbarred in 1967, was freed of restrictions on February 2 when President F W de Klerk unbanned the Communist Party.

[redacted] [redacted] (4-9)

Since 1953 Arenstein has had several banning orders served on him, spent 18 years under house arrest and served a four-year jail sentence for furthering the aims of communism. He now holds views broadly supportive of recent political reforms in the country, though he remains a committed communist.

He worked with Mandela in the Congress Movement before the ANC leader was imprisoned. He was already a member of the

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F/M 16/2/90 [redacted] [redacted] (49)

Arenstein says he hopes to return to a legal career and expects his wife will start writing again. Their two daughters are attorneys. ■

Whither the economy of a future SA?

Sowetan 16/2/90

(49)

With the face of South Africa changing rapidly, decisions about the future economic system of the country are of crucial importance. Special Correspondent GRAHAM LINSCOTT reports on the debate as raised in a recently published book, *The political economy of South Africa*, edited by Elisabeth Ardington and Nicoli Natrass.

FOCUS

FREE enterprise or widescale nationalisation - that is one of today's burning issues as leading African National Congress figure Nelson Mandela reaffirms his movement's commitment to the traditional socialist course.

Is there a middle way which could could satisfy the legitimate aspirations of the disadvantaged and maintain economic growth, without taking the means of production out of private hands?

Does social democracy have a chance between the mills of the unfettered free market demanded by so many whites and the radical socialism demanded by even more blacks?

Pieter le Roux, Professor of Development Studies at the University of the Western Cape, argues strongly for social democracy in a book just published.

Polarised

He says social democracy - calculated but limited state intervention in the economy - is a reasonable compromise between the two extremes, which leaves the way open for a Thatcherite reversal at a later stage when most of the leeway in providing equal opportunity has been made up, or for a move toward a more radical socialisation if desired.

He says social democracy would probably be acceptable to the broad mass of people but is pessimistic about its ever being introduced, due to existing polarised positions. He sees a siege economy, followed by radical socialism, as more likely (although this was, of course, written before President de Klerk's unbanning of the ANC and release of Nelson Mandela).

Tribute

The book consists of 19 contributions by leading academics, covering a range of political and economic questions. It is edited by Elisabeth Ardington (Centre for Social and Development Studies, Natal University) and Nicoli Natrass (Research Unit for the Sociology of Development, Stellenbosch University), the daughter of Professor Jill Natrass, a leading economist who died in a car accident in 1987. Entitled *The political economy of South Africa*, and published by Oxford University press, the book is a tribute to her mother from the academic community.

Le Roux says the balance of forces is such that neither side can dictate the economic side of a political settlement.

Whites would rather face international sanctions and an increased military onslaught than accept large-scale nationalisation of industry, mining, commerce and agriculture.

Blacks would rather fight a long drawn-out battle than accept preconditions which would deny them the right to rapidly redress economic injustices.

"If there is to be a settlement soon, it will have to be along social democratic lines. History has taught us this system can radically limit both economic and political exploitation and domination, and at the same time maintain a high rate of economic growth.

"Although capitalists would for obvious reasons prefer a free market economy in which their position was much more dominant, they could live with this type of compromise. It is, therefore, a system which is likely to meet the minimum aspirations of all concerned."

Le Roux says a social democracy in South Africa would initially concentrate on high return areas such as education, primary health care and basic housing. It would have to be financed by taxes on wealth, taking care that taxes were not raised to a level where economic growth was undermined.

He says if the country were to once again achieve a growth rate of five percent per annum, and taxes were structured to channel one percent of this growth to the benefit of the (mostly white) middle classes, the income of the (mostly black) poor could grow by 10 percent per annum.

"Clearly those at the bottom of the ladder would benefit more dramatically than those at the top. But virtually all would benefit relative to what their position would be if there were an extended siege economy followed by a radical socialist system," he says.

Le Roux accuses both the free marketeers and the radical socialists of being trapped in obsolete 19th century thinking.

The SA Media Council

THE South African Media Council is an independent body established to deal with various matters affecting media reporting and comment.

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The address is: The Counciliator/Registrar, SA Media Council, PO Box 5222, Cape Town 8000. Telephone: (012) 461-7117. Inquiries are welcomed.

STAR 16/2/90 (4.9)

We must empower the poor

Chairman of the Urban Foundation **MR JAN STEYN** discussed the role of the public sector in community life when speaking at the University of Port Elizabeth yesterday. The following are excerpts from his speech.

This subject arouses as much political passion as any other in the debate about the future of our country. It does so because it is essentialy about the desirable level of State involvement in public affairs — the level of "socialism" in a mixed economy.

In any modern, complex state, government's role is essential. Indeed, modern society cannot be contemplated without acknowledging the role of a professional service bureaucracy.

At the same time, however, public sector bureaucracies can become imperious, can grow to proportions that drain a society of capital and manpower resources, and can lose sight of their essential and only purpose — serving the public.

There must be a norm or criterion by which their performance is judged. For business organisations, this criterion is the balance sheet. With non-business organisations there is no such clearly defined standard of performance.

For the public service, there are non-technical criteria — whether the needs of the public are being addressed, whether the service is appropriate and whether the public recognises it as such.

Nationalisation

Some political parties support the nationalisation of major industry and commerce as a means of finding the resources to fund welfare and job creation programmes.

Not only will this frighten off external investors, but the first in line to demand benefits from nationalisation are usually the well-organised employees of such companies.

After allowing for the demands of employees and the profits that must be re-invested to ensure efficiency and growth of the company, very little remains for government to spend on general welfare.

If one adds the further fact that, as has been demonstrated in South where, nationalised industries are often inefficient and wasteful of resources, the result is that nothing at all remains to be distributed to the very poor and the unemployed.

Governments must make sure they do not crowd-out private initiative. More than this, they should facilitate the initiatives of others by providing a framework for development that is flexible and open to innovation. They should also maintain funds that can be employed as "leverage" money to encourage communities and organisations to become involved in development.

I believe there is a very real danger that the problems of South Africa's marginal poor will not be fully or adequately addressed under the present or any future Government unless the voicelessness of the very poor communities is addressed.

Measures

Special measures need to be taken to tailor programmes to particular needs.

Governments must make sure they facilitate the entry into development of non-government organisations (the non-profit or voluntary sector), the profit-making private sector and local communities.

The State has the responsibility to create the environment in which private initiative can be made viable. There is a need for the creation of sound urban and regional development policy and the establishment of supportive and responsive institutions.

The task cannot be performed by the State or private individuals on their own. Each must play its role in co-operative ventures.

These might include the establishment of urban and regional development funds, the training and development of personnel with the capacity to provide technical assistance to local development projects and to co-ordinate the efforts of local communities, non-governmental organisations, the State and the business sector.

Professional staff should work within these networks and have the backing of a metropolitan or regional development fund. The money from this fund should be deployed in co-operative ventures with communities, business and non-governmental institutions. State funding should be used inter alia in such a way as to make private efforts viable, affordable and larger in scope than they otherwise would have been. The employment of local people and the involvement of local people on steering committees for the projects are essential.

After the momentous events of the past weeks, we can look forward to a process in which a new nation will be built and the basic elements of democracy established.

The huge inequalities in our country and the depth of need and deprivation in our large and economically marginal communities make it essential that we should go much further than the standard approaches to development in both capitalist and socialist systems. We must forget about slogans and outmoded theories of all kinds. We must bring our poor people in from

Mandela comments on market fall

CHARLENE SMITH

THE adverse reaction to the issue of nationalisation showed that whites were reluctant to achieve a real settlement in this country, Nelson Mandela told SA journalists during a media briefing at his Soweto home yesterday.

He was responding to the flurry of activity on the stock markets caused by his statements earlier in the week that he still believed in nationalisation of the key mining and industrial industries.

"Nationalisation has formed part of the history of this country.

"Nationalisation exists.

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"That's why the government is into privatisation now."

He said government moves to privatise would deprive a future black government of the resources to address the issues of poverty and housing shortages.

"Where do we get capital if we don't nationalise?"

B/Dy 16/2/90

Sapa report he emphatically rejected government's new attitude towards the economy.

Asked if the country's 5-million whites would have to change their lifestyles under an ANC government, Mandela said they had already begun the process.

"Whites in this country are a very important section of the community and, without them, without their co-operation, we will have immense problems.

"That is why we are so keen to ensure that the changes we are demanding are not going to mean domination of whites or blacks," he said.

● See Pages 10 and 11
● Comment: Page 10

Agriculture boosts growth in GDP

STAR 16/2/90 (8) (49)

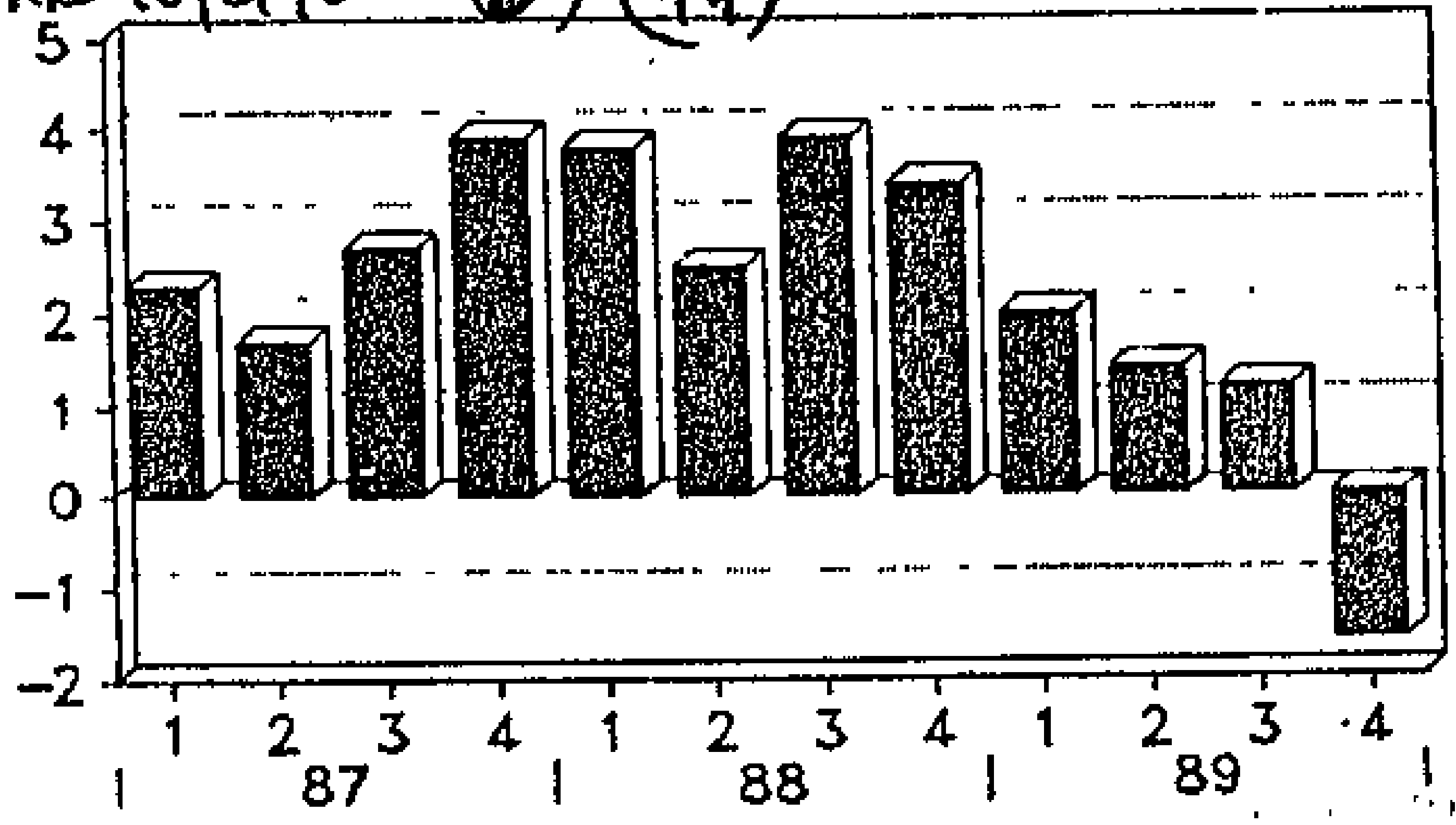
By Sven Lünsche

South Africa's gross domestic product for 1989 grew by 2,1 percent compared with the previous year, figures released by the Central Statistical Services yesterday show.

The growth rate in 1988 was 3,7 percent.

The CSS said that the growth rate of 2,1 percent was mainly due to rapidly improved agricultural conditions.

Real production of the agricultural sector increased by 10,3 percent in 1989 and contributed 0,5 percent to the total growth rate.



Quarterly GDP growth (1985 prices).

The real GDP for the non-agricultural sector was only 1,6 percent up in 1989 compared with 1988.

The mining sector in particular showed almost no growth during the course of 1989.

The rates of increase in growth in the non-agricultural sector started to decline during 1989 and showed an actual decline of 1,6 percent in the fourth quarter after a 1,2 percent rise in the previous three months.

However, real output over the quarter was virually unchanged from the previous quarter, and although economists generally expect a further drop in GDP in 1990 as the austerity measures begin to bite, the economy is undoubtedly heading for a soft landing and not for a recession.

A growth rate in GDP of between one and 1,5 percent has been forecast for this year.

(3A) (49)

De Klerk 'has opened door for real equality'

Economy faced ruin, Cape chamber claims

CAPE TOWN — The South African economic situation had come "very close to a disaster for industry, business and the country", the Cape Chamber of Industries said in a statement yesterday.

Past economic policies had not been to the best advantage of the "current players" in the economy and had been "even worse for those excluded from the political system", CCI president Mr Pat Collins said.

Bureaucratic regulations and political policies superimposed on the economy had revealed a near-disaster situation.

He called on all parties "to be involved in the negotiations, to review their economic policies as the Government appears to be currently doing, in the light of economic and not ideological principles".

Bill of rights

The CCI congratulated President de Klerk on the unconditional release of Nelson Mandela and "wholeheartedly welcomes his (Mr de Klerk's) actions and their implications for real equality — politically, socially and economically — for all".

Mr Collins called for the scrapping of the Group Areas Act and the Land Act, saying they were unnecessary, discriminatory and humiliating to the majority of South Africans. and said a future constitution had to incorporate a bill of rights.

The new constitution should have "strong elements of social support in the form of medical services, education and housing" and an economic system that would sustain current economic activities profitably and attract new investment capital.

Farmers lift GDP growth to 2,1%

GRETA STEYN

BOOMING agricultural production pushed real growth in SA's gross domestic product (GDP) to 2,1% in real terms last year — the maximum attainable growth rate expected by most economists at the beginning of 1989.

This followed a robust 3,7% real growth in 1988, the peak of the business cycle. The rate at which output expanded last year was below SA's annual population growth rate of about 2,7%, implying a drop in per capita wealth after an increase of 1,5% in 1988. BDay 16/2/90

A surge in agricultural production accounted for 0,5% of overall economic growth last year. Real production in the agricultural sector soared by 10,3% to contrast sharply with the slowdown in the rest of the economy. Growth in non-agricultural production was only 1,6%, with the mining sector showing almost no growth during the course of 1989.

The quarter-on-quarter growth figures, seasonally adjusted and annualised, provide an indication of the slowdown in over-

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GDP growth BDay 16/2/90

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☐ From Page 1

all economic activity. In the fourth quarter, real GDP dropped by an annualised 1,6% after increasing by 1,2% in the third quarter.

However, there is no question of a collapse in economic activity in the non-agricultural sectors of the economy — real output in the fourth quarter of last year was more or less on the same level as in the second quarter. On a seasonally adjusted and annualised basis, growth in this sector recovered to 2,5% in the fourth quarter after a negative 2,6% in the third.

Economists predict growth of 1%-2% for 1990, with the major impetus coming from exports. But they rule out a repeat of the boom in agricultural production this year.

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Economics of 'upliftment'

MIKE ROBERTSON

CAPE TOWN — SA needed a social market economy to provide upliftment for disadvantaged people, Finance Minister Barend du Plessis said yesterday.

He was replying, in the debate on the second reading of the Part Appropriation Bill, to DP finance spokesman Harry Schwarz, who said capitalism was associated with apartheid in the eyes of many blacks.

Schwarz went on to say that those opposed to the kind of nationalisation being propounded by Nelson Mandela and the ANC needed to project a system which was not associated with apartheid, had been proven to be effective and gave opportunity to those who had previously been deprived.

Schwarz said the answer to socialism was not to contrast it with old-time capitalism but with West Germany's social market system.

Du Plessis said Schwarz had made a "tremendous contribution" to debate on the kind of economic system that was needed.

Government, he said, had never argued for a cold, free-enterprise, capitalist system.

In its distribution of taxes over the past few years it had shown considerable compassion for the poor but it had been restricted by its process of reconstructing the economy.

Earlier Schwarz had attacked panic selling on the JSE following Mandela's comments on nationalisation. People doing this, he said, should have read ANC policy documents and would have realised that what he was saying was nothing new.

Du Plessis agreed that panic selling was uneccessary. He firmly believed the ANC would realise its support of nationalisation was archaic and would revise its stance. Otherwise it would never succeed in presenting itself as a powerful player on the political stage.

He said he agreed with Schwarz that the answer to uplifting disadvantaged people did not lie in redistributing existing wealth, but in creating new wealth.

Du Plessis added that while he agreed that there should be no discrimination in the provision of social services, it would not be possible to achieve this immediately.

South Africans would have to "stick it out a little longer" while the economy consolidated and by the final quarter of next year it would be in a position to sustain a period of high growth.

Only 2% of taxpayers shouldering SA's burden

CAPE TOWN — A total of 1,7% of the total taxpaying public paid 73% of the country's tax, Deputy Minister of Finance Org Marais said yesterday.

During the second reading on the mini-Budget he said that "500 000 of our taxpayers pay 73% of our tax".

Government had to be more efficient in spending government money.

The tax system was not wonderful: SA gold mines were taxed 78% compared with Australian gold mines, which, until this year, were not taxed.

Tax evaders were also a big problem in SA, but it was not a good idea to raise personal tax.

16/2/90

"We must also give attention to the phasing out of general sales tax."

GST higher than 10% led to tax evasion and put pressure on the retailer.

At the end of the day the public was not paying 13% GST but almost 30% because the product was being taxed at every stage it went through before being sold to the public.

To audit GST was almost impossible.

If government administered its expenses well, and the right tax system was used, then "we can look at extras for health and education".

DP finance spokesman Harry Schwarz said yesterday the Finance Minister's challenge this year was to present a Budget as an instrument to further negotiation and not just to right past fiscal errors.

Speaking in the second reading debate he said: "This year's Budget will be delivered in quite a different setting to any previous one.

The Minister's needed to produce a Budget that, in disciplined spending and reform in taxation, would put the economy, in a co-ordinated effort with the Reserve Bank, on a healthy path. — Sapa.

Vital to show that capitalism does not equal apartheid

B/Day 16/2/90.

47

RAYMOND PARSONS

THE interdependence of politics and economics has never been more evident than in the development of the new SA. Whatever political model is ultimately decided upon, the need for economic growth remains. Economic development is certainly a necessary condition, although not a sufficient one, for successful political reform in SA.

The disadvantaged and subordinate have a vested interest in economic growth. Every reduction in the target rate of economic growth is also a reduction in the strength of equalising forces. Growth is not "a cure for all diseases, an end to all distress", but it makes other aims easier to attain, and softens conflict among them.

What is important is what kind of economic system emerges from the political bargaining process.

Private fixed investment also needs the assurance of stability. Unless a framework of law and order can be preserved, business cannot thrive. It is bound up with the question of business confidence. If stability is not maintained, then the whole process of change is jeopardised.

The business community will also have to formulate views on what kind of constitution it would like. Business will be greatly affected by where the line is drawn — and should help politicians to draw it.

Certain groups apparently remain fixed in the ideological cast of collectivism; or socialism. But an added problem in SA has been the perception by many blacks that capitalism and apartheid are identical.

Socialism is seen by many blacks as the true harbinger of economic security, freedom and prosperity. This despite the fact that market forces have steadily eroded the apartheid system and that businessmen have often been among its sternest critics. What blacks in the SA economy have experienced as "rules of the game" is the antithesis of a free enterprise economy.

The explicit identification of the true and pure principles of the market-orientated, competitive economy will enable blacks to base their case for reform and change on these principles rather than on those of socialism. It seems vital to clarify the political climate on this level.

Those who believe that the market economy will best serve the interests of the whole community must marshal their arguments. The debate on the future economic system in SA now needs to commence in earnest and the lessons of Africa and Eastern Europe to be evaluated in the light of SA circumstances.

Central economic planning in SA will not work; it might have worked badly in a fairly homogeneous community of whites, but it will not work at all in a heterogeneous community of all South Africans.

Serious attempts at central planning of the production and distribution of income in SA would produce disastrous results, as it has patently done in so many other Eastern European and African communities. Even the existing degree of government intervention in the SA economy has become highly problematic, and is now being reversed through privatisation and deregulation.

The superiority of the market system in the production of income stems from its basic realism about human nature. The competitive processes of the market are better able than the bureaucratic processes of central planning to minimise the cost of failings of human beings while maximising the value of their excellence.

Looking at the ANC's views on the nationalisation of mines and banks, it is clear yesterday's ideologies are still shaping today's rhetoric. But it will not be adequate for tomorrow's realities in a global economy. SA needs to remain competitive in a world which is now run largely on market economy principles.

The current economic views of the ANC are hardly a recipe for survival in a highly competitive world. The ANC will have to review its economic policies in the light of a fundamental shift in international thinking.

There is an important message to government in these comments. The popularity of supply-side policies — lower taxes and less state intevention that have won working-class support — has not yet transpired in SA. Although much stronger commitment towards certain supply-side policies has become visible in recent years, government has paradoxically continued to increase its expenditure at a steady rate.

Unless we make rapid progress in implementing fiscal discipline and creating a new public finance "culture", the danger exists that the first fully democratic government will succumb to pressures for increased public spending and thereby threaten the tenets for economic stability. Given the scope of what needs to be done in the political arena, a lack of adequate economic performance could even cause the political process to fail.

What, then should the role of business be as SA embarks upon its voyage towards a full democracy?

Firstly the task of business will be to educate those South Africans within its realm of influence, which is not an inconsiderable proportion, as to the perceived benefits of an economic system based upon economic freedom and individualism. There is a huge marketing job to be done, and time is short. Above all, business needs to give blacks a bigger stake in the private enterprise system to uphold and defend.

Business will therefore secondly need to take a long, hard look at current operational procedures and structures. A wider basis of ownership and rationalisation of decision-making will enhance acceptance of the private enterprise ethic in a predominantly Third World environment. Standards need not necessarily be lowered, merely adapted.

Joint ventures with the public sector on appropriate education and training policies, particularly in the technical and managerial professions, should feature prominently.

In the third place, businessmen should support the reform initiatives to create a more just economic order. It is essential that business opinion be properly mobilised to influence effectively the course of events.

I am convinced the application of cool-headedness and patience will eventually see the advent of a negotiated democratic settlement, the lifting of all sanctions and the restoration of SA's once dignified and respected status in world affairs.

There should be no illusions about the difficulties that lie ahead. It remains important that political leaders in SA manage the process of change in ways which retain the confidence of the main players, including the business community.

But a freer, more just society could provide our people with the motivation to aspire to values and excellence in individual performance. In realising this goal, SA would contribute to the quest for removing the greatest impediment to liberty in the world: economic poverty. This will test the wisdom of politicians and the ingenuity of business in the new SA.

☐ Parsons is director general of the SA Chamber of Business. This is an excerpt from his address this week to a Port Elizabeth seminar on change.

LETTERS

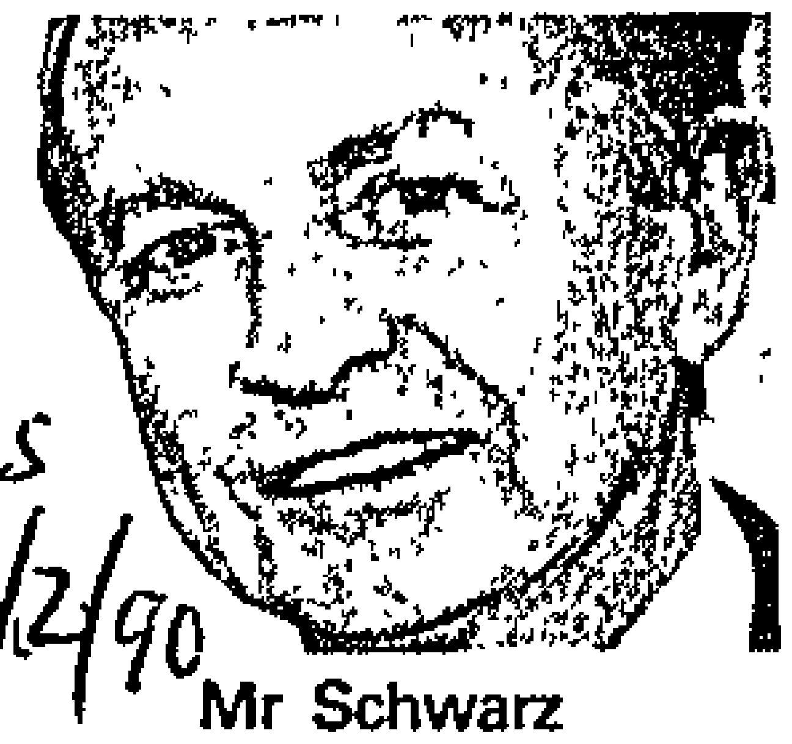
Parliament and Politics

MINI BUDGET

49

Schwarz: JSE panic was not necessary

Cape Times 16/2/90


Mr Schwarz

PARLIAMENT. — People should not have panicked and sold their shares on the Stock Exchange after listening to Mr Nelson Mandela's speech, Mr Harry Schwarz, Democratic Party chief spokesman on finance, said yesterday.

"Instead, they should have read the ANC Charter or its policy years ago and then they would have known that Mr Mandela said nothing new."

The reality was that there were people in the country who were not only deprived of political power but were also economically disadvantaged.

"Capitalism is associated with apartheid in the eyes of many blacks. We need, therefore, to project a system which is not associated with apartheid, has been proven to be effective and gives opportunity and benefits to those previously deprived," he said.

In reply to Mr Schwarz, Finance Minister Mr Barend du Plessis said that South Africa needed a social market economy to provide upliftment for disadvantaged people.

Government, he said, had never argued for a cold, free-enterprise, capitalist system.

In its distribution of taxes over the past few years it had shown a considerable degree of compassion to the poor. It could have shown more compassion but was restricted by the process of reconstructing the economy.— Sapa

ARGUS 16/2/90

49

Use social market model, says Schwarz

Political Staff

THE ANC's nationalisation policy could not be countered with pure old-style capitalism, Democratic Party finance spokesman Mr Harry Schwarz said.

Speaking in the mini-budget debate, he said the main Budget should be one "to further negotiations" and equalise social services.

Socialism should not be contrasted with old-style capitalism but with the social market system of West Germany.

This not only encouraged the entrepreneur but protected against exploitation and provided social benefits.

February 90

(49)

The real SA game – with abundance in the goals

Players in the South African "struggle v system" game should call time out and tell world spectators to find another match to watch, says visiting Texas academic **Dr Don Beck**, (right). And then both should take off their blindfolds and wake up to an entirely new ball game — the "synthesis" game. The agenda is based on a development and distribution system that provides a greater abundance for all South Africans. And the rules require players to blend the best of all views and reject conflict, says the seasoned SA spectator on his 29th trip to the country.

Many see South Africa as a global game, pitting "system" v "struggle". The "system" side, wearing blue, orange, and white, is playing by rugby rules. "Struggle", clothed in green, yellow , and black, thinks the game is soccer.

Western experts and critics believe the players all have on blindfolds. They must help the hapless and confused players by shouting instructions from the stands. Occasionally, they throw down nartjies in the form of sanctions or boycotts. Maybe the experts have on blindfolds, too.

Conventional wisdom says it's Captain de Klerk v Captain Mandela. The sides "scrum" over competing economic or political systems, slogans, scenarios, and Utopias The world's media hovers above the veld awaiting the inevitable clash. The future of Africa tips in the balance.

Well, maybe it's time for an entirely different dimension of thinking

Integrates

Call it synthesis — the higher and richer order that blends and integrates the best from all views with new insights and discoveries from the rapidly changing environment. System works to preserve or reform the status quo Struggle seeks to transform society into a new order. Synthesis rejects conflict in favour of creating abundance, the real agenda for all South Africans. If you play the synthesis game, everybody wins

So, how can greater abundance be created in South Africa — not just of a material nature, but in the quality of thinking, education, problem solving, and nation building? How can the standard of living and quality of life be enhanced for all South Africans? Why couldn't the Sats conflict have been resolved before the loss of life and destruction of property? The answer is to replace scarcity management with abundance creation.

South Africa is one of the rare places on the planet Earth where abundance can be created with relative ease. The size of the collective cake can increase in quantum leaps.

What kind of thinking, however, will it take to create abundance? How can this approach replace fear and distrust?

First, may I suggest that South Africans consider co-operative planning of an entire decade of development Leaders should sit side-by-side in identifying the key issues and problems in the Republic.

Negotiating constitutional models should come after the problems are clearly understood. The gaps between the haves, hads, and have nots are simply too wide to bridge with absolutist thinking from either collective camps of free-market segments.

Economic and political pulses should be in frequency with the evolutionary nature of the society itself The Great Indaba will be a long Indaba.

Second, it's critical that positive thinking South Africans re-evaluate the entire litany of economic, cultural, literary, sports, and technological boycotts and sanctions. The South African Government is not going to come to its knees. To use this leverage as a bargaining chip is to play the struggle game when only synthesis thinking can produce abundance.

Society has quite enough internal pressure on perturbations to keep The Third Trek in motion. It will take a long, long time for the supply lines to impact the society in its quest to maximise abundance. There is not time to waste, not if you're serious about the quality of health care and education

The world community needs to find other scapegoats for its own internal problems Moral poses lose their persuasive appeal when they conceal trade advantages and other forms of exploitation of South Africa resulting from sanctions

Finally, maybe it's time for everybody involved to call "time-out and consider other approaches Jesse Jackson demonstrated his depth of insight when he suggested, during the presidential debates in 1988 in Houston, a novel and creative approach to the problems in the Middle East.

Mr Jackson made two essential points. First, he insisted that the safety and longevity of the Israeli culture, traditions, religion and language be guaranteed Second, he believed this would release the energy, insight, and flexibility for the Israelis to create a semetic "Hong Kong" in the Middle East.

The same is true with the Afrikanervolk. In fact, I've never thought the struggle industry was being clever by threatening the Volk in its safety and sacred zone. All could benefit from a new and creative initiative Your children and grandchildren will rise up and call you blessed if you seriously pursue abundance, not power.

The people I know who have met Nelson Mandela report he is in the best tradition of a synthesis thinker He and other enlightened UDF and ANC leaders face a serious threat from their own revolutionary wing.

Congruence

They understand far too well that enlightened leaders are often replaced by generals, then sergeants until congruence is reached with the bulk of the population.

It's quite natural for developing societies to opt for one-party states. The massive needs of the "have nots" must be met, quickly It's in everybody's interest to do so. An abundance-based development and distribution system has the potential to enhance the First World component while uplifting those still suffering from searing poverty and hopelessness.

Synthesis is the best game in town Nothing else can produce abundance. Everybody can play by the same rules. Western spectators can find another game to watch ([illegible]) (49) Star →

Expansionary Budget is not a signal for higher consumer expenditures

By Sven Lünsche

The financial authorities warned yesterday that monetary policy would tighten if the Budget proved more expansionary than expected.

Monetary policy would have to remain tight in the months ahead as the Budget elicited more optimism than was foreseen, Dr Japie Jacobs, economic adviser to the Department of Finance, said in Johannesburg.

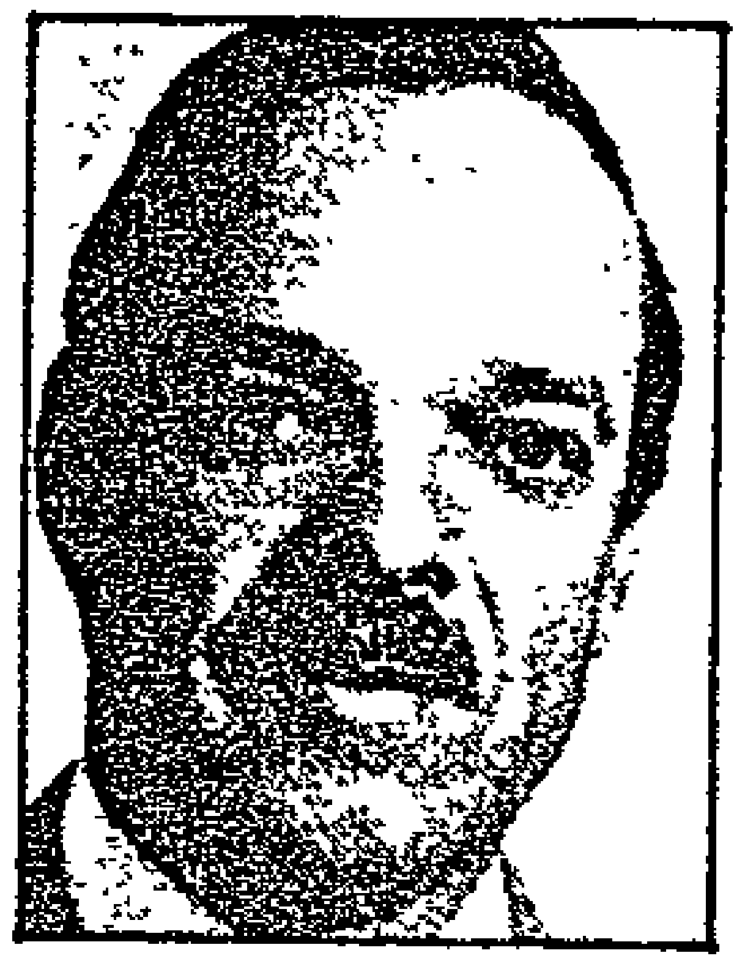
The former senior deputy governor of the Reserve Bank was addressing a post-Budget seminar organised by stockbrokers Frankel Kruger Vinderine.

"Monetary policy will have to play an important role to ensure that bank credit is not freely used to finance additional consumer spending," Dr Jacobs said.

He emphasised that the main aim of the Budget was to lead the economy into a period of consolidation as part of the longer-term goal of restructuring it.

"If the Budget achieves a slowdown in the economy it could lead to the success of the fight against inflation and the strengthening of the country's foreign exchange reserves."

In this respect, he expected the increase in expenditure by 11,9 percent to play a major role as it implied a negative rate of growth in real terms.



Dr Japie Jacobs

"However, one should also take into account the tax concessions announced in the Budget and more particularly the R2 billion surplus that is to be carried forward for socio economic projects," he commented.

"If the R2 billion is added the rise in total spending amounts to 13,5 percent, which would exert a fairly neutral effect on the economy.

His views were echoed by the Director General of Finance, Dr Gerhard Croeser, who is widely believed to be the architect of the Budget, and Reserve Bank Governor Dr Chris Stals.

Speaking at a seminar of the Junior Chamber of Commerce and Industry in Pretoria, Dr Stals reportedly said the Budget was viewed as very positive as it emphasised Government spending curbs and a restructuring of the economy.

"Steps taken to encourage savings and reduce Government involvement in the economy are very positive."

However, funds released as a result of the tax reductions — estimated at about R4,5 billion — could once again generate inflationary pressures, especially if money was spent on consumer goods, Dr Stals said.

In this respect Dr Gerhard Croeser said if consumers interpreted the fiscal measures as being expansionary and were not deterred from spending more, "the consequent stress on monetary policy demand a relatively high level of interest rates for some time".

Dr Croeser was addressing a Budget conference organised jointly by Nedbank and Old Mutual in Cape Town.

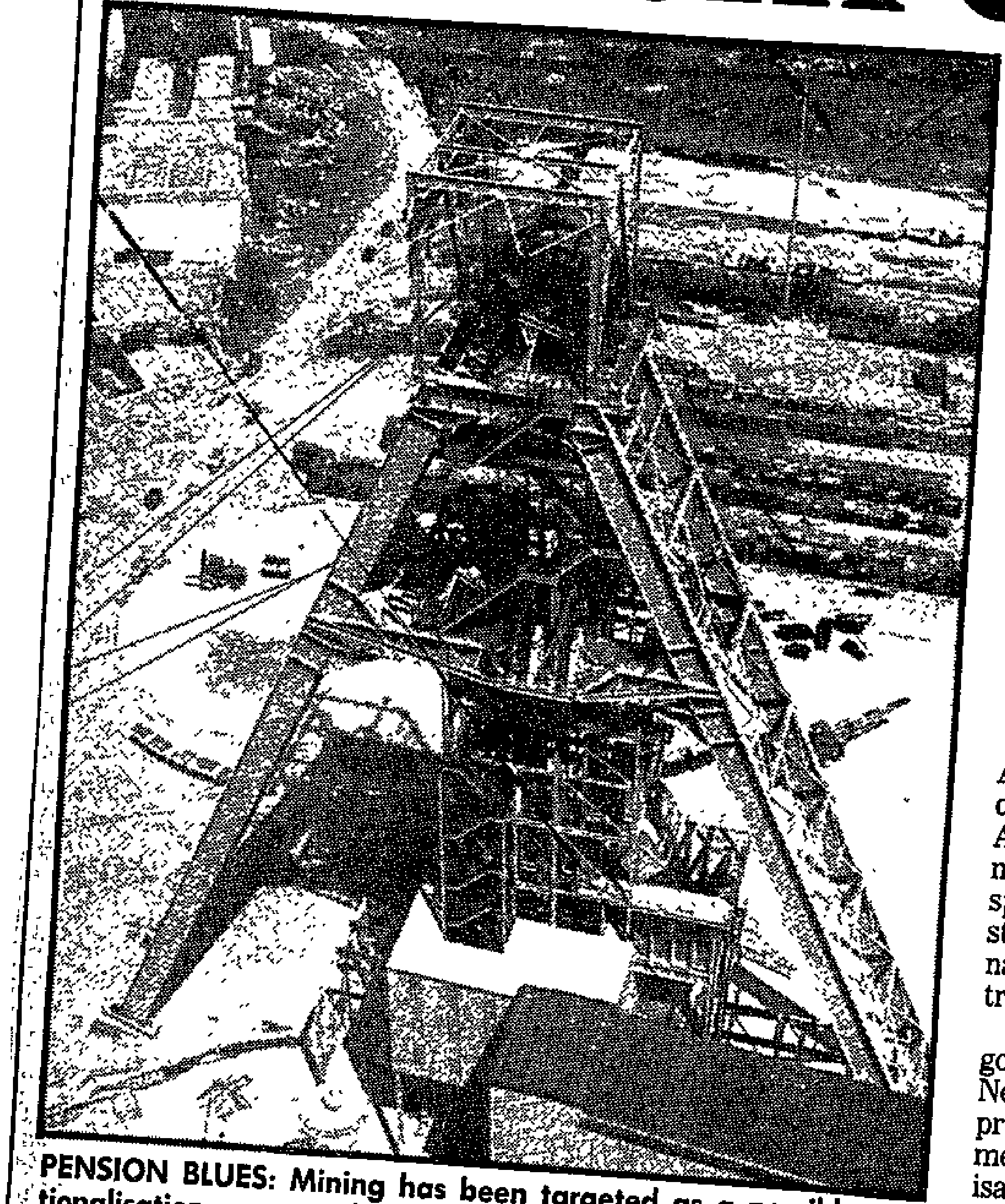
At the same function, Reserve Bank economist Dr Jaap Meijer said the Bank welcomed the expansionary aspects of the Budget.

"But, given the Bank's strict and persistent anti-inflationary stance, it meant interest rates would probably be sustained at present levels for slightly longer than had been forecast."

Star 17/7/90

(149)

Nationalisation a real threat to savers



PENSION BLUES: Mining has been targeted as a possible nationalisation prospect but millions of people have sunk their pension hopes into this industry via the major life offices. Nationalisation could seriously erode the returns on their savings.

DEREK TOMMEY

AMERICAN investors this week dumped large quantities of South African gold shares on the Johannesburg Stock Exchange in response to Mr Nelson Mandela's statement that the ANC intended nationalising various major industries, including the mines.

The prices of South African gold mining stock in London and New York dropped by 25 percent, prompting a local broker to comment: "They know what nationalisation can do to a country and are prepared to take large losses now instead of even bigger ones in the future."

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The prices of South African gold mining stock in London and New York dropped by 25 percent, prompting a local broker to comment: "They know what nationalisation can do to a country and are prepared to take large losses now instead of even bigger ones in the future."

Local institutions happily bought all the shares on offer. One reason isthat they get tens of millions of rands every week from their pension, provident and insurance fund members who are hoping to secure their future prosperity.

Another is the growing belief in business circles that any political organisation seriously seeking power will have nothing to do with nationalisation in any guise.

ANC leaders at the moment apparently see nationalisation of certain sectors of the economy as a way of raising money for education, health services and housing.

In practice, nationalisation has failed in the past to raise extra spending money for any government unless it is done without compensation.

If this hapened millions of ordinary people would suffer. The real owners of most of this country's industries are the insurance companies and pension and provident funds who act on behalf of their four million or so members, of which about half are white and the balance coloured, Indian and black.

These people would be robbed of a significant portion of their savings — and their hopes of a secure future would be destroyed.

It would also put the black trade unions, which have been pressing hard in recent years for pension and provident funds for their members, in an invidious position.

And as foreigners own a significant portion of South African industry, any nationalisation without payment could be expected to produce a strong reaction overseas. South Africa's credit rating would probably fall to zero.

Nationalisation without compensation is clearly not on, but neither is nationalisation with compensation.

For this could lead only to a sharp increase in taxation and the Government finishing up with even less money to spend.

The only way a government can pay for the assets it nationalises isby borrowing huge sums of money. And the interest on that could be three, four or even five times the income it would receive from the industries it nationalised. The difference would have to come from the taxpayer's pocket.

Nationalisation with compensation would have other damaging effects on the economy, such as a steep rise in inflation through having to pay out investors; foreign reserves would be drained to repay foreign shareholders; taxation would be increased to compensate for any decrease in profits after nationalisation, particularly in mining, and by the need raise cash for new investments.

Appeals to stop panic share selling

Star 16/2/90 (49)

By Peter Fabricius, Political Correspondent

The Government and the Democratic Party have both warned against panic selling of shares in reaction to ANC leader Mr Nelson Mandela's remarks backing nationalisation and the armed struggle.

They were reacting to a R34 billion drop in the value of Johannesburg Stock Market shares since Mr Mandela's release.

Finance Minister Mr Barend du Plessis told Parliament yesterday he believed that balance and equilibrium would return to the jittery stock market.

He agreed with **DP finance spokesman Mr Harry Schwarz** that all major parties would abandon the policy of nationalisation once the real debate on economic policies began.

Mr Schwarz predicted that mines, insurance companies, banks and other major financial institutions would not be nationalised in the foreseeable future and would not be part of the post-apartheid economy.

He advised against over-reaction and said Mr Mandela's remarks should be seen in context.

It was clear that Mr Mandela had been in prison for 27 years and had made the remarks to avoid alienating himself from the ANC mainstream.

Mr du Plessis said if the ANC wished to be a powerful force in South African politics it would have to divorce itself from the "outdated policies of communism and nationalisation".

He said it was a great irony that the people who had demanded the steps which the Government had taken were selling their shares.

Mr du Plessis said there was no salvation for South Africa in the re-distribution of existing wealth. This would make South Africa go backwards.

The need was to create new wealth in order to distribute it.

Mr Schwarz said Mr Mandela's statements were not new.

What he said had already been set out in the Freedom Charter and had been consistent ANC policy for 30 years.

He said the references to the armed struggle were disappointing after the State President, Mr F W de Klerk, had put out the olive branch.

But he appealed to investors and others to wait to see what happened on the ground rather than listen to words spoken on understandably emotional occasions.

'People's govt must nationalise'

Star 17/2/90

(49)

LUSAKA — The secretary-general of the ANC, Mr Alfred Nzo, said yesterday he did not see why there had been "so much bother" about nationalisation.

Answering questions at a press conference in which the ANC's national executive committee responded to President F W de Klerk's initiatives, he said nationalisation had long been a part of government policy.

The National Party nationalised so many sectors of the economy and it is only when it sees power slipping from its hands that it goes for privatisation.

"When a democratic government takes power it will have as its first task the satisfying of the needs of the majority of the people, who have nothing. Where will it get the resources to do so?" he asked.

SA Communist Party leader Mr Joe Slovo said experience showed that the control of wealth determined income distribution. If control was left in the hands of a small group, there would be little chance of correcting imbalances. — Sapa.

Open deprivation to public debate

S/Times 18/2/90.

(49)

by Harald Pakendorf

IT TOOK three decades for the late Dr Nico Diederichs to move from a plea for the nationalisation of the mines and banks to becoming feted as Mr Gold.

And if Dr Diederichs could do it, there is no reason to believe Mr Nelson Mandela can't do the same.

Not that Mr Mandela has three decades, but he has the added advantage of seeing before his very eyes how such an approach leads to anything but a more just distribution of wealth.

It ought to take him less time.

And it probably will because, despite the hardline rhetoric Mr Mandela used on this issue during his last days in jail and in his first speech in Cape Town, there is already a shift of opinion within the ANC and its related organisations.

Power

What is needed is perspective and a closer look at what words mean.

Look at Nico Diederichs. When he was a young man just back from his studies in Germany, he wrote a document in the late 1930s which represented Afrikaner thinking on the economy.

In it he pointed out the relative deprivation Afrikaners were suffering economically and looked to ways to rectify it — then suggested nationalisation as a method.

That the National Party — on taking power in 1948 — used a form of what is sometimes called ethnic socialism, is true. It did so at a time when socialism was at its high point — but it never went so far as to nationalise.

The same Nico Diederichs, on becoming Minister of Finance some 30 years after his first document appeared, had changed his view quite considerably. It is a simple truth that those who *don't have* tend to look to those who *have* as a source for their own advancement.

And this is what is at the heart of what the ANC is saying.

The ANC is somewhat vague on its economic policy, but there is a consistent line, perhaps best expressed by Oliver Tambo in an interview in 1986.

He said: "We favour a mixed economy. There will be nationalisation at some point and to some extent. At what point and to what extent will be determined by the situation at the time.

"But the need for a redistribution of wealth is indisputable".

In fact, he is saying we cannot have so few rich people and so many poor people. And he is right.

Frightening

Not only would it make the situation in the country too volatile, but it is also manifestly unjust. It is a situation which ought to be addressed by all governments and this government will probably begin to do so in the March budget.

The only question on the table ought to be how best to do it — not whether it ought to be done.

If approached in this manner — and one can rid oneself of the cliches of capitalism versus socialism — a great step forward would have been taken.

Always remember the ANC is a mass-based organisation and has to look to its constituency. Its rhetoric might therefore sound frightening to those who are not part of the "masses".

National Union of Mineworkers education officer Alec Erwin has, in fact, indicated that within Cosatu — which is aligned with the ANC — there is a debate right now on this very question.

During his speech to the Idasa Paris conference late last year, he pointed out the massive problems of employment, poverty, housing, health, education and population growth. He said present economic policies did not take account of these.

It is this very fact that the ANC is addressing, in simplistic fashion, by calling for nationalisation.

But Erwin also pointed out the need to move away from viewing a solution from one or the other ideological position.

Also, it was noticeable in Mr Mandela's second speech at Soccer City that he referred to the debate around his call for nationalisation, but then dropped this word and simply pointed out the need to look after the problems which Erwin had also highlighted.

The ANC is looking to, in its own words, a fundamental socio-economic restructuring of the economy. Despite present rhetoric, it is not as sure as it was on how to go about it.

Just

The time is now ripe to make the issue of deprivation part of the public debate — not to talk about whether the State ought to assist the poor, but how it can best be done.

At this early stage of the debate, the ANC will probably not veer too far away from its stated position. But it is beginning to loosen up somewhat as events in Eastern Europe unfold.

But from the other camp, namely the Government and big business, it is equally necessary that the question be addressed in a non-ideological fashion.

Lyndon Johnson talked of a "great society". Perhaps we can call for a striving towards a just society.

It gets rid of the slogans and leaves the issue on the table.

Alternatives to nationalisation

49

[illegible] 18/2/90.

'ANC economic policy is out of date'

In the days ahead the ways in which black people gain economic power will make or break the South African economy – and, of course their own wealth with it. Are we to be saddled with old-fashioned policies that don't work, or will the freedom movement move with the times?

In this article, economic writer PATRICK MAFAFO suggests ways of achieving black economic empowerment without the built-in efficiency of and ruinous expense of large-scale nationalisation.

NOW that the country's three leading black political groupings, ANC, PAC and Black Consciousness Movement of Azania are free economic sense is needed.

Giving blacks economic power is a vital part of the liberation struggle, but how should it be done?

The ANC economic policy of nationalisation is well known. In a statement released through the UDF – the largest group inside South Africa supporting the ANC – the nationalisation of banks, mines and monopoly industries remains the policy of the ANC Nelson Mandela has confirmed this.

In the statement, Mandela says a change or modification of this view is "inconceivable". However, ANC secretary-general Alfred Nzo is reported as saying nationalisation can be negotiated with the companies to be nationalised.

This view is supported by South African Communist Party leader Joe Slovo.

The threatened organisations include Anglo American, Barlow Rand and Rembrandt. The ANC mixed-economy policy advocates their nationalisation. To say this will solve South Africa's economic ills is untrue. It will retard economic growth and fail to meet the aims of the ANC, which is to redistribute wealth.

The ANC policy comes at a time when the rest of Africa is privatising.

The ANC should look at its backyard, Zambia. So unsuccessful has nationalisation been there that rumour is it, too, is considering privatisation.

Furthermore, ANC view seems to contradict that of tratrade unions.

result, in Africa and Latin America, is the hollowness of political liberation without economic liberation."

This has resulted in much debate about whether political or economic empowerment should come first. Most analysts have argued that one is meaningless without the other, so strastrategies to achieve both must be devised simultaneously.

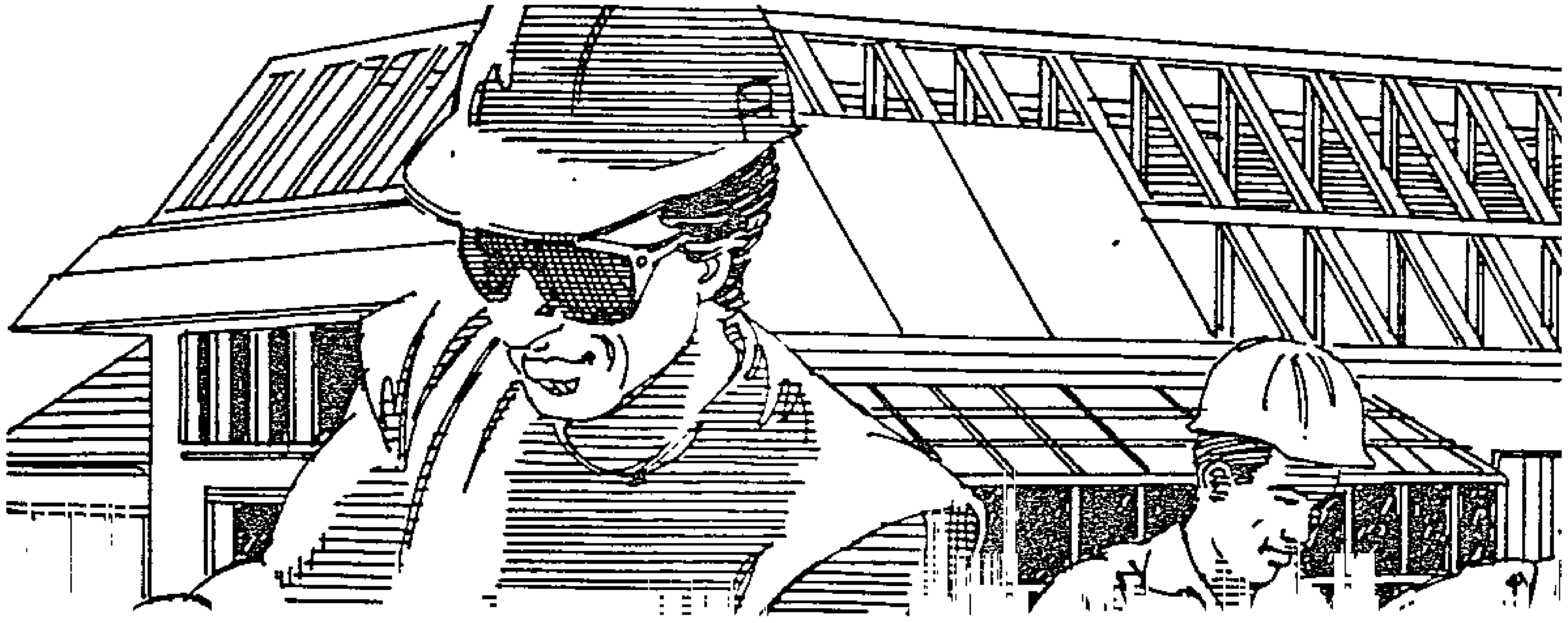
Black South Africans have also debated this. While recognising the fundamental importance of the attainment of political liberation it can be argued that economic liberation is neceneeded for effective political power, and this cannot be achieved through large-scale nationalisation.

The costs of nationalising mines, banks and monopolistic industries will run into billions of rands, unlike Zambia where the nationalisation of copper mines is said to have been achieved through foreign aid. With Eastern Europe changing, the wells of foreign aid are drying up. International financial institutions are unlikely to forward loans for such schemes.

The ANC's intentions are obvious and morally commendable. It seeks to improve the masses' standard of living by restricting profits and levelling incomes and fortunes by taxation.

It seeks to lower the rate of interest by making money easier to borrow. It seeks to raise the workers' standard of living by forcing employers to pay realistic wages. Like the famous English economist, Lord Maynard Keynes, it believes in big government spending. These measures are impelled by good intentions. It is the ANC's way of doing things that is doubtful. The means remain inap-

Joe Slovo, SA Communist Party leader ... flexible on nationalisation.



Business must have open options on the redistribution of country's wealth

49) 30) -

11A

BUSINESS groups in South Africa should always be in a position to determine whether there are ways of achieving wealth redistribution oth-

Everyone agrees there has to be some form of redistribution of wealth, but does it have to be [illegible]

While the scrapping of the Land Acts of 1913 and 1936 should be done as speedily as possible, the fundamentals should be left to the negotiating table.

A start will have to be made to reduce

nalisation. o say [illegible] South Africa's economic ills is untrue. It will retard economic growth and fail to meet the aims of the ANC, which is to redistribute wealth.

The ANC policy comes at a time when the rest of Africa is privatising.

The ANC should look at its backyard, Zambia. So unsuccessful has nationalisation been there that rumour is it, too, is considering privatisation.

Furthermore, ANC view seems to contradict that of tratrade unions. Recently Alec Erwin, economic adviser to Cosatu, said old-style economic thinking had to change. Cosatu, he said, had become more flexible, agreeing that some free market economic truths were more important than old political beliefs which "nationalised all industries".

The effect of well-intentioned but ill-advised policies such as that of ANC always result in a bureaucratised, law-ridden state that regards the redistribution of wealth as more important than its production.

It has been said that people do not learn either from historical experience nor theories. South African black political leaders are obsessed with political solutions.

What has been forgotten is the absence of economic opportunity as a result of three centuries of apartheid white rule.

African history is full of ruined societies born in liberation, only to wither for the lack of a solid economy. The idea behind black economic empowerment is that it should result in total independence from white political and economic domination.

A study on black economic empowerment by a black consultancy, Co-ordinated Marketing and Management Services, points out that less developed countries have tried to attain political liberation first "The

and levelling incomes and fortunes by taxation.

It seeks to lower the rate of interest by making money easier to borrow. It seeks to raise the workers' standard of living by forcing employers to pay realistic wages. Like the famous English economist, Lord Maynard Keynes, it believes in big government spending. These measures are impelled by good intentions. It is the ANC's way of doing things that is doubtful. The means remain inappropriate.

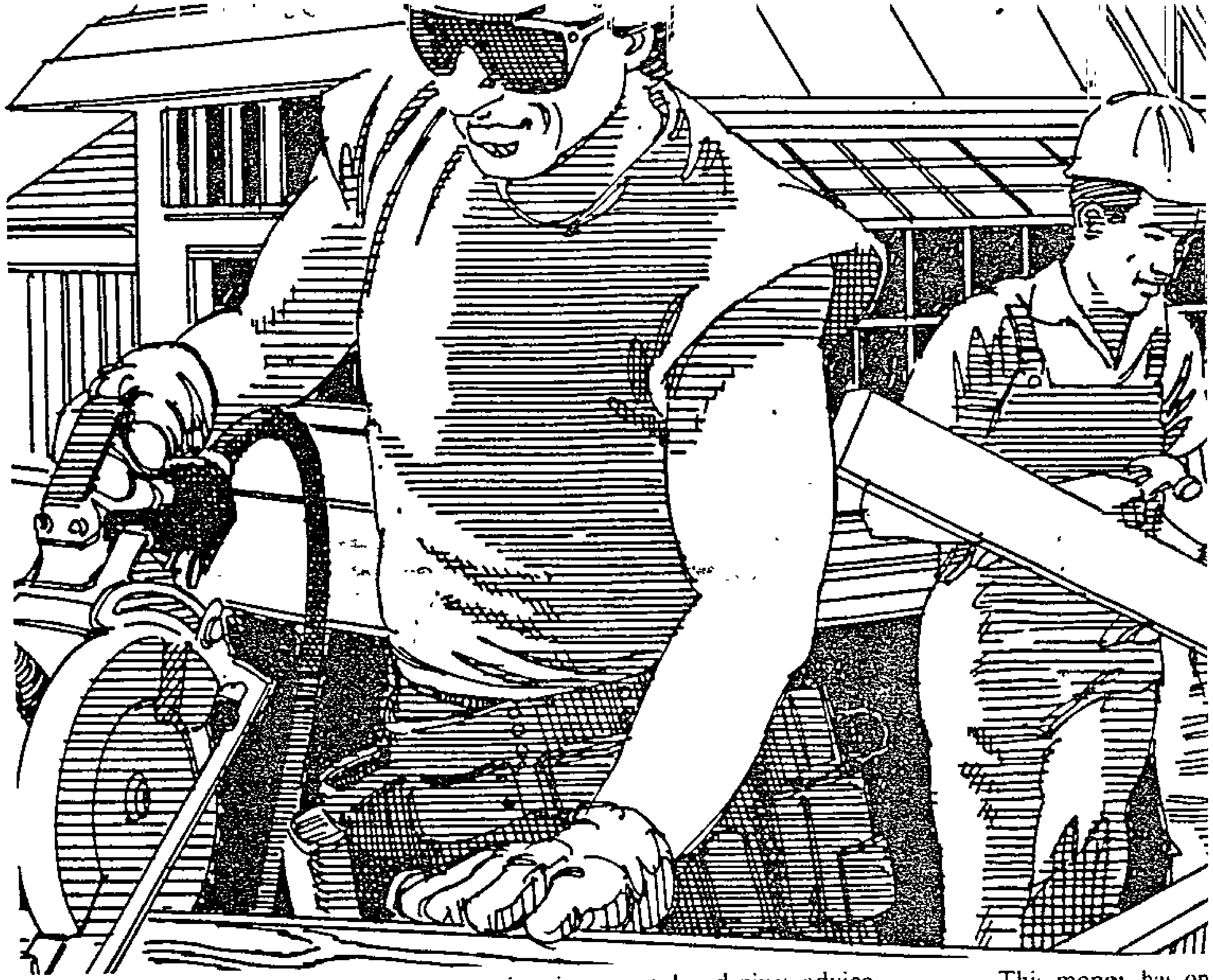
However, not all is lost. Other approaches exist to meet the ANC's desires. This will require a two-pronged approach. The existing government, through privatisation, and the major corporate sector – Anglo American, Sanlam, Barlow Rand, Rembrandt, etc – work through a process known in business as deconglomeration. This can be seen overseas where companies are selling subsidiaries that do not fit their main business.

The process should resemble that of Anglo American in the case of Gencor, one of South Africa's major mining houses. It is said Anglo helped the Afrikanervolk to acquire Gencor, to prevent the nationalisation of the mines.

On the other hand Anglo's head, Harry Oppenheimer said the group felt "it was not desirable that Afrikaners had no meaningful share in the mining industry".

Besides deals such as that of Gencor, the concept of deconglomeration should be accompanied by capital projects – large employment-creation projects such as Mosgas. First of these projects could be mineral beneficiation – making manufactured goods out of local raw materials.

South Africa is an exporter of raw materials. For instance gold. Countries buy raw materials from



us and in return we import processed gold, jewellery for an example.

Deconglomeration will cost a lot. Where will the finance come from?

The World Bank could fill up the gap.

The bank is divided into two divisions. One is the International Finance Corporation (IFC). It acts in the private sector in less-developed countries attempting to develop and encourage private enterprises. It takes shares in these companies. In return it raises capital and gives advice.

The other division is the International Development Association (IDA). IDA works in the poorest countries, lending funds for approved projects at heavily subsidised interest rates. Repayment periods exceed 50 years. It develops roads, waterways, power supplies, irrigation, etc.

There are also local lending schemes, such as stokvels, operating in the black community. Billions of rands are generated through these schemes.

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not earn either from historical experience nor theories. South African black political leaders are obsessed with political solutions.

What has been forgotten is the absence of economic opportunity as a result of three centuries of apartheid white rule.

African history is full of ruined societies born in liberation, only to wither for the lack of a solid economy. The idea behind black economic empowerment is that it should result in total independence from white political and economic domination.

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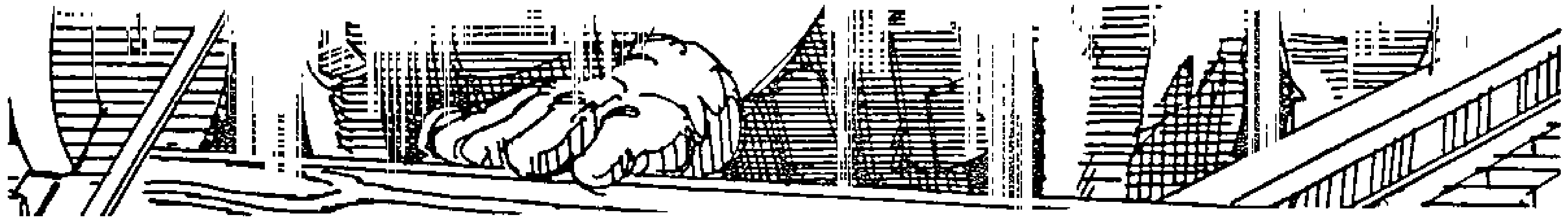

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Estimates are that 800 000 of these stokvel clubs generate about R200 million a month. This represents R2,4 billion a year, but this is money that does not give blacks economic power because most is not used to create wealth Through this system, white financial institutions such as Wesbank have financed close to R94 million of Sabta's minibus taxis.

Business must have open options on the redistribution of country's wealth

49) 30) -
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Everyone agrees there has to be some form of redistribution of wealth, but does it have to be done by nationalising large sectors of the economy? Here, DR SAM MOTSUENYANE, chairman of the National African Federated Chambers of Commerce points to some alternatives.

C Press 18/2/90

BUSINESS groups in South Africa should always be in a position to determine whether there are ways of achieving wealth redistribution other than through nationalisation.

A corporate restructuring of the economy, in which companies are persuaded to hive off chunks of their present productive assets and give them to the disadvantaged black majority in an attempt to hasten black economic participation and empowerment, is one.

Another is action by government and the private sector to aid the process of black economic participation by creating a suitable climate and appropriate mechanisms as well as legal and funding structures such as:

■ The United States Procurement Act.

■ Development agencies such as United States Small Business Administration.

■ The creation of trusts designed to enable blacks to acquire a meaningful stake in the economic life of the country in projects such as privatised companies and capital-generating structures like the Stock Exchange.

These options can be activated only when statutory apartheid has been scrapped, creating a climate of equal opportunity for all South Africans, regardless of race, colour, sex or creed.

In South Africa, land constitutes an enormous problem which underlies much of the conflict in our country today. One cannot see this problem eventually solved without the government taking over some land for equitable redistribution among South Africans.

The Beaumont Commission of 1914-16 came to the sad conclusion that the black share of land was woefully inadequate and recommended that above seven million morgen of additional land be allocated to blacks.

Until now the recommended quota has not been fully acquired

The ANC and Nafcoc support the concept of a mixed economy in South Africa.

The economy should have a public, private, small-scale family and co-operative sector, meaning that the government will have to run some State enterprises in almost the same way as is done all over the world.

The sensitivity of the land issue is now receiving government attention and reports say the government aims to dump the land Acts of 1913 and 1936.

However, the scrapping of these Acts will not go a long way in addressing the issue of redistribution. While some will be in a position to buy land at market value, the poor will remain disadvantaged.

While the scrapping of the Land Acts of 1913 and 1936 should be done as speedily as possible, the fundamentals should be left to the negotiating table.

A start will have to be made to reduce tension between ANC-favoured justice goals and economic production goals.

PATRICK MAFAFO reports the policy of the Pan Africanist Movement (PAM) calls for wholesale land nationalisation and redistribution.

PAM general-secretary Benny Alexander says the Africanist struggle is directed at dispossession, national oppression and economic exploitation and is "therefore a struggle for national self-determination of the African people".

"In a nutshell, our struggle against colonialism is a struggle against oppression and capitalism," he said.

The following economic principles guide the PAM:

Alexander says a free Azania should pursue an economic system that:

■ Shall ensure that labour power of the working masses shall not be exploited;

■ Shall ensure that all major sectors of the economy are controlled by the state for the well being of the economy and the citizens of Azania. This means transport, electricity supply, mining and water supply shall be in the hands of the state;

■ The economy shall be efficiently run to meet the needs of society in changing circumstances, not profits for individuals; and

■ It will encourage and set up co-operatives in both the agricultural and industrial sectors.

Sam Motsuenyane . . .land is an enormous problem.

49) 39 -

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S/Times 18/12/90.

49

Justice for ALL is the key to our post-apartheid economy

Dr Johan van Zyl

of the Development Bank of Southern Africa, examines the options for a post-apartheid economic order

FOR many years I thought the issue of "legitimacy" was only applicable to political parties and to political regimes. It never really sank home that such a yardstick could also be a crucial and possibly even a determining factor in societies deciding upon one economic system rather than another.

Yet the legitimacy question is of central importance in the discussion, debate and ultimately negotiation about a post-apartheid economic order for South Africa.

Legitimacy is not the only criterion for choosing an economic system. The more objective dimensions of efficiency and effectiveness are certainly also relevant.

Yet, unless an economic order is capable of eliciting substantial support over a wide spectrum of socio-economic and political interests, it will be rejected by politicians seeking majority support in a democratic dispensation.

This is especially likely in a deeply divided society still in the early stages of complex struggle towards a sense of national unity and purpose.

Such a democratic perspective as opposed to a more clinically rational approach may well hold some important lessons for both the powerful white business community and the government of the day.

If considerations of economic efficiency in attaining high rates of growth via a substantially market-orientated economy are to be given due political weight, the legitimacy issue needs to be squarely and openly addressed.

Efficient

Rightly or wrongly, there are strong feelings among many of the currently disenfranchised black majority that any economic system which explicitly encourages high growth via capital accumulation has little if anything to offer to the poorer communities of South Africa. The rich get richer and the poor get children.

The issue is deeply compounded if such a "capitalist" economic system should also be regarded by many (again rightly or wrongly) as having operated hand in glove with the immoral apartheid regime. Perceptions and visible images could quite easily carry the day.

Under circumstances such as these it should surely come as no surprise that considerations of justice and equity will assume prime importance in the minds of many if not most black South Africans and their leaders.

History contains much evidence that rationality is not a powerful mobilising force. In fact, in broad economic matters, people at large respond much more easily (some would say gullibly) to ideas of fair treatment, good neghbourliness and justice for all. In popular politics "socialism" simply has all the good words and "capitalism" all the bad ones!

Perhaps the basic problem with the famously efficient invisible hand of Adam Smith is that it is invisible.

If legitimacy should be accepted as a critical systems yardstick an important question arises: what are the prospects of the major alternatives currently being propagated?

The issues are inherently complex, but some broad outlines reflecting the efficiency vs equity/justice dichotomy can be drawn.

- ● The position of the free marketers would be: As much of the market as possible, combined with as limited government as possible.
- ● Proponents of a social market economy would argue: As much of the market as possible, together with as much government as is necessary.
- ● The socialist approach would turn the previous guideline around to read: As much government as possible, with as much of the market as necessary.

Crucial

All these approaches imply a "mixed economy". Yet the record of development experience shows that important differences are involved. Realistic growth prospects are not the same, and neither are the results of distributing the fruits of such growth to various segments of the population — especially the poor.

This is why all the popular talk about "a mixed economy" is such a cop-out. It simply (deliberately?) avoids all the hard issues:

- ● If most businessmen should find little for themselves in a "mixed" post-apartheid economic system, the production of income and wealth is likely to suffer badly and so would the potential for alleviating poverty.
- ● If the major black mass organisations remain unconvinced by the importance of free private enterprise for their own constituencies, they will pursue other "mixes", including the nationalisation of "the heights of industry and commerce".

Thus the nature of the "mix" is crucial.

The legitimacy criterion would tend to rule out the free market option as defined above. Despite its undoubted production efficiency, a free market system simply attaches too little visible importance to considerations of justice.

Whether we like it or not, a pertinent dimension of justice in a post-apartheid South Africa will be the redressing of past apartheid wrongs. The notion of government being as limited as possible hardly comes across as a serious attempt to address this deepy felt need.

At the other end of the spectrum, the approach of "as much government as possible" suffers from a crucial flaw in a development context — the lack of adequate public management.

[illegible]

developing world, including major reports by the World Bank, have stated unequivocally that "public management is among the scarcest of all development resources".

Given the above serious constraints it would seem that a pragmatic social market economy approach stands the best chance of striking a realistic and broadly acceptable compromise between equity/legitimacy and efficiency considerations. Interestingly, Namibia appears to have embarked on this course.

It would be highly advisable to put the issue of correcting past apartheid imbalances squarely and openly on the table. Then discussion and debate could focus immediately on the important questions of extent, expectations and delivery mechanisms, as well as the pitfalls involved. Post-independent Zimbabwe, for example, contains some pertinent lessons in this regard.

Overall, however, there can be little doubt that the alleviation of black poverty will be of central importance. In this regard much recent research into development programmes aimed directly at "the permanently poor" — as opposed to more traditional indirect approaches — has come up with some quite startling results.

Positive

This has now become a substantial subject, but a few important if unconventional conclusions can be briefly stated:

- The considerable development effort of the past few decades has generally failed dismally to reach the poorer half of the population in developing countries.
- Surprisingly perhaps, it actually works to trust the very poor and to take them seriously.
- The poorest of the poor respond positively to programmes aimed at stimulating self-reliance, human dignity and greater control over their own destiny. Hand-out and/or subsidisation approaches, on the other hand, do not produce these results.
- Useful practical guidelines for implementing such programmes over a broad front can now be drawn up with some measure of confidence.

The above approach, sometimes referred to as "human scale development", could hold important lessons for a post-apartheid South Africa.

If a future predominantly black government should wish to have "the resources at our disposal to address the poverty of our people", wide-ranging and relatively inexpensive programmes aimed directly at the poor may well be much more effective and less controversial than nationalising high profile business ventures in the white community.

Bonus for non-strikers

SA Transport Services has paid over R20million in bonuses as a reward to workers who did not go on strike ~~recently~~.

Sats labour manager Vic van Vuuren confirmed that a R200 bonus had been paid to about 120 000 non-strikers.

Sowetan 23/2/90

"Many people worked long hours in the face of intimidation," he said. "The bonus is a small token of appreciation for help in troubled times."

The payment also helped defuse the anger of non-strikers, some of whom initially refused to work with the strikers, Van Vuuren said.

He confirmed that some South African Airways technicians had refused the bonus.

Shareholders pick up profit peanuts

S/Times 18/2/90 49

By David Carte and Charmain Naidoo

THE ANC is considering nationalising parts of the private sector, but analysis shows that only 1,8c in every rand passing through 347 listed industrial companies went to shareholders last year.

A study by Aad Zevenberg of the Bureau of Financial Analysis at the University of Pretoria discloses that employees and the State received far more from companies than shareholders did.

Dividends came to R3,6-billion on turnover of R206,8-billion.

Professor Zevenberg says: "We do not have statistics about wages, but I imagine that labour would have taken about 30% of the total — R60-billion — the rest going to cost of materials, services and interest. The 347 companies paid R5,3-billion in tax.

"Profits before tax were only R18,77-billion, or 9% of sales. That slender margin has to fund tax, ploughback and dividends."

The Chamber of Mines says workers on gold mines received R4,9-billion and the taxman R2,4-billion from revenue of R18-billion in 1988. Shareholders' dividends were R2,2-billion.

Dividends from mines, which, unlike growing companies, are wasting assets, were 12,4c in every rand of sales.

Business counters Mandela demands

means of giving shares to whites ahead of black majority rule. It has been a worldwide trend for the past 10 years."

Amic last year added R2,3-billion to materials and services bought in. Wages took R1-billion, tax R337-million and dividends R239-million. Shareholders received a sixth of the benefit going to workers and the State.

Barlows generated R8-billion of wealth, of which R3,9-billion went to employees and R1,2-billion in taxes. Dividends came to R570-million. The State and workers thus received nine times more than shareholders.

Other businessmen are reluctant to accept that Mr Mandela's stance on nation-

Minding the store ... ARTHUR HIRSHOWITZ and GORDON POLOVIN move into retailing and hire purchase Picture: MARGOT WILLIAMS

Platteland home for

Goss, Heron ponder link

S/Times 18/2/90

Business Times Reporter

DICK Goss and Ian Heron, who resigned suddenly from Kersaf boards last December, may team up in private business ventures.

Stressing that he resigned from Kersaf's boards because he wished to, Mr Goss says he has plenty to do in "semi-retirement".

He has business interests and game farms and is still on the boards of Old Mutual and Safren, the company that controls Kersaf. Mr Goss says his Safren position should not be the cause of any conflict.

Cattle

He and Mr Heron say they are considering certain opportunities. Neither will disclose why they resigned.

Mr Heron says he has been offered corporate jobs, but may prefer to do his own thing. He has bought a 2 000 hectare cattle farm near Ficksburg.

Mr Goss was chief executive of SA Breweries until 1983. He and Sol Kerzner, then managing director of been independent with the Old Mutual as largest shareholder. Old Mutual chairman Jan van der Horst resigned from Anglo American's board because of the deal.

Mr Goss, a long-time friend of Mr Kerzner, became chairman of Sun International after the split from Southern Sun.

Mr Heron was managing director of the SA operations of Joy Manufacturing, an American mining machinery company, before he was made a director of Kersaf by Mr Kerzner.

The resignations have not been explained by the parties, but sources close to them say disagreement over the scandal involving payment of R2-million to Chief George Matanzima of Transkei sparked the fall-out.

Through the roof

PROPERTY prices are soaring in Cape Town and estate agents report that demand exceeds supply.

Cape Peninsula agent Carmella Seeff says house prices are up by between 20% and

By David Carte and Charmain Naidoo

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Dividends from mines, which, unlike growing companies, are wasting assets, were 12,4c in every rand of sales.

Slump

Statements by Nelson Mandela about nationalisation, the armed struggle and sanctions knocked the JSE off a peak of euphoria this week.

The JSE Actuaries overall index slumped 9% from a high of 3 386 on Wednesday last week to a low of 3 091 this Wednesday, before recovering to 3 139 on Friday.

Foreign investors suffered even bigger losses because of the financial rand's plunge. The London Financial Times gold-share index plunged by 22% in one week from a high of 372,5 to 288,3. SA industrials also weakened in London, Barlows and Amic each losing 9% on the week.

SA investors were flabbergasted at the emotional pattern of trading.

Mr Mandela's statements had business people up in arms.

Leslie Boyd, chairman of Anglo American Industrial Corp, said: "I left Britain because of Harold Wilson's disastrous nationalisation policies. Under government management my old company, British Steel, lost £10-billion, shed 150 000 jobs and nearly went bankrupt. Since its privatisation, it has been a winner.

"Mr Mandela was wrong to suggest on television that the privatisation drive was a means of giving shares to whites ahead of black majority rule. It has been a worldwide trend for the past 10 years."

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Other businessmen are reluctant to accept that Mr Mandela's stance on nationalisation was final. They believe he is sticking to ANC ideology, taking an extreme position ahead of negotiations, and (they hope) concessions.

Clem Sunter, chairman of Anglo American's gold division, said: "We believe that Mr Mandela and the ANC will drop all ideas of nationalisation in negotiation."

Justice

Mr Sunter, who had a three-hour meeting with Mr Mandela before his release, said: "He struck me as being an open-minded person, unshakeable on the issues of social justice. I am sure he is prepared to compromise on other issues."

Mr Sunter said foreign investors continually moved between euphoria and despair aboput SA.

"Taking the long-term view, I think some conditions for our high road scenario are being met. The critical factor now is that no party holds out for winner takes all.

"If there is no compromise, we are back to square one. It is essential for the high road scenario that we retain a free market. But we must also have an ideologically free society.

"We do not want to replace apartheid with Marxism.

● To Page 2

Crumbs

49

● From Page 1

People are fed up with ideology." S/Times 18/2/90

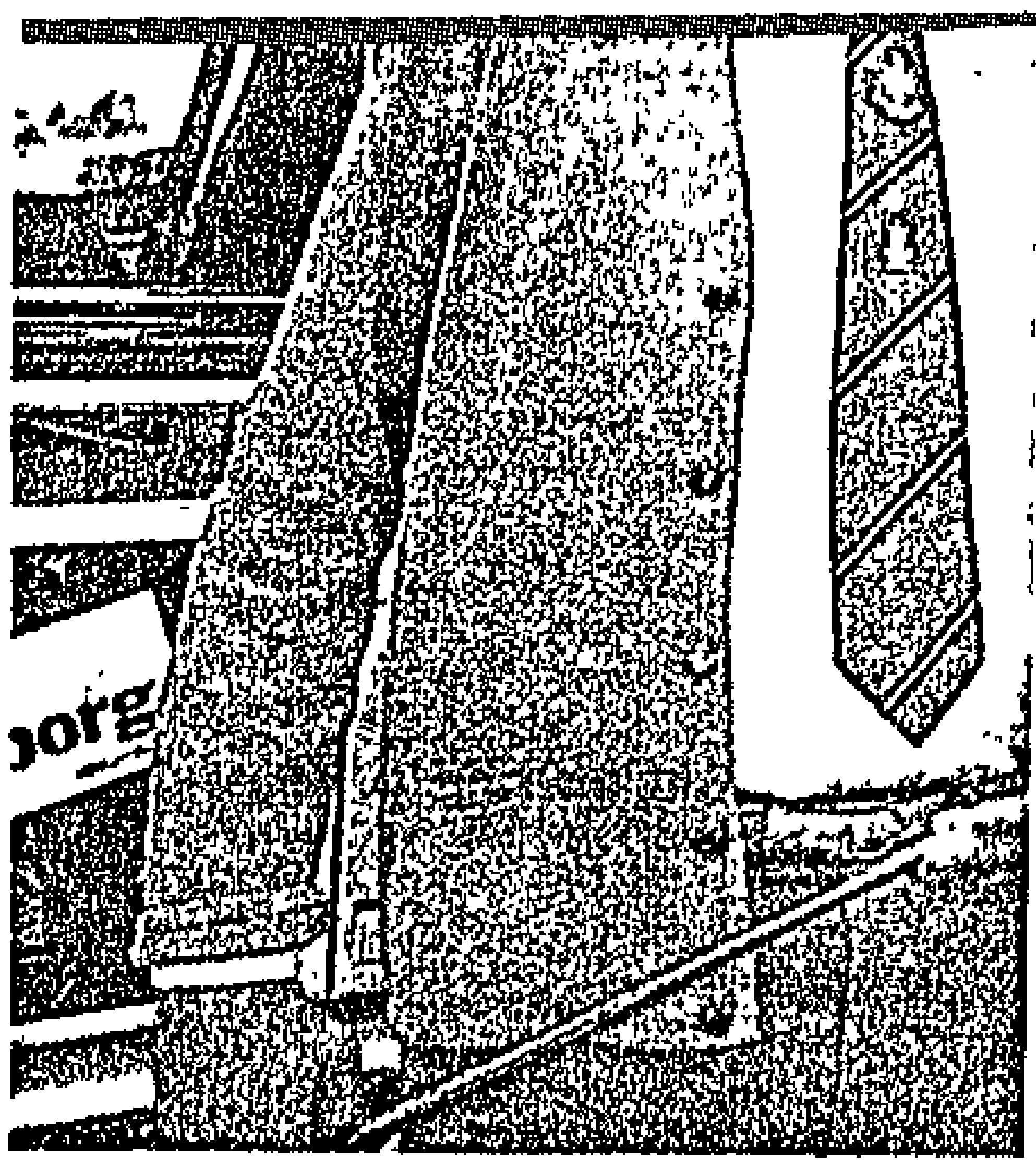
Handelsinstituut executive director Martin van den Berg said he had hoped that the East European experience would show the ANC that communism did not work.

"If we want the ANC to rethink its nationalisation ideals, we need to sell private enterprise in negotiation, and at grassroots level. (~~232~~)

"But we have no hope of selling it if there is no equality of opportunity. We must take away restrictions on black businessmen, and deal with educational problems."

Dr Van den Berg sid of the JSE panic: "I am holding my shares. If the market goes down, I will buy more."

SA Chamber of Business director-general Raymond Parsons said competition and private ownership "are necessary for efficiency".



Minding the store ... ARTHUR HIRSH
retailing and hire purchase

58

Plattelan
Colombia

S/Tim

Business Times Reporter

AFTER enriching shareholders who stayed with Columbia Consultants from day one by more than R45-million, founder Gordon Polovin has decided on his next investment.

He will pump a large part of Columbia's cash holdings into little Acrem, a JSE-listed chain of platteland stores.

Mr Polovin says: "We were a management consultancy turned investment banking operation. We brought several of our clients to market successfully. Now we have cashed in our chips and will focus on retailing."

Mr Polovin listed his business consultancy in October 1986. There were 20-million shares with a net asset value of 24c — capitalising the company at R4,8-million. Today, after disposing of 11 companies that it brought to the JSE, Columbia has net assets of 166c and 30-million shares in issue.

Although the companies Columbia brought to the market have been successful,
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Economy must keep growing — Mbeki

Argus 19/2/90

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JOHANNESBURG. — South Africa's economy will need restructuring, the ANC's foreign affairs spokesman Mr Thabo Mbeki said in an interview on SABC-TV.

He added that it would be wrong to avoid considering an element of nationalisation as part of a possible solution.

Mr Mbeki quoted President F W de Klerk as saying that there must be an improvement in the quality of life for all people.

To achieve that objective, the economy must continue to grow, because "without that expanding wealth naturally you have a smaller cake to share out".

The economy had been built "in the main, with an eye to securing the standards of living of essentially the white population".

The system of bantustans had been to exclude, Mr Mbeki noted: "What was in official language 'a surplus population' ... They were not needed by this economy.

"There ought not to be any surplus people in South Africa.

"So the economy would need restructuring and I'm saying it would be wrong from the beginning to exclude consideration of the element of nationalisation or the element of public property."

He said the recent changes in South Africa had possibly opened the way to a political settlement and that it would be better to get rid of apartheid by peaceful means.

Mr Mbeki said he believed the majority of white South Africans were opposed to apartheid and blacks and whites should therefore be able to unite in their opposition.

Presumably then, "these people who have acted together to change the past will have sufficient confidence and trust in one another to build the future". — Sapa.

Metals markets shrug off the Mandela factor

Star 19/2/90

(49)

By Neil Behrmann

LONDON — International concern about the political situation has set off a slump in the SA mining share market.

Yet it has had virtually no impact on international metals markets.

In fact, despite a sea change in the political outlook of both South Africa and the Soviet Union, metals markets are extraordinarily quiet.

With the exception of platinum, which rallied briefly earlier last week after Nelson Mandela's stated aim of nationalising mines, prices of most strategic and precious metals are relatively weak.

Most have traded within a five percent range over the past month.

Political and economic events in South Africa and the USSR are vitally important to the metals market.

The two resource-rich nations control most world reserves and dominate production of gold, platinum, rhodium, palladium, chrome, managanese, titanium and vanadium.

So far, however, markets are not worried about possible disruptions to supplies.

Although prices have rallied from their September lows, gold, platinum and palladium are at the levels of twelve months ago.

Chrome, managanese and vanadium — down by a third from January 1989 levels — are still depressed, says John Cox, a director at Wogen Resources, a London firm specialising in strategic minerals.

Only rhodium and titanium are reflecting supply concerns, he says.

Rhodium, a by-product of platinum, surged to $2,150 an ounce from $1,250 early in 1989, mainly because of production problems at a Rustenburg refinery.

Titanium prices slumped to a low of $7 from $14 a kilogram at the beginning of last year, but rallied sharply to $8,50 recently when transport problems and bureaucracy lowered supplies from the USSR, says Mr Cox.

Metals produced for the most part in South Africa and the Soviet Union are regarded as "critical" or "strategic" because they are vital for key industries.

They range from steel manufacturers and the aerospace industry, which need metals such as vanadium, manganese and chromium, to the oil industry and motor industry, which need platinum, palladium and rhodium for refining and anti-pollution purposes.

"The Soviet Union poses a far greater risk to supplies than South Africa," says Oscar Prager, a director of Ayrton and Partners, London metals merchants.

For the moment, the USSR is selling as much gold, platinum, palladium, chrome and other metals as possible to generate foreign exchange, he says.

Yet the mines' infrastructure and transport are vulnerable, he says.

It is too soon to judge events in South Africa, say dealers. The mines are well managed and understand world markets.

Despite the inevitability of periodic production hiccups, any white or black government will need to export as much metal as possible to generate foreign exchange.

Nevertheless it would be advisable for Western governments and companies to hold large stocks of strategic metals, says Jack Spence, a Leicester University professor who covers Southern Africa.

If negotiations lead to a swift and peaceful transition to democracy, control of the mines would remain in the hands of efficient managers who would produce enough for world markets, he says.

Alternatively, there could be "political and economic catastrophe" if there are not sufficient radical changes to satisfy a rapidly growing black population that will swamp whites in the next century, says Professor Spence.

Present demographic trends indicate that the number of blacks will rise to 37 million by the turn of the century and to 58 million by the year 2020 from present levels of 28 million, he says.

SA is already suffering from an acute shortage of skilled workers and the present education system is inadequate to rectify the problem, says Professor Spence.

Mbeki argues for nationalisation

JOHANNESBURG. — South Africa's economy will need restructuring and it would be wrong to avoid considering an element of nationalisation as part of a possible solution, the ANC's foreign affairs spokesman Mr Thabo Mbeki said in a television interview last night.

"We have to start off from the position that there is an objective to be obtained," said Mr Mbeki. "That objective is, if we are using (SA President) F W de Klerk's words, an improvement in the quality of life for all the people . . . then we've got to say well, how do you do it, and one of the first conclusions you would come to is that you need to ensure that that economy continues to grow . . . because without that expanding wealth naturally you have a smaller cake to share out."

The SA economy had been built "in the main, with an eye to securing the standards of living of essentially the white population".

The system of bantustans had been to exclude, Mr Mbeki noted, "what was in official language 'a surplus population' . . . they were not needed by this economy.

"There ought not to be any surplus people in South Africa.

"So the economy would need restructuring and I'm saying it would be wrong from the beginning to exclude consideration of the element of nationalisation or the element of public property," said Mr Mbeki.

He said the recent changes in South Africa had possibly opened the way to a political settlement.

Peaceful means would be most preferable in getting rid of apartheid.

Mr Mbeki said he believed the majority of white South Africans were opposed to apartheid and blacks and whites should therefore be able to unite in doing this. Presumably then, "these people who have acted together to change the past will have sufficient confidence and trust in one another to build the future".

Whites had severe misapprehensions about the ANC — that it was a communist-dominated group which intended imposing itself on the people of South Africa in a one-party state; that it harboured feelings of vengeance against white South Africans.

These misapprehensions needed to be addressed because a peaceful, political solution was otherwise unattainable, he said.

The angry reaction of the right wing at the reforms had been expected, but but they were a small minority. "It is very important that this small minority is not given the right of veto . . . it should not be treated as a force that blocks the source of change".

"I think we as South Africans have an understanding that it's not in fact terribly difficult to establish a feeling of common nationhood. You know, to sit and eat pap and vleis together — I mean, those are South Africans," said the ANC leader. — Sapa

Star 19/2/90 (49) ([redacted])

Trend to cut costs confirmed

No increase in SADF budget

**By Peter Fabricius,
Political Correspondent**

CAPE TOWN — The defence budget for 1989/1990 shows no increase for the first time in many years.

This emerged when the Additional Appropriation Bill was published in Parliament on Friday.

Zero increase

The additional appropriation provides for Parliament to vote extra money to make up shortfalls in the Government's estimated expenditure.

The zero increase in the defence budget confirms the trend to cut Defence Force costs as much as possible.

The SADF announced earlier this year that several units and projects were to be scrapped or curtailed to save money. It is also expected that the main defence budget to be presented on March 14 will also be lower than usual.

Most other departments have also kept their additional budgets to a minimum, providing further proof of the Government's determination to cut State spending.

The total additional budget — which will be debated in Parliament from today — is R1,343 billion, an increase of just over 2 percent on the original estimate of R63,570 billion.

Other departments which show little or no increase are: Audit (none); Development Planning (R1 000); Foreign Affairs (R1 000); National Education (R1 000); and Education and Training (R1 000).

One of the biggest savings is in the Department of Education and Training where a delay in the building of 16 black secondary schools cut costs by R20,839 million.

Among the notable increases are R3,688 million for new cars for the 66 new MPs elected on September 6 last year.

This is equivalent to R55 878 for each MP.

In the Justice Department budget there is a big increase in the bill for judges' salaries — from R16,2 million to R36,8 million.

B/Day 19/2/90 (49)

Govt spending comes closer to Budget target

MIKE ROBERTSON

CAPE TOWN — Government has come closer to sticking to its budgetary estimates than it has for decades, exceeding by just R163m, or 0,25%, the R65,017bn it set as an expenditure target in March last year.

In the Additional Appropriation Bill tabled in Parliament on Friday, Finance Minister Barend du Plessis has asked Parliament to approve an extra R1,256bn for departmental spending and R88m for statutory allocations in the current financial year.

Expenditure of R197m on items such as the Iscor flotation have already been financed, while the Defence and State President's Departments achieved savings of R180m. This has reduced to R966m the total extra funding Du Plesssis has asked Parliament for.

In the main Budget, he made provision for an extra R1bn in unforeseen expenditure which more than covers the extra R966m. However, for accounting reasons the expenditure already financed has to be included in the Budget, resulting in the revised estimates of expenditure exceeding the March estimates by R163m.

While Du Plessis said in his Budget speech the R1bn was for unforeseen expenditure only, an analysis of the explanatory memoranda from departments for the extra spending shows that at least some of them have utilised the contingency fund to get a second bite at the Budget cherry.

As with the previous financial year improving conditions of service for civil servants exceeded the budgetary allocation by 146% (R73m).

The increase stemed from a 12% salary hike for teachers with effect from March 1 this year and improved housing subsidies for civil servants.

The Department of Trade and Industry received R223m, the largest extra allocation.

Other departments which have asked for large extra amounts are the White Own Affairs Administration (R137m), Development Aid (R198m), Finance (R113m), National Health (R66m), the Coloured Own Affairs Department (R66m) and Police (R50m).

The increase in the Development Aid vote includes an extra R215m in assistance to governments of self-governing territories, which has been off-set by savings in other areas.

Call for businessmen to address injustices

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BDay 19/2/90

CHARLENE SMITH

BUSINESSMEN should come up with creative ideas to redress past injustices instead of trying to berate blacks out of socialist preferences and desires for nationalisation, said JCI economist Ronnie Bethlehem.

Nationalisation has become a central issue since Nelson Mandela's recent statement that he supported the nationalisation of mines and banks. Businessmen from some major corporations are known to have had special meetings this weekend to discuss the issue, its implications and their approach.

Bethlehem, who made it clear that he did not think nationalisation was a solution, said businessmen had to address the matter more creatively and not dismiss it out of hand.

"There are historical injustices that need to be addressed and deprivation will continue unless action is taken, but the state should not be the sole patron of a changing economy."

Bethlehem argued for a restructuring of the economy.

"Now we are into the role at the political level where the ANC and government are promoting each other as credible negotiating partners.

"On the economic side the need for glasnost is urgent.

"Business and labour have different ideological perspectives, they have to recognise their differences but find areas where they can co-operate and be supportive to provide the growth the economy needs to spread wealth to the areas the ANC desires, such as housing, health and education."

Bethlehem said that despite the staggering demographics of SA — population growth of 2,5% per annum, black urbanisation of 7,5% per annum and a black matric population increasing at over 20% per annum — SA could achieve a 5%-7% GDP growth once the political situation had normalised.

Socialists

Bethlehem suggested restructuring such as Anglo American's share incentive schemes or the promotion of small businesses.

But, taking bolder steps, he said businessmen should work creatively with socialists in the community, for example they could promote co-operatives, and perhaps even help them by seconding management to assist the co-operatives.

They could become involved in joint ventures and liquidate loans to start them off from surplus interest. They could create trusts of the sort Ford created when the parent company withdrew from SA.

The state could reduce expenditure in fields like defence and increase it in health and education. "If the private sector is prosperous it will have more tax money to feed into the public sector."

Nedbank economist Edward Osborne said Nedbank had no official policy on nationalisation but he was personally against it. He said that as apartheid went, the reduction in the multiplicity of administrations would result in cost benefits, but, for example, the implementation of a single education department would only result in a saving of about 2% to that department.

Anglo American economist Aubrey Dickman said he did not know if there were easy ways to redress historical inequalities, but he felt nationalisation would crush the economy.

He said there was no free enterprise at present but the opening of opportunities could change that. What was important, he said, was not redistribution but increased growth.

Govt spending needs to slow down sharply

BDay 19/2/90

(49)

GRETA STEYN

GOVERNMENT spending rose 21,7% in the 10 months to January — signalling the need for a sharp slow-down in the last two months of the fiscal year if President F W de Klerk's predictions on spending are to be realised.

In his opening speech to Parliament De Klerk said spending in the current fiscal year would be close to the Budget.

Spending was budgeted to rise by 15% to R65bn.

However, there is still scope to reach the year's target. On a pro-rata basis, government is slightly behind on its spending. So far, R53bn has been spent — about 81,5% of the total Budget instead of 83%.

If last year's binge in the final two months, especially March, does not occur, De Klerk's prediction will be realised.

On the revenue side the boom continues, with the increase running at more than 38% after 10 months of the fiscal year. For the full year, revenue was budgeted to rise by only 16%.

Economist Louis Geldenhuys, of stockbrokers George Huysamer, predicted the overrun on revenue could be as high as R4bn, bringing total revenue to R59,1bn.

So far R53,8bn has been collected, compared with a budgeted R55,1bn for the full year.

"The main reasons for the overrun include conservative estimates of individual taxes, customs and excise income and company taxes.

Borrowing

"The economy was more buoyant than government expected and fiscal drag also brought in more," he said.

Geldenhuys expects spending to be close to the budgeted figure.

He predicted the revenue boom should result in a deficit before borrowing of below 3% of GDP for the current fiscal year.

● See Page 4

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Thabo Mbeki clarifies ANC view on economy

Element of nationalisation at least part of a solution

South Africa's economy will need restructuring and it would be wrong to avoid considering an element of nationalisation as part of a possible solution, the ANC's foreign affairs spokesman Thabo Mbeki said on SATV last night.

"We have to start off from the position that there is an objective to be obtained," said Mr Mbeki.

"That objective is, if we are using (SA President) F W de Klerk's words, an improvement in the quality of life for all the people ... then we've got to say well, how do you do it, and one of the first conclusions you would come to is that you need to ensure that the economy continues to grow ... because without that expanding wealth naturally you have a smaller cake to share out."

The SA economy had been built "in the main, with an eye to securing the living standards of essentially the whites".

The system of bantustans had been to exclude, Mr Mbeki noted, "what was in official language 'a surplus population'. They were not needed by this economy.

"There ought not to be any 'surplus' people in South Africa.

"So the economy would need restructuring and I'm saying it would be wrong from the beginning to exclude consideration of the element of nationalisation or the element of public property," said Mr Mbeki.

Peaceful means

He said the recent changes in South Africa had possibly opened the way to a political settlement. Peaceful means would be most preferable in getting rid of apartheid.

Mr Mbeki believed the majority of white South Africans were opposed to apartheid and blacks and whites should therefore be able to unite in doing this.

Presumably then, "these people who have acted together to change the past will have sufficient confidence and trust in one another to build the future".

Whites had severe misapprehensions about the ANC — that it was a communist-dominated group which intended imposing itself on the people of South Africa in a one-party state and that it harboured feelings of vengeance against the white South Africans.

These misapprehensions needed to be addressed because a peaceful, political solution was otherwise unattainable.

"The ANC should not be demonised in the eyes of the people but I think equally that the National Party should not be demonised in the eyes of the people," said Mr Mbeki.

The angry reaction of the right wing at the reforms had been expected but they were a small minority. "It is very important that this small minority is not given the right of veto.

"It should not be treated as a force that blocks the source of change."

What had inspired the ANC for years and still did so was the vision of a South Africa which belonged to all its people.

Springbok team

"A South Africa in which it should be possible that we could all get together and watch a Springbok team whether all blacks or all whites. That we would all of us cheer and all feel that this is our thing.

"I think we as South Africans have an understanding that it's not in fact terribly difficult to establish that feeling of common nationhood. You know, to sit and eat pap and vleis together." That is South Africa, said the ANC leader. — Sapa.

Bank subsidiary's affairs to be wound down

Staff Reporter

The affairs of Kolektor, Trust Bank's debt-collecting subsidiary, are to be wound down after the discovery of several irregularities which led to the dismissal of its managing director, Mr Vic Lilje, last week.

Trust Bank senior general manager Mr Jan Kuhn said yesterday that an internal investigation had been carried out after rumours in the media.

"An internal investigation team from our audit division went into the matter thoroughly. They discovered several irregularities which we decided we could not live with, and therefore steps were taken."

Those measures had resulted in Mr Lilje's services being terminated and the suspension of two senior officials of Kolektor, Mr Cornelius Mostert and Mr Hennie van der Kruit, who now face disciplinary hearings.

Mr Kuhn denied these events were related to the resignation last November of Kolektor chairman Mr Kobus Roetz.

(When asked for comment, Mr Roetz said he had signed an agreement not to talk to the media about his departure.)

Losses incurred were not substantial and would not affect Trust Bank's profitability.

So far no criminal charges were being investigated.

Mr Kuhn said the irregularities, which occurred in the Bedfordview area, concerned the process used by Kolektor to bring in doubtful accounts.

Kolektor would become dormant. Future work would be referred to the legal department.

If it's cash you need try not frighten off the capitalists

49

MDay 19/2/90.

KEN OWEN

LIKE Rip van Winkel, I seem to have emerged from a long sleep to find the world upside down. At a time when I was too sick to care, President de Klerk adopted at last the course of action urged on him and his party by desperate liberals since the early sixties.

Essentially, he freed up the society so that it could begin to adjust. The results, occasionally tragic, often moving, usually hilarious, have been quite satisfying. Occasionally, of course, it has been a bit nerve-racking.

The release of Nelson Mandela was first celebrated, appropriately, by the looting of a booze shop — an early example of the policy of appropriating other people's property to which Mandela immediately gave his support. Nationalisation is at heart the policy of the hooligan.

UDF marshals, missing the point, tried to stop the looting and got roughed up. It's a mistake to get between a freedom fighter and his bottle.

For me, since I fancy myself as a connoisseur of folly, it was a satisfying demonstration of two ancient political truths: that in an immoral society, those who seize the moral high ground are likely to be criminals, and anyway the shock troops of any revolution are likely to be psychopaths.

Mandela, however, was apparently shaken by the rough stuff. He preserves, as does Walter Sisulu, a Studebaker-era civility. He has not quite grasped that these days we fight for freedom with our little boxes of matches and our necklaces. To coin a phrase.

So he sneaked into Soweto through the back door, via Lanseria and Honeydew, and had to rely — oh, exquisite irony! — on a police road block to cut off the pursuing journalists. For the Mother of the Nation, clinging demurely to his fingers, it must have been a new experience to evade the cameras rather than to court them.

But in the end, the grand spectacle of his homecoming to Soweto went off, I thought, rather well.

Others thought differently. Foreign investors, the flightiest of all human species, listened to Mandela repeat the drivel of the Freedom Charter, cried "Omigod, a commie!", and ran for cover. Like President Botha at Rubicon, Mandela used his first opportunity on an international stage to display his incompetence to run a modern economy.

In this incompetence he is not unique. Nico Diederichs, too, talked of nationalising the gold mines (back in the thirties) and showed in the mid-seventies how quickly a fool at the top can ruin an economy.

We are still struggling with the consequences of his incurable conviction that wealth was something one took from the mining houses, and spent.

Alfred Nzo, life-long communist and secretary-general of the ANC, has the same idea. He justifies the ANC's intention to nationalise the gold mines and other businesses on the grounds that the new government will need money to carry out its purposes.

The morality is that of the late Ceaucescu: I want it, I take it. Ceaucescu looted Romania in part to satisfy his wife's insatiable lust for shoes, and Nzo may well have nobler ends in mind — but, then, Ceaucescu also began with noble purpose. As did, I'm sure, Stalin and Pol Pot.

Some of our more eminent clerics and their families have given us a fair idea of the lifestyle which the New Elite has in mind for itself — a kind of jet-setting with moral superiority — and a trade union has already ordered Mandela a car fit for Azania's first wa-Benzi. That sort of thing costs more than Mrs Ceaucescu's shoes.

Perhaps, if it's not rude, this is the time to mention that this country's annual income, divided equally, would give every person about R450 a month. If Nzo wants Ceaucescu's lifestyle, or even Archibishop Tutu's, he had better think of ways to keep the money-making capitalists in the country.

Joe Slovo, whose socialist principles are changing faster than the governments of Eastern Europe, has quickly taken the point. He says nationalisation is a matter for negotiation.

Such sweet reasonableness from a man who, until his totalitarian world collapsed, was obdurately impervious to Arthur Koestler and George Orwell, to Albert Camus and Sydney Hook, to Solzhenitsyn and Yevtushenko and to Milovan Djilas, is a surprise. It goes to show what doubt can do for an honest man.

Forgive me for thinking he really means, "Capitalists, please don't run away with your money until I've got my border police and exchange controls in place. I'm going to need cash, and plenty of it."

Actually, the Slovos and the Nzos worry me less than they once did. They will not, as the nervousness of the markets suggests, find the democratic world hospitable to half-reformed Stalinists, and it will not be long, one suspects, before the ANC itself tries to shake off the stigma of its association with the SA Communist Party.

What does worry me, as the police step back to allow free play to the political forces that have been seething below the surface of oppression, is the savage totalitarian spirit which prevails in the townships.

The past decade has done terrible damage to the fabric of black society which, by brutalising its youth with public executions by fire, by applauding thuggery and conducting a war against institutions of learning, by elevating killers, hijackers and thieves to role models, has undermined respect for life, property and order.

Aggrey Klaaste, editor of The Sowetan, as usual a lone, brave voice, has correctly put the responsibility on adult society. I would go farther and observe that the ANC itself, the UDF, the MDM, the black consciousness organisations, and many of the trades unions display a murderous intolerance of any opposition.

The dirtiest little secret of our time is the number of murders committed by union members in the course of "recruitment". The facts are known to employers and unions, to police and labour lawyers, and often to journalists. But we have for so long condoned some killings while condemning others, and applauded mob violence while condemning police violence, and overlooked kangaroo court executions while campaigning against the death penalty, that our moral sense has become corrupted; we remain silent.

This corruption is inherent in the insistence on conformity — the demand for solidarity, and the hostility to dissent — which is socialism's distinguishing characteristic.

That notorious Italian socialist, Benito Mussolini, put it succinctly: "We were the first to assert that the more complicated the forms of civilisation, the more restricted the freedom of the individual must become."

Burke said the opposite: "Men are qualified for civil liberties, in exact proportion to their disposition to put moral chains upon their appetities: in proportion as their love of justice is above their rapacity."

There is, perhaps, reason to hope that when Nelson Mandela called for "discipline", he was quoting the liberal Burke, and not the socialist Mussolini. The coming months will tell.

LETTERS

Budget reflects govt resolve to cut spending — Barend

(49)

MIKE ROBERTSON

CAPE TOWN — The Additional Appropriation Budget, which exceeded his March estimates by just R164m or 0,3%, demonstrated government's resolve to control public expenditure, Finance Minister Barend du Plessis said yesterday.

This hard-won discipline would have to be maintained at all costs if government was to succeed in implementing fiscal reform needed to put the economy on a sustainable growth path and to support the emerging socio-political reform process, he added.

The revised estimate of expenditure was R65 181bn.

Du Plessis said he accepted that some departments had utilised his R1bn contingency fund to get a second bite at the budget cherry, but this was because they were adjusting to a new form of budgeting.

As departments became used to the new form of budgeting, the contingency reserve would be used almost exclusively for emergency expenditure.

Releasing details on how government planned to spend privatisation revenue, Du Plessis said R87,9m of the R3bn raised by the Iscor flotation would be used to pay for the costs of the listing.

Privatisation

The remainder would be available for reducing public debt.

Of the R90m raised by the privatisation of the SA Mint, R70m was being used to augment the capital of the SBDC (R50m), development corporations in self-governing territories (R17,7m) and the SA Development Trust Fund (R2,3m).

He said that while government expected extra statutory expenditure of R404m, this would be offset by the provinces' R180m saving and an expected R136m saving in the servicing of State debt.

He said it was difficult to predict exactly what the saving on the servicing of debt would be.

Predicting the actual saving was also made difficult by the fact that the State was raising loans to ensure monetary stability, he said.

Du Plessis said significant expenditure categories included in the additional budget were: industrial services (R130,9m), civil pensions and contributions to funds (R83,5m), protection services (R68,2m), bread subsidy (R35m) and water schemes (R24m).

Rapid economic growth in 90s — Sanlam chief

By TOM HOOD, Business Editor

ARGUS 21/2/90

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Dr Abie van den Berg

THE nineties could be far better then the eighties in South Africa, with more rapid economic growth, the creation of more jobs and a higher standard of living for all, says Sanlam's chairman, Dr Abie van den Berg.

This would depend on the country making adjustments in economic policy, on the public and private sectors working together and on regaining access to foreign capital.

Speaking in Bellville today at the 71st annual meeting of the insurance giant, he said the eighties had certainly not been a good time for the South African economy.

This was due to an average growth rate of 2 percent, inflation of 15 percent, some of the worst droughts in living memory, large sums spent on defence and financial sanctions.

FINANCIAL POSITION

As a result not enough jobs were created and the average citizen's financial position deteriorated noticeably.

Even though hard times might lie ahead, there was reason for optimism.

Obstacles in the way of the political accommodation of various interest groups in the country had been removed.

"This will no doubt make a major contribution to a more stable and relaxed domestic situation and the normalisation of South Africa's foreign relations — both essential for the economic progress we are striving for."

Dr Van den Berg said it was heartening that the State President and the Governor of the Reserve Bank had formulated the following goals to put the economy on a sound footing:

- Reduction of the public sector's role in the economy.
- Reallocation of State funds and stricter control over their use.
- Decreasing the tax burden, particularly on individuals.
- Promoting deregulation and privatisation.
- Lowering the inflation rate.

"I believe we can reach these goals only if they are pursued within the framework of a comprehensive strategic plan and if we avoid the ad hoc actions of the past."

INVESTMENT CONFERENCE

Education to get more ㊾ — Barend

JOHANNESBURG — The SA government has never nationalised any private enterprises, Finance Minister Barend du Plessis said yesterday.

Speaking at the Frankel Kruger, Vinderine Inc investment conference, Du Plessis said that to talk at this stage of nationalisation, despite what was happening in Eastern Europe, was to turn back the clock 100 years. Hardly anyone would wish to invest in such an economy.

"The contrast in living standards between Eastern and Western Europe is a stark reminder of the folly of espousing the principles of Marxism as a policy base for economic growth. I am sure that good sense will prevail in the end.

"Besides, privatisation of public enterprises is a process underway in all developing countries, including the countries of Eastern Europe."

Support

He warned that the mere redistribution of existing wealth and income was a recipe for stagnation and poverty. The African countries surrounding SA could confirm this.

Avenues to increase the earning capacity of the less privileged included education and training, which would receive greater financial support in future.

Du Plessis cautioned, however, that while imbalances which may exist were being addressed, it would be futile and counter-productive to argue that these could or should be corrected overnight.

Turning to trade unions, Du Plessis said they had a vested interest in a sound and growing economy which generated employment opportunities.

"How else can we improve the standard of living of the entire population and prevent the problem of structural unemployment and under-employment becoming endemic?"

Unmotivated strikes and intimidation did not serve the long-term interests of the economy, but instead reduced labour productivity.

Referring to the government's reform process, he said it was of no avail if the state had the best available programmes for structural economic reform but neither the will nor infrastructure for their implementation.

B/Day
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Spirit

While government was committed to guiding the economy on a course of more rapid growth, it was not the only player in the game.

"It can thus only express the hope that the other participants will join hands in the same spirit, to build a new SA," he said. — Sapa.

Simplistic ideologies distorting the debate about SA economy

B/D 4 4/2/90

(49)

STEPHEN GELB

THE debate about South Africa's future economic direction and policy has started badly. There has been widespread panic and hysteria, in the financial media and more ominously in the financial markets, following Nelson Mandela's unsurprising expression of support for nationalisation.

This reaction is probably merely a foretaste of what to expect if such policies were ever actually pursued; if it continues it will become an obstacle to progress on the central issues confronting the contending interests in our society.

Seen in this light, the reaction from financial circles to events since February 2 has been destabilising, in the same way as the response of groups such as white right wingers.

Eastern European developments are inevitably casting a long shadow over the South African debate. In the West the discussion of these developments has, in the view of J K Galbraith, the distinguished liberal economist, often "been aberrant to the point of insanity ... (This approach) can best be denoted Simplistic Ideology (which) pictures a starkly bi-polar world.

"On the one side, capitalism. On the other, communism. Each exists in its unadulterated form."

Ronald Reagan, typically, captured the essence of this approach: "We won". But recent contributors to Business Day fall into the same category.

It would be disastrous if the debate in SA were to continue further along this Simplistic Ideology path. To avoid this, we need above all to acknowledge that, just as socialism eastern European-style has failed, so too has capitalism South African-style failed.

Broadly speaking, the dimensions of these failures are the same — neither system has been able to deliver adequate and appropriate levels of consumption to the majority of its populations. Furthermore, neither system when it came under pressure proved capable of adapting to the new demands it faced, as a result of rigidities in their political and economic institutions.

But the failure of eastern European socialism is more complex than simply that of nationalised ownership. Central planners in these countries gave, from the late 1920s, absolute priority to investment in heavy industry. This bias became, in effect, "an economic law".

This produced economic growth which brought the emergence of urbanised working and middle classes, so that consumer demand became more sophisticated and varied. While the system of central planning proved quite capable of supplying basic consumer goods and services — housing, education, health — it is evidently too inflexible a mechanism to deal with a more complex structure of demand.

As Galbraith notes, it is this inability to adapt which is the real cause of the collapse of the model of socialism — nationalisation plus central planning — developed in eastern Europe. And by contrast, it has been the capacity of capitalism to transform itself in response to its numerous convulsions which has enabled it to survive in the West.

These adaptations of the capitalist economy survive even in societies such as Thatcher's Britain, which have recently moved closer to the "true and pure principles of the market-orientated, competitive economy" for which SA Chamber of Business director-general Raymond Parsons expressed support. Nonetheless, these policies, it needs underscoring, have been implemented at the cost of a significant deterioration in these economies' fulfilling their fundamental tasks of feeding, clothing, housing and providing work for all their citizens. And there is mounting evidence of a high cost also in terms of macro-economic performance.

Behind SA's long-run economic crisis of the past decade-and-a-half — the decline in growth rates and productivity improvement — does indeed lie the inability of our economic institutions to adapt to new pressures, emanating from both the international economy and domestic policy.

These inflexible institutions include not only those directly part of apartheid, but also the massive bureaucratic organisations which predominate in the private sector.

It is quite inadequate to suggest that simply replacing apartheid with pristine individualist liberalism as the underlying principle of our economic system will resolve the shortcomings.

As in eastern Europe, the clear priority in SA is to improve consumption levels and living standards for the mass of the population, that is, blacks. This priority is dictated by the weight of history — the poverty and inequality which is the legacy of apartheid — and the need to reduce the potential for future conflict.

Achieving this will demand both the rejuvenation and the reorientation of production, that is, boosting productivity levels and shifting the emphasis towards producing basic goods.

Although everybody talks about the need for both growth and redistribution, this unanimity may be merely appearance. The furore over nationalisation suggests there remains a wide gap over the central economic policy issue facing SA: the "time horizon" for raising living standards.

In terms which echo loudly in SA today, the great Cambridge economist Joan Robinson commented more than 20 years ago on an earlier reform attempt in eastern Europe: "The choice is between an increase in consumption in the relatively near future, by directing investment into light industry, and a greater increase in consumption in the more distant future by maintaining investment in basic industry."

The actual outcome may depend on the process through which the choice is made. Rapid rises in black consumption are far more likely if they are agreed upon via a collective self-conscious social process, rather than being left to independent private decisions. One important reason is that, like the central planning bureaucracies of eastern Europe, the privately-owned conglomerates in SA are resistant to changing their established patterns and practices in production and distribution. (Indeed, private bureaucracies are no more fertile a ground for *individual* initiative than those of the state.)

A collective and self-conscious social process to determine economic objectives? This, of course, means economic planning. But economic planning need not be based on nationalised ownership, though it does require the capacity to direct resource flow.

This capacity is the end to which Thabo Mbeki referred in identifying nationalisation as one means. But, in the South African context, the issue of ownership may be quite secondary. We need instead to think about economic planning and other policy institutions which reflect our present political reality — that is a society fractured along racial, socio-economic and indeed gender lines, creating an array of social forces with widely divergent interests.

Like the political system which will hopefully emerge from the process of political negotiations now starting, economic planning institutions in a future SA will have to be both democratic (that is, allow decisions "by the people", collectively) while providing a forum for the resolution of conflict among competing private interests.

The need is for debate about what this will involve in detail, rather than remaining trapped under the weight of "Simplistic Ideologies".

☐ Gelb is co-ordinator of the Economic Trends group, which does research commissioned by the Congress of South African Trade Unions (Cosatu).

February 1990

smr ([illegible]) (49) ([illegible])

FW's reforms 'not a result of sanctions'

Sanctions had not brought South Africa to its knees and it was a misconception to think that the State President had been forced in any way by sanctions to make concessions the **Minister of Finance, Mr Barend du Plessis,** said yesterday.

Replying to debate on the Part Appropriation Bill, Mr Du Plessis said it was arrogant of the ANC to think it held the trump cards on whether or not sanctions should be applied.

"The facts are that the US is providing aid to countries which are moving away from communism, socialism and other unsuccessful systems and the ANC will not be able to rely on them for too much longer.

"They are making a fatal mistake if they think the West has helped them to win.

"Now that the opportunity is being given for arguments between policies, the outdated policies of the ANC have evoked strong criticism worldwide.

"Overseas television showed an incident in Soweto at which a red flag was present. This 10-15 seconds of international TV time has enabled us to buy things we have not been able to do for many years. This exposure showed the outside world the close bond between the ANC and the SA Communist Party.

Trade sanctions had succeeded momentarily until the country was able to come to grips with the situation and found new markets. Many jobs and much wealth had been lost, but this had brought the best out of exporters.

A ceiling had been placed on economic growth.

"During the last decade we had an average economic growth rate of 1,6 percent, which was hopelessly too low. During the first eight years of the decade we had a 1,2 percent growth rate and experienced a growth rate of 2,9 percent during the last two years.

Mr Du Plessis said South Africa had signed contracts with foreign banks which it could honour and was not affected by sanctions. — Sapa.

Disapproval of nationalisation

Star 21/2/90

The Johannesburg Stock Exchange and the financial rand have clearly signalled disapproval of Nelson Mandela's statements on nationalisation and the continuation of the armed struggle, says Sankorp chief executive Marius Daling.

Mr Daling told the conference that although the threat of nationalisation was an important deterrent for investment, it certainly was not a foregone conclusion that large parts of the SA economy would be nationalised.

He pointed out that President de Klerk was committed to a market orientated economy. Surveys among blacks show too that the majority were also committed to such an economy, and lately even in ANC circles, Joe Slovo, head of the SA Communist Party said that there may be better methods than nationalisation for the state to achieve its aims.

"ANC spokesman for foreign affairs Thabo Mbeki also made a public satement that the creation of wealth is a prerequisite for achieving a better quality of life for all in SA."

In Mr Mbeki's view, nationalsation was not yet accepted as the best route, although it could not at this stage be removed from negotiating table.

Mr Daling said that those who believed that SA offered attractive investment opportunities should enter the debate and become involved.

Commenting on the economy, he said that it was in a cyclical downturn which would probably last for at least another 12 to 18 months before there was any real improvement.

"Looking beyond this inevitable short-term downturn, I believe that the conditions for a better growth rate during the Nineties than in the Eighties are falling into place."— Sapa.

Star 21/2/90 (49) ([redacted]) ([redacted])

Social services in line for a boost in Budget

By Sven Lünsche

Spending outlays in the 1990/91 Budget will shift significantly to social services, like education and health services, Finance Minister Barend du Plessis said yesterday.

Delivering the key-note address at the Frankel Kruger Vinderine 1990 Investment Conference, Mr du Plessis said that substantial savings would be achieved in this year's Budget, which will be tabled in Parliament next month.

Apart from the reduction in defence spending, Mr du Plessis also indicated that expenditure on public works would be significantly curtailed.

"Even in sectors like education and health services, there will be a shift in spending to areas where it is more urgently required," he said in response to a question.

"For example, we will not build new hospitals for the white community, as on average only 51 percent of the beds are occupied.

"The education Budget will focus mainly on black education, where there is a desperate shortage of classrooms and qualified teachers, while white schools already have a more than adequate supply of staff and facilities," Mr du Plessis said.

"The pattern of government spending will in future reflect greater preference for developing our human resources in the form of education and training and the provision of essential socio-economic services."

The Government has already displayed its commitment to financial discipline and "our intention is to re-establish the Budget as a tool of economic management and to reduce the rate of increase in government spending and the deficit before borrowing," Mr du Plessis said.

"It is our aim ... to reduce the overall incidence of taxation of individuals, and in this way to promote saving, investment and economic growth.

"We are also according high priority at present to the question of tax reform. The tax changes we have in mind are being phased in over time and good progress has already been made in this direction."

Turning to monetary policy, Mr du Plessis said there was at present no need to consider any further tightening of the government's economic policy at this juncture.

"Growth of the various components of total gross domestic expenditure (GDE), with the exception of private consumer spending, are moving in a downward direction.

"The authorities are keenly aware of the danger of overkill, but there are no indications that such a point has already been reached or is in the offing."

Providing a detailed breakdown of the level of domestic spending, Mr du Plessis said that GDE increased in real terms by 5 percent during 1988 and 3,5 percent in 1989.

"This indicates that economic activity has remained at a very high level.

"Investment in inventories — which declined sharply in the fourth quarter last year and was the main reason behind the sharp decline in total domestic expenditure during the quarter — can fluctuate widely and a rebuilding of inventories at this stage could consequently give rise to a resurgence in the level of spending."

Mr du Plessis added that the restrictive monetary and fiscal policies had allowed the authorities to no longer rely extensively on the exchange rate to realise a surplus on the current account.

Star 21/2/90 (~~89~~) (49)

Ms Jane Steward of the children's ward at the Brenthurst Clinic, Johannesburg and colleagues gear themselves up for tomorrow's street collection organised by the South African Nurses' Trust Fund. The non-racial body runs five homes for retired nurses and provides a monthly allowance to old and incapacitated nurses, said convenor of the street collection, Ms Jean Parr. Collectors and donations are urgently needed, and if you would like to contribute call Ms Parr on (011) 447-3045.

Nurses' salaries, conditions will be improved — Venter

Own Correspondent

CAPE TOWN — Nurses' salaries would be increased and working conditions improved by the Department of National Health and Population Development, Health Minister Dr Rina Venter said yesterday.

Answering a question at the Cape Town Press Club, Dr Venter said the department would, however, need help from the Nursing Council to encourage new nurses to come into the profession.

Dr Venter said a survey was being conducted to see how nurses felt about conditions, what the manpower situation was and why nurses were leaving.

She said the 13 academic hospitals in South Africa were consuming approximately half of the health budget.

Dr Venter said the demand for more funds from these institutions was increasing while a small number of patients were being catered for.

A responsible government had to ask itself how it was going to achieve a balance between curative and preventative health care which would ensure proper, affordable and accessible standards.

The health budget amounted to 5,4 percent of the gross national product, in line with international standards laid down by the World Health Organisation.

The elimination of fragmentation would not necessarily put health care on a more sound financial basis. Surveys by her department showed that only about 5,2 percent of the total health budget was spent on administration, she said.

"The assertion that enough funds would be available for an increase in nurses' salaries if there was to be a single health department is totally unfounded and an oversimplification of the issues at stake," Dr Venter said.

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'No big changes without talks'

Mandela in move to allay business fears

BDay 21/2/90

CHARLENE SMITH

NELSON Mandela proffered an olive branch to the business community yesterday when he said the ANC would make no drastic changes to any sector of the economy without full discussions with the private sector.

Referring to the issue of the restructuring of the economy, he said: "We are very keen not to do anything without proper discussion with those interested and involved."

Last week financial markets reacted sharply to comments by Mandela indicating he was in favour of the nationalisation of banks and mines.

Mandela at yesterday's interview. Picture: ROBERT BOTHA.

In an exclusive interview with Business Day, Mandela disclosed he would be meeting one of the "most important businessmen in the country", probably before leaving for Lusaka on Monday. He declined to name the businessman.

Anglo American spokesman James Duncan said although company chairman Gavin Relly had expressed an interest in meeting Mandela, no meeting had been arranged. He knew of no plans for any meeting between Mandela and Harry Oppenheimer.

Mandela said: "We would welcome a debate among the business community on the issue of nationalisation.

"This is an extremely important matter, and in any democratic situation a free expression of opinions is absolutely vital. I also expect compromises from both sides."

However, Mandela made it clear sanctions must remain in place.

"What we set out to achieve we are far from achieving and there is nothing that has happened that has required us to review this decision," he said.

He had not telephoned British Prime Minister Margaret Thatcher to discuss the sanctions issue, as he was waiting for permission from Lusaka to do so.

However, if Lusaka gave him the go-ahead he would intervene and ask Thatch-

☐ To Page 2

Business fears

er and other world leaders to maintain sanctions. BDay 21/2/90

He indicated that he anticipated a breakthrough in the negotiation process which would lead to "some agreement about meeting the preconditions to create an atmosphere conducive to peace".

He believed the ANC and government were on the verge of meeting such preconditions.

Preconditions in terms of the Harare Declaration that government still had to meet included the lifting of the state of emergency; the release of all political prisoners and detainees; the removal of troops from townships; and the removal of security legislation that inhibited free political activity, for instance the Internal Security Act.

"Once that stage is completed we will start on the more important questions of addressing the basic demands of the ANC and other sections of the liberation movement. And the basic demand is that of one-person-one-vote in a unitary state."

Mandela said this demand would, in terms of the Harare Declaration, lead to a constituent assembly to discuss a new constitution.

He said the ANC had called for the total dismantling of apartheid in all its forms.

"In this we include the question of the proper distribution of the land. We have demanded that the land be returned to those who work it. We don't say the land must be returned to its owners; we say the land must be returned to those who work it. That can be subject to different interpretations.

"We are concerned with the principle of an equitable distribution of the land, and what will be done with specific farmers is a question to be determined at the time by the people themselves."

He said the land issue was a top priority.

The ANC leader met a string of visitors throughout the day.

Among them were traditional Tembu leaders from Transkei and Bishop Barnabas Lekhanyane of the Zionist Christian Church, as well as Swedish and US diplomats and journalists.

Today he meets Chief Tidimane Pilane from the Rustenburg area, and five other chiefs. Meetings with veterans of Umkhonto we Sizwe and then member chiefs of the Congress of Traditional Leaders of SA (Contralesa) will follow.

The ANC regards the role of traditional chiefs, and in particular of Contralesa, as being of central importance to any negotiation process and to a future dispensation for SA.

SOWETAN
Building the Nation

BUSINESS

Mixture of East and West may be the cure

49

Sowetan 22/2/90 ·

I WELCOME the release of Nelson Mandela who, at 71, with the likes of Walter Sisulu and Zeph Mothopeng is a living monument of our determination to be a free people.

For a change we are living in times of hope, and State President F W de Klerk has to be commended.

What, however, seems to be the debate in black townships these days is nationalisation. Two weeks ago I said I would not join this age-old debate over the "isms". As it, however, continues to rage in shebeens, trains and so on, I might as well throw in a few thoughts.

The redistribution of wealth is a non-negotiable in the new society being envisaged but, is wholesale nationalisation of major industries the way to go about it?

Activities such as education, health, aspects of public transport, housing and social services are a responsibility of the State and MUST be nationalised. But when it comes to industries which generate wealth and thus revenues for the State, *aikona, wag 'n betjie*. The nationalisation of industries has been tried throughout the world with very few successes, if any.

The most recent examples are the collapse of East European economies.

Will of majority

If these countries have failed to make nationalisatic work, what will make it succeed with us? If we are keen on nationalisation, and I will bow to the will of the majority, let us first study what made others fail. Our system will then be based on a blueprint that overcomes previous and exposed shortcomings.

Two years ago I had the good fortune to be on the programme for management development at Harvard University. Among the students were two officials from the Peoples Republic of China. I befriended one, Fan Kaishi, who is vice-director of the Foreign Economic Relations and Trade Department in Hubei. According to him, his Government was now sending scores of its officials on management and business courses in universities in the Western world in an effort to improve productivity in their system. The Chinese, as Fan said, are, however, nowhere near abandoning socialism despite their hardships thus far.

Productivity in their country has taken a dive and there was a wastage of human and physical resources. Lack of growth has been a symptom of collapsed socialist economies. That is why most have disintegrated.

It's my business

THAMI MAZWAI

business

With socialism so far having failed to make a convincing case for itself, various options have now been suggested for South Africa. As the ANC's Thabo Mbeki said on TV on Sunday night, it is one of the issues to be negotiated.

One of the options that have been thrown around is Africanisation. It must be properly controlled, of course, to ensure the maintenance of standards.

For instance, its protagonists argue, if Iscor's management is 100 percent white at the top, middle and lower levels of management, the company will have to be given a period in which it must ensure lower and middle management conforms to population ratios.

As blacks are more than 80 percent of the population, Iscor must be told that within five to six years four-fifths of its lower management must be black, and in the following five years middle management must be 80 percent black.

Given natural attrition there should be some bronze faces in top management in a matter of time.

This may be less revolutionary than nationalisation, say its supporters, but it is a sure way of transferring control from white South Africans to South Africans.

For many this will be reverse racism while for others it will be perpetuating the capitalist system. What should, however, be clear is that no system is perfect. Just as socialism has been proved to have serious defects, capitalism is no paradise. It is just as defective. Being a member of the old school I believe the one solution likely to succeed is what was proposed by Mangaliso Sobukwe: take what is good from the East and what is good from the West and mix with your own.

સ્ટાર ૨૨/૫/૯૦ (૪૯)

Sanctions are a road to our grave

Anglo American chief Mr Gavin Relly has dismissed ANC suggestions that nationalisation can be effective. "They have either been out of the real world, talking only to Marxists, or incarcerated talking only to warders. Neither relationship is a great source of realism." However, he tells LINDSAY VINCENT, he is excited about creating a new future.

"I am entirely optimistic. Part of it may derive from the fact that all my adult life I have been basically unhappy with the system under which we live, and now one sees the opportunities of creating a new system which is not formally race-based. Any South African who does not find this exciting must be lacking in understanding," says Mr Relly, who succeeded Mr Harry Oppenheimer as head of Anglo in 1983.

Mr Relly has no reservations about the ANC.

Seated in Anglo's London offices on the fringe of the City, he delivers a muted tirade against the evils of nationalisation, cites the current European fall-out from the experiment of communism as proof of the follies of state-run economies and concludes: "Anyway, I do not think it will come to that."

Mr Relly, who incurred the wrath of Mr P W Botha, Mr de Klerk's predecessor, when he helped bring the ANC in from the cold with a furtive visit to its Zambian headquarters in 1985, has yet to meet Mr Mandela. It is something he looks forward to.

"The worst aspect of the international community's attitude, to us," he says, "is the fact that the country's international banking relationships are constricted.

"It gives us very little flexibility in our monetary policy by not having the facilities of the International Monetary Fund and normal banking relationships at our disposal.

"And the sooner that stops the better because it is inhibiting growth and we all know, as night follows day, that unless we have a reasonably vital and growing economy we are not going to be able to pick up the costs of change and the costs of establishing a more equitable constitutional system."

He dismisses ANC suggestions that nationalisation measures will be workable and effective. "There is still a great deal of rhetoric floating around which derives back naturally to the ANC's original charter which was a Marxist-type document. And the fact that they have either been out of the real world, talking only to Marxists, or they have been incarcerated in South Africa talking only to warders. Neither of these relationships, I would have thought, was a great source of realism or inspiration."

How does he see there being more equality of wealth? "It is absolutely vital that there is, but I can see two things. I can see a growing economy where the equality is achieved by dealing out the growth, so to speak, to those who have been deprived in terms of services, education, health and housing.

"The other scenario is to try to do the same thing in a stagnant economy where the only way you can distribute is by taking it substantially away from those who are maybe thought to enjoy it at present.

"When one discovers that that does not work because the economy starts going backwards further still, you resort to the control measures of a one-party state. And this is what the world, in its sticking to sanctions, does not realise, if sanctions are really effective they will ultimately and inevitably drive the SA economy into a state where a successor government will find it has no flexibility . . . and we will end up with the conventional African reaction of a one-party state, which is ultimately a reflection of defeat."

He adds: "The ANC would naturally hope to speak for all black people. Whether it does or not is completely unclear to me, and I think probably unclear to most black people.

"I would have thought that to pretend there are no tribal differences in South Africa is simply flying in the face of reality. We have seven major tribal groupings and at least as many languages. I think any government's policy should be to emphasise the things that unite us.

"It is going to be a matter of great statesmanship to cover these very real cultural, ethnic and linguistic differences. I hope they may be covered but in the meantime we have to deal with the practical world we find on the ground."

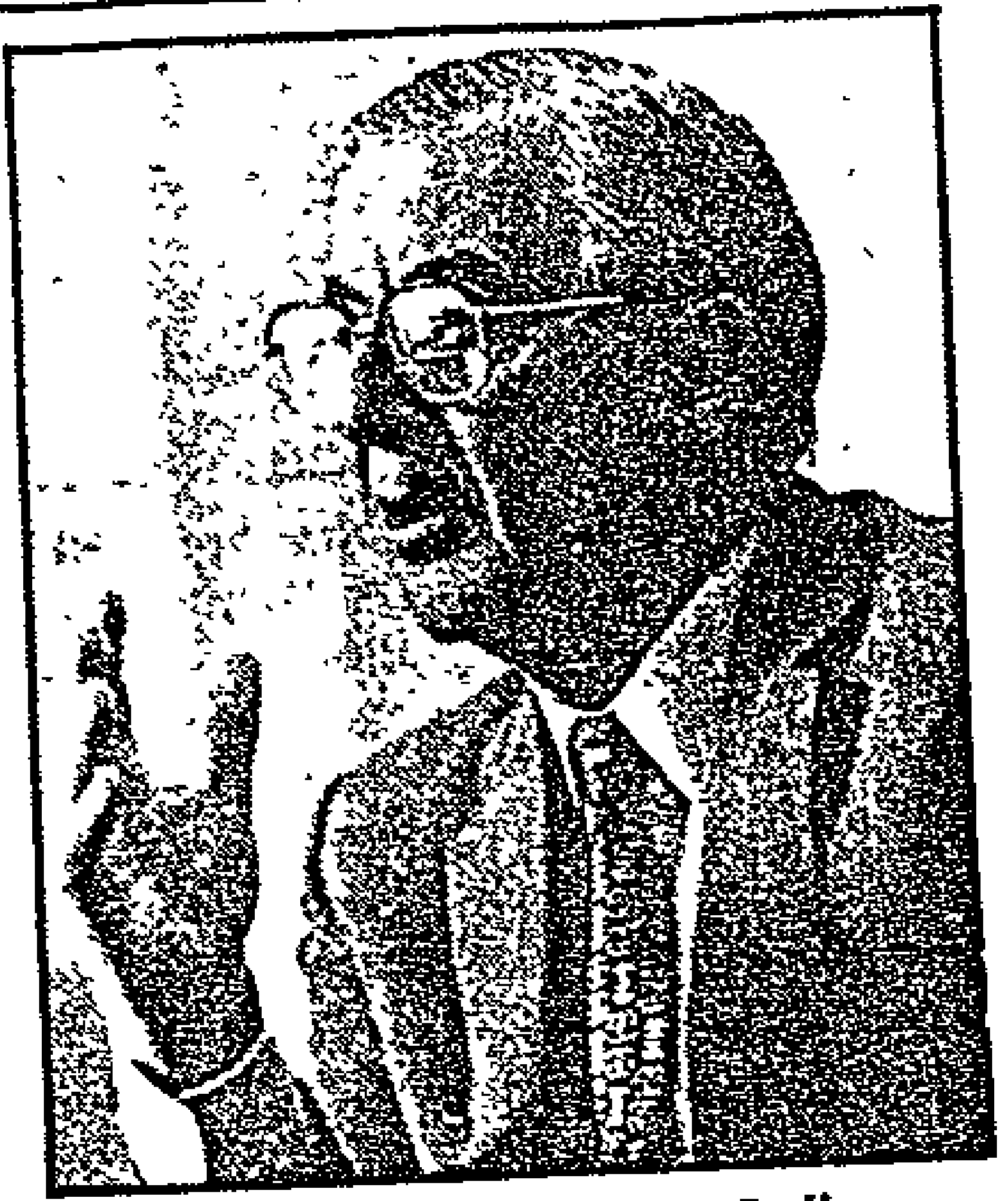
Mr Relly is not of the opinion that apartheid, with compound labour, derisory wages and much else has been a marvellous fig-leaf.

Anglo is said to have been making huge profits from a system which it says it purports to despise.

"We would have made a damn sight more money if it were not for apartheid," he says. "The economy has been inhibited from not allowing people to do their own thing, set up their businesses where they want, live where they want and have proper education. This has resulted in the bulk of the country's labour force being untrained, and incompetent in terms of modern standards.

"The whole country has been held back by this system. And as Anglo is very much a reflection of South Africa economically, it would have been a damn sight better if, over the last 40 years, we had lived in a more equitable society." — Observer News Service.

> "If sanctions are really effective they will ultimately and inevitably drive the SA economy into a state where a successor government will find it has no flexibility. And we will end up with the conventional African reaction of a one-party state."



Anglo chief Mr Gavin Relly.

History in The Star

100, 50 and 25 Years Ago

- **1890.** The Countess de Bremont, who has arrived in London, commenced a series of lectures upon South Africa. She depicted the Transvaal as the woman's El Dorado.
- **1940.** Mobs of starving Chinese in Shanghai — victims of war and profiteers — are daily raiding rice stores, risking prison and police batons to snatch a few handfuls of rice.
- **1965.** South Africa has taken delivery of the first two Buccaneer naval bombers from Britain. The remaining 14 will be delivered before the end of September.

Call to slash govt bureaucracy

49

GRETA STEYN

STANDARD Bank economist Nico Czypionka has called for government to slash the size of the bureaucracy to prove it is serious about curbing spending and trimming the role of the state in the economy.

He says government has managed to cut capital outlays and maintenance.

"The performance … though laudable, is not yet evidence of a meaningful restructuring of government's finances," he said.

BDay 22/2/90

Describing the bureaucracy of central government as a massive problem, he noted the staff complement grew by 2,6% in the year to September 1989, "higher than employment growth in the private sector".

The number of civil servants in the self-governing states, excluding the TBVC states, according to Central Statistical Services, rose by 6% to September 1989 and accounted for more than 20% of central government's staff complement. Their salary bill rose by a massive 42,8%.

Another development Czypionka regards as disconcerting is the employment explosion by agricultural marketing boards, up 11%, with salaries up 28%.

Growth in the total public sector wage bill (up 20%) was restrained by the small rise in that of public enterprises (4,3%). Central government's wage bill, by contrast, rose by almost 30%.

● See Page 3

Debts growing as fast as economy is slowing

[redacted] GERALD REILLY (49)

PRETORIA — The debt pile-up has begun to escalate in step with the economic slow-down and the trend will continue for the rest of the year, economists warn.

According to Central Statistical Services, the number of debt summonses issued in the last three months of last year increased by 9,8% to 213 407 compared to the same period of 1988.

Civil judgments for debt increased by 6,1% to 107 817. BDay 24/3/90

Stellenbosch Economic Bureau head Ockie Stuart said the downswing was just beginning to be felt. Its impact would become more apparent as the year wore on.

Debt and repossessions would almost certainly increase in tandem with the economic slide.

An aggravating factor was that inflation was not likely to be reined in to any great extent and that salary and wage increases would mostly be below the inflation rate.

Disposable incomes would therefore tend to shrink.

Government workers would have to brace themselves for the liklihood of increases from April which would fail to compensate for inflation.

2 WEEKLY MAIL, February 16 to February 22 1990

49

Mandela softens on nationalisation

By EDDIE KOCH

CONTROVERSY caused by Nelson Mandela's support for the nationalisation of key sectors of the South African economy was misconceived and unnecessary, the ANC leader told the *Weekly Mail* yesterday.

In a marked softening of his position on nationalisation, Mandela said his statements were designed simply to restate the existing policy of the ANC and that the movement was prepared to negotiate on all fundamental issues.

"I have said that we are prepared to compromise and that this is the policy of the ANC," Mandela said. However, he favoured nationalising some sectors of the economy because most black people did not have the necessary resources to own shares in the privatised companies.

"We must recognise that all this hullabaloo about nationalisation is totally misconceived, because nationalisation of certain sectors of the economy is part of the history of this country," he said.

Railways and telecommunications have always been owned by the state and the National Party promoted nationalisation policies vigorously in the past.

"All that time whites had the monopoly of political and economic power. But now the situation is changing. It is clear that the day is not far off when blacks will have a dominant role in the political and economic structure of the country.

"Now the whites are turning around and saying: 'Nationalisation is not good. You must privatise'. Because they have got the the economic and financial muscle, they have got the resources to buy the industries which are privatised. We don't have that."

Mandela's comments were made in response to threats from the Conservative Party that it would use his support for nationalisation as an issue around which to mobilise white resistance against the government.

Later he told Sapa that state control of sectors of the economy was the only way a new government would be able to "finance reform in health, education and housing".

The flurry of activity on the Johannesburg Stocke Exchange since his release may have had more to do with a reluctance by whites to "achieve a real settlement" than a fear of nationalisation, which had always been a feature of South Africa's economy.

The comments came in the wake of SA Communist Party leader Joe Slovo's statement this week that nationalisation was not the only way to ensure a redistribution of wealth.

"In South Africa, for a long time, you had State ownership of basic sectors of the economy and that did not mean advantage for the people for socialism," said Slovo in an interview with the BBC.

"So the whole question of how we move towards generating resources so that injustices of the past are addressed is something that has to be worked out. The pace and approach on this question is something which can be discussed," he said.

FIRST FULL INTERVIEW WITH JOE SLOVO: SEE OVERLEAF

(49)

The Star Thursday February 22 1990 21

Socialists would be happy with SA's 'state monopoly' system

Finance Staff

Pro-privatisation author Don Caldwell has taken the Government to task over its R5 million "Free Enterprise is working" campaign.

Nor does he spare the Government over what he claims to be its mishandling of the Iscor privatisation.

He says the campaign is misleading because South Africa does not yet enjoy free enterprise,

In the new edition of his book *South Africa: The New Revolution*, launched in Johannesburg last night, he says:

"The Government likes to say it's promoting and preserving a free-market economy. Which economy is it talking about?"

The book complains that today's economy is socialist, kept in shackles through government-owned enterprises, complicated taxes, exchange control, import control, 22 agricultural boards, restrictions on black land ownership, shop-hour laws, high excise duties, export subsidies, industrial development handouts, a high petrol tax, restrictions on hawkers and backyard businesses, minimum wages and meddling labour legislation.

Mr Caldwell says that if a different bunch of socialists took over the Government, they would be happy to find that such monopoly industries as the airlines, railway and habours, TV and radio services, Post Office, telephone service, central bank and electricity were already nationalised.

"It's just a bad joke to consider this a free-enterprise economy and pretend that free enterprise is working," he says.

"If it were really serious, Pretoria could usher in capitalism overnight.

"It's just a matter of scrapping costly rules, regulations, policies, Acts, boards, committees, councils and projects."

Iscor mistake

To illustrate his point Mr Caldwell says the Government's mistake was to sell off Iscor to a handful of companies and individuals, rather than giving it away to all the people.

He says the Government should embark on a one-person, one-share privatisation giveaway to make South Africa a 100 percent nation of capitalist shareholders.

Better yet, the Government should issue some shares and hold on to the rest. "It could have issued 390 million Iscor shares and given 10 to each man, woman and child," he says.

"The shares would have been worth about R10 each; the portfolio of 10 shares, about R100. If the Government then deregulated share trading, general dealers across the country could become mini-stock exchanges and deal in Iscor shares.

"South Africans desperate for money could have cashed in their shares immediately. Others could have used the shares as collateral to get loans or simply have enjoyed dividend income.

"As the Government progressed with one-person, one-share privatisation — everything from Eskom to the Post Office to the Kruger National Park — all South Africans could build up a sizeable portfolio of shares, as well as a stake in a capitalist economy."

Mr Caldwell says a share give-away would counter the socialist argument that privatisation is unfair to blacks because they cannot afford shares. "Nobody would have to pay a cent for the shares, so that argument falls away," he says.

February 1990

Mandela to talk to Relly and Bloom

By Michael Chester (44)

Mr Nelson Mandela is expected to hold talks in Soweto on Monday with two key South African business leaders to exchange views on possible new economic scenarios.

The first session will be with Anglo American's chairman, Mr Gavin Relly, who has reacted with alarm to Mr Mandela's suggestions that such business sectors as the mines and banks should be nationalised.

Most businessmen are also disturbed by Mr Mandela's suggestion that sanctions be maintained to continue pressures for faster reform.

The second round of discussions will be with the Premier Group's former chairman, Mr Tony Bloom, an ardent supporter of reform who left South Africa last year to settle in Britain.

He is expected to arrive at the weekend.

Sanlam chief optimistic at govt moves

LINDA ENSOR

THE steps taken by government to confront the country's political and economic problems gave cause for optimism, Sanlam chairman Abie van den Berg said at the life assurer's AGM in Cape Town yesterday. B | Day 22/2/90

However, he expressed concern at the "drastic weakening" in the level of personal saving, estimated to be 2% of personal disposable income, in 1989. (49)

"Inflation and high taxes affect real savings returns so adversely that it is often not worthwhile to save in the short term."

Van den Berg said the pursuit of real interest rates should contribute significantly towards improving this trend, adding that action to lower inflation and decrease the impact of taxation on the willingness to save would also be decisive.

Government could be assured, he said, of Sanlam's support in its economic strategy and he called for the "wholehearted co-operation" of the private sector.

He said President F W de Klerk's opening of Parliament speech and subsequent steps taken were of major importance.

"Obstacles in the way of the political accommodation of the various interest groups in our country have been removed.

"This will no doubt make a major contribution to a more stable and relaxed domestic situation and the normalisation of SA's foreign relations." ([illegible])

Van den Berg called on the private sector to co-operate with government to achieve a reduction in the economic role of the public sector; the reallocation of state funds and stricter control over their use; a decrease in the tax burden, particularly of individuals; the promotion of deregulation and privatisation and the lowering of the inflation rate.

The goals could be reached only if pursued within the framework of a comprehensive strategic plan, he said.

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Privatise 'by giving free shares to all'

Cape Times 22/2/90

Financial Editor

STATE-OWNED enterprises should be privatised by giving free shares to all SA citizens, both the MD of Job Creation (Pty), I J Hetherington, and author Don Caldwell suggest. But there are differences in the way each thinks this should be handled.

Hetherington, whose non-profitmaking organisation aims at uplifting living standards in areas of high unemployment, made the suggestion at the annual dinner of Transkei Chamber of Commerce in Umtata.

Caldwell makes it in an updated version of his book, "SA: The New Revolution", which is published by the Free Market Foundation.

Hetherington said that both apartheid and socialism distributed poverty.

"Nationalisation is an issue which has been raised by Mandela and other ANC members. As far as I can make out, the issue the ANC wishes to address — correctly, in my view, is that of putting right the historical economic injustices and distortions caused by past racism."

The business community should enter the debate and make alternative suggestions which would revive, rather than kill, the economy.

"We could go some way towards putting right the economic injustices of racism by further privatising rather than by additional nationalising.

"But by privatising in a particular way and differently from the way Iscor was recently privatised.

"What I have in mind is that the share capital of SATS or Eskom could simply be divided by the number of adults in the whole country and an equal number of shares could be given to each adult.

"There is nothing wrong with this approach and there are precedents for it overseas. Who, after all, owns SATS and Eskom? It is the state. And who is the state? It is the citizens of the country."

The new, updated version of Caldwell's book was launched yesterday. In it he says the government's mistake was to sell off Iscor "to a handful of companies and individuals" rather than giving it away to all the people.

He suggests the government should embark on a "one-person, one-share" privatisation giveaway to make SA a nation of capitalist shareholders. Better yet, he says, the government should issue some shares and hold on to the rest.

"It could have issued 390m Iscor shares and given 10 to each man, woman and child in SA," Caldwell writes.

"The shares would have been worth about R10 each — the portfolio of 10 shares about R100. If the government then deregulated share trading, general dealers across the country could become mini-Stock Exchanges and deal in Iscor shares.

"South Africans desperate for money could have cashed in their shares immediately. Others could have used the shares as collateral to get loans or simply have enjoyed dividend income.

"As the government progressed with one-person, one-share privatisation — of everything from Eskom to the Post Office to Kruger National Park — all South Africans could build up a sizeable portfolio of shares, as well as a stake in a capitalist economy."

No. 365 **23 Februarie 1990**

ERKENNING VERLEEN AS KONSUL

Hierby word bekendgemaak dat aan mnr. Günter Hans Erdmann met ingang van 9 Oktober 1989 erkenning verleen is as Konsul van die Bondsrepubliek Duitsland in Kaapstad, met die provinsie die Kaap die Goeie Hoop as sy regsgebied.

Mnr. Erdmann is die opvolger van mnr. H. Taubel.

(72/154/4)

DEPARTEMENT VAN FINANSIES

No. 386 **23 Februarie 1990**

RENTEKOERS VAN TOEPASSING OP STAATSLENINGS

Hierby word bekendgemaak dat die Minister van Finansies ingevolge artikel 26 (1) van die Skatkiswet, 1975 (Wet No. 66 van 1975), die standaardrentekoers van toepassing vanaf 1 Maart 1990, en tot nadere kennisgewing, op lenings deur die Staat toegestaan uit die Staatsinkomstefonds op sestien komma twee vyf persent (16,25 %) per jaar vasgestel het.

Bogenoemde standaardrentekoers is van toepassing vanaf 1 Maart 1990, en tot nadere kennisgewing op alle trekkings van lenings uit Staatsgelde, uitgesonderd lenings ten opsigte waarvan ander rentekoerse spesifiek deur wetgewing of die Minister van Finansies gemagtig is.

DEPARTEMENT VAN JUSTISIE

No. 323 **23 Februarie 1990**

INSTELLING VAN 'N HOF VIR KLEIN EISE VIR DIE GEBIED SUIDER-HARTS

Ek, Daniel Pieter Antonie Schutte, Adjunk-minister van Justisie, kragtens artikel 2 van die Wet op Howe vir Klein Eise, 1984 (Wet No. 61 van 1984)—

(a) stel hierby 'n hof vir die beregting van eise ingevolge genoemde Wet vir die gebied van die distrikte Warrenton, Hartswater en Christiana in;

(b) bepaal hierby Warrenton as die setel van genoemde hof; en

(c) bepaal hierby Warrenton, Hartswater, Christiana en Jan Kempdorp as plekke in daardie gebied vir die hou van sittings van genoemde hof.

D. P. A. SCHUTTE,
Adjunk-minister van Justisie.

No. 384 **23 Februarie 1990**

EGSKEIDINGSHOWEREËLS

Die Staatspresident het kragtens die bevoegdheid hom verleen by artikel 10 (4) (a) (x) van die Swart Administrasiewet, 1927, Wysigingswet, 1929 (Wet No. 9 van 1929), die volgende reëls uitgevaardig waarby die sittingstye en plekke van Egskeidingshowe vir 1990 bepaal word:

No. 365 **23 February 1990**

RECOGNITION GRANTED AS CONSUL

It is hereby notified that Mr Günter Hans Erdmann has, with effect from 9 October 1989, been granted recognition as Consul of the Federal Republic of Germany in Cape Town, with the Province of the Cape of Good Hope as his area of jurisdiction.

Mr Erdmann is the successor to Mr H. Taubel.

(72/154/4)

DEPARTMENT OF FINANCE

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No. 386 **23 February 1990**

RATE OF INTEREST ON GOVERNMENT LOANS

It is hereby notified that the Minister of Finance has in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975), fixed the standard interest rate applicable from 1 March 1990, and until further notice, to loans granted by the State out of the State Revenue Fund at sixteen comma two five per cent (16,25 %) per annum.

The above-mentioned standard interest rate is applicable from 1 March 1990, and until further notice, to all drawings of loans from State moneys, except loans in respect of which other rates of interest are specifically authorised by legislation or the Minister of Finance.

DEPARTMENT OF JUSTICE

No. 323 **23 February 1990**

ESTABLISHMENT OF A SMALL CLAIMS COURT FOR THE AREA OF SOUTHERN HARTS

I, Daniel Pieter Antonie Schutte, Deputy Minister of Justice, under section 2 of the Small Claims Courts Act, 1984 (Act No. 61 of 1984)—

(a) hereby establish for the area of the Districts of Warrenton, Hartswater and Christiana, a court for the adjudication of claims in terms of the said Act;

(b) hereby determine Warrenton as the seat of the said court; and

(c) hereby determine Warrenton, Hartswater, Christiana and Jan Kempdorp as places in that area for the holding of sessions of the said court.

D. P. A. SCHUTTE,
Deputy Minister of Justice.

No. 384 **23 February 1990**

DIVORCE COURTS RULES

The State President has under and by virtue of the power vested in him by section 10 (4) (a) (x) of the Black Administration Act, 1927, Amendment Act, 1929 (Act No. 9 of 1929), made the following rules whereby the times and places for the holding of the Divorce Courts for 1990 are appointed:

GDP F/M 23/2/90 (49)

Rain drain

Delayed rains at the start of the 1989-1990 summer seriously damaged the Free State wheat crop. This followed a late and successful maize crop, which had contributed substantially to strong third-quarter agricultural growth. The result was a sharp drop in fourth-quarter agricultural GDP, when third-quarter growth of 67,8% was followed by a negative 42,6%.

Among other factors contributing to the fourth-quarter decline, says SA Agricultural Union economist Koos du Toit, were:

☐ Meat prices' failure to achieve the usual Christmas increases, as a result of resistance to earlier price rises. Consumers delayed purchases or turned to substitutes; and

☐ A decline in the world price of wool, which cut the value of the wool clip.

More important than unavoidably volatile quarterly changes is performance over the year, says Central Statistical Service (CSS) director George Mills. Despite the fourth-quarter dip, agriculture way outperformed

F/M 23/2/90 (49)

the rest of the economy in 1989, with growth of 10,3%, to R8,3bn. It contributed 0,5 percentage points to total GDP growth of 2,1% to R124,5bn, according to a CSS release last week. This compares with growth in total GDP in 1988 of 3,7% to R121,9bn. All totals are given at constant 1985 prices.

Non-agricultural growth, which peaked in the second half of 1988 with annualised quarterly growth rates of 6,4% and 5,2%, was well down in 1989. Quarterly figures were 0,1%, -0,3%, -2,6% and 2,5%. In the year it grew only 1,6%.

Mining "recorded virtually no growth" — from R16,5bn in 1988 to R16,6bn (again, at constant 1985 prices.) Secondary industries grew only 1,2%, contributing 0,4 percentage points to total GDP growth, while tertiary industries grew 2,3%, contributing 1,1 percentage points to the total. ■

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Now the unions move in on the 'nationalise' row

W/Mail 23/2 - 1/3/90

By EDDIE KOCH

SOUTH Africa's powerful labour movement plans to intervene in the public debate that has raged since Nelson Mandela announced he favoured nationalisation of key sectors of the economy.

"The Congress of South African Trade Unions (Cosatu) will enter the debate in a big way," the federation's general secretary Jay Naidoo told the *Weekly Mail*.

"As a mass working class constituency, we intend to have a decisive role to play in shaping the nature of a post-apartheid economy."

Cosatu commissioned a team of leading economists and academics two years ago to research key areas of the economy. This study will now be speeded up to facilitate debate and decision-making in the the labour movement.

Mandela's recent restatement of long-standing ANC policy on nationalisation has caused a panic on the Johannesburg Stock Exchange and a barrage of outrage from business leaders.

"Our view is that the primary objective of the ANC's policy on nationalisation was to enable a democratic government to have access to resources in order to redress the inequalities caused by apartheid," said Naidoo.

"The juridical ownership of enterprises is, however, not as crucial as the need to ensure that workers have a say in determining policies that a democratic government will take on the economy and a range of other issues that affect our members such as housing, education, investment and job creation."

A ferment of thinking within Cosatu, as well as the African National Congress, is underway, says industrial sociologist Duncan Innes in the latest edition of his newsletter *Labour Brief*. This is due to three factors:

- Rank and file members of some big unions in Cosatu, who see capitalism as being responsible for their poverty and immiseration, are demanding even more radical socialist programmes than those outlined in the Freedom Charter.
- Leaders of all the main resistance groups are experiencing a need to refine old policies — many of which were adopted in the 1950s — as a result of the collapse of socialism in Eastern Europe.
- The government's sudden lurch away from repression in favour of negotiation has forced the ANC to consider the feelings of liberal businessmen and Western governments, whose support it will need when it comes to bargaining over a new constitution.

"We are committed to building a productive economy and ensuring that a substantial part of the wealth generated is used to develop an accepted standard of living for all, in particular black workers and the unemployed," said Naidoo.

"We are prepared to enter into negotiation with whoever — employers as well as the apartheid state — to discuss these objectives."

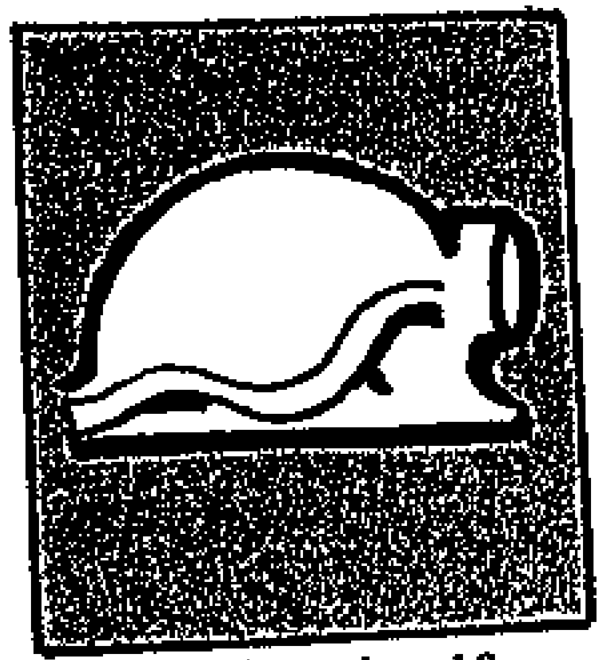
FM 23/2/90

(49)

CONSEQUENCES OF NATIONALISATION

A stake in the heart

■ Even as a "quick fix" for inequality, nationalisation would be a disaster



Increasing gold and mineral production — and the way in which it is financed — is essential if the SA economy is to return to the prosperous years of the Sixties and Seventies and begin restructuring itself so that all who live here may participate in its fruits, according to their abilities and the risks they are prepared to take.

To achieve this, some very fundamental changes are going to have to take place, not only in the thinking of the National Party government. Business, for its part, is going to have to accept and encourage greater participation of all stakeholders, especially workers, in its endeavours.

But the most fundamental change is going to have to take place in the thinking — or conspicuous lack of it — of black leadership groups, such as the ANC and PAC. They have raised the acquisitive expectations of so many ordinary black folk to such a pitch, that their fulfilment could be a major political problem in a more egalitarian and just post-apartheid SA. Ten years after independence, Zimbabwe's Robert Mugabe is still struggling to deliver.

Contrary to the conventional wisdom of a socialist world now in tatters, nationalisation of the mines and banks would not assist in any egalitarian restructuring. It would debilitate entrepreneurial endeavour among blacks, discourage exploration and investment and, by politicising business, lead to a misallocation of resources that would impoverish the country.

Very simply, nationalisation is not and cannot ever be in the interests of black South Africans. According to Chamber of Mines economist David Kennedy, the gold mines during 1989 paid in tax and lease some R1,5bn to the State. Their intended capital expenditure over the five-year period 1990-1994 stands very approximately at R30bn in nominal money and will be higher if inflation is not curbed.

That will at best keep gold production on a modest growth path, replacing mostly the depleted production of worked-out older mines.

Also of significance is the considerable proportion of mines whose costs of production in the September quarter were higher than the gold price received and a greater number (including former stars such as Blyvoors) with costs only marginally below the

continue P 31

gold price.

It should be obvious that gold mining is an entrepreneurial, risk-taking economic activity *par excellence.* Genmin's Brian Gilbertson points out that a new deep-level gold mine can cost R2bn. A decision to spend that amount is inherently risky, no matter how many boreholes have been put down to ascertain ore bodies.

Indeed, a decision to prospect on any scale is itself entrepreneurial, as there is no guarantee that success will be achieved. At present, the mining houses are risking some R400m a year on this vital activity (with a single borehole costing R1m-R2m).

Paying the bill

In the light of these facts, consider the implications of nationalisation:

☐ All mine employment policies will become politicised. In other words, a decision to lay off workers will not be based on financial and technical considerations. Gilbertson notes that Genmin has saved several mines — including West Rand Cons — from closure through shrewd lay-offs and shutting down high-cost areas.

The end-result of the process of politicisation in a mining industry can be seen in the British coal industry, where an effort to restore profitability through the shutting of high-cost pits led to a damaging, protracted strike.

And not only employment policies, but also wage policies, would become politicised under nationalised management, giving a further guarantee that profitability would dip as resources were misallocated;

☐ To these powerful factors, add the managerial element. State industries are inherently less efficient than those privately owned, because the discipline of the market is withdrawn and managerial appointments are frequently made on political grounds;

☐ The history of the nationalised British coal industry is instructive in other respects. Far from being a source of funds for social purposes, it became a chronic drain on the exchequer. Taxes drawn from the private sector flowed into the nationalised industries generally, to the detriment of social spending;

☐ It becomes rather difficult to see how any local or overseas private-sector source of finance could be persuaded to lend money to such a dismal type of operation. Retained profits would also have dwindled, so where would the money be found to finance that R30bn capex programme? The horrible example of the fate of Zambia's copper mines after nationalisation (see **box**) is there for all to see; and

☐ It is also unlikely that State-appointed managers would ever be prepared to take the risks with their personal positions inherent in a commitment of R2bn to a new mine, with an appreciable probability of failure.

In the long term, the country's most important source of foreign currency would be wiped out, along with the jobs of those blacks now employed in gold mining. Across the board, much the same arguments apply to all forms of mining.

What about banking? A senior economist fears that nationalisation of banks would have a particularly deleterious effect on the allocation of economic resources in the economy as a whole, because of the key role of banking in providing finance. There is a risk of highly politicised lending policies, through efforts at affirmative action of one sort or another. And the administrative process of credit allocation, he argues, would itself become less efficient through the same mechanisms which operate in any nationalised industry.

The economist also notes that SA has suffered enough in the past from distorted allocation of resources through interest rate subsidisation applied for the benefit of farmers. What could happen if banks were nationalised could and would be far worse.

Other banking sources point out that links with correspondent banks which provide inter-bank loans in the form of trade credits could also suffer gravely after nationalisation — with serious implications for the foreign reserves and the value of the rand. Inter-bank lenders rely heavily on the accepted parameters of banking risk — the key financial ratios. These ratios would suffer serious attrition after nationalisation, when banks came under political pressure to lend to unsound risks.

Then there are the general macro-economic implications of wholesale nationalisation — the problems of compensation and loss of confidence. The total capitalisation of gold, platinum, coal and diamond mines, at the end of January 1990, amounted to some R100bn (**see table**). If we include any conceivable definition of "monopoly industry" to banking on the nationalisation slate, we can easily add another R100bn in compensation.

The issue of that amount of government paper would have catastrophic results for the market in gilts — and in any event is deficit finance on a grand scale. The results for the inflation rate and the value of the currency hardly bear comment.

Lastly, there is the implication for confidence. The flight of skills would know few bounds, not to mention the covert flight of capital, at any cost, regardless of exchange controls. If full compensation were not paid, the price in loss of skills would be even higher. (Compensation out of future dividends must be regarded as a limited benefit, on present value considerations.)

It needs to be emphasised that the savings of middle-income South Africans, white and black, are invested in mining houses and so-called monopoly industries, through the intermediation of the life assurers. It is nothing short of specious Marxism to believe that the giant companies belong mainly to a few families. So any loss of confidence would sweep across the board and not be confined to the business community.

Finally, we have to remember that SA is still a developing country in terms of per capita income. To improve living standards for the deprived requires wealth creation (not expropriation) and reconstruction on a grand scale. If the assets of the country's largest mining group were divided equally among each member of the population, each one would receive about R1.

Post-nationalisation, to talk of money from overseas would be absurd. And that money — nobody should forget — would have to come from the international free enterprise system. The Soviet bloc is now emerging as a mendicant hoping for injections of international money. Its days of providing subsidies for incompetently run client states have all but ended.

But there is even worse lurking behind nationalisation proposals. At the end of the road is the ultimate fear that they would be the thin end of the wedge, comprising the start of a process of complete delegitimisation of white property rights, including agricultural land. This would be the sure recipe for complete ruin of the economy and mass emigration.

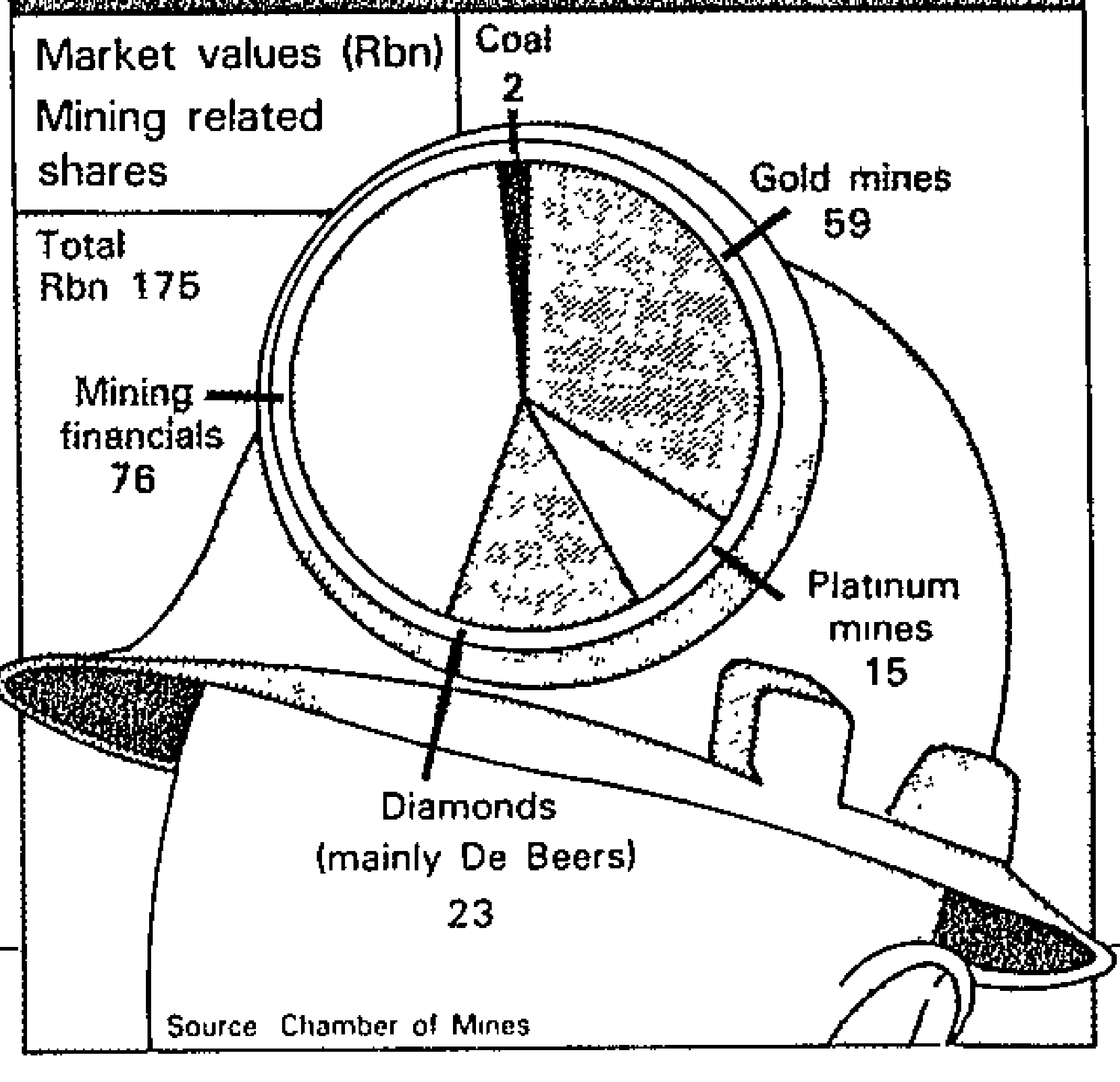
We have to acknowledge that the ANC leadership, sophisticated or not, is to an extent the prisoner of its constituency, which has been fed naive and traditional Marxist propaganda for at least two generations.

The way out of this dilemma is to allow free markets to deliver the goods to the ANC's followers. One contribution can come from government, which has come to recognise that certain things need to be done, in the words of President F W de Klerk, to improve the share of "public goods" provided for blacks.

This would undoubtedly cover areas such as education, where the moral claim is strong and the economic payback in the form of faster growth, greater productivity and social stabil-

continue p 32.

What they are worth



Source Chamber of Mines

P.T.O,

Lekota: US will retain sanctions

Cape Times 23/2/90

[redacted] [redacted] 49

JOHANNESBURG. — United Democratic Front (UDF) national publicity secretary Mr Patrick "Terror" Lekota says he has persuaded US government officials that the time is not yet ripe to lift sanctions against South Africa.

Mr Lekota, who returned yesterday from a tour of the US, said he had also convinced the Assistant Secretary of State for African Affairs, Mr Herman Cohen, that continued sanctions were needed to pressurise the De Klerk administration towards negotiation.

He said Mr Cohen had previously expressed the hope that sanctions would be lifted in view of the recent reform initiatives in South Africa.

Mr Lekota, however, indicated a flexibility on the part of the UDF towards the lifting of sanctions, saying the organisation was not rigid on negotiable issues.

"When we are satisfied that the process (negotiations towards full democracy) is in motion, we will concur with those calling for the lifting of sanctions. It is not in the UDF's interests to smash the South African economy," he said.

Mr Lekota also said he had put at ease US congressional staffers who had expressed concern at the UDF and ANC's stance on the nationalisation of major industry.

Nationalisation, he charged, was needed by a new, democratically elected government to address major economic issues such as the squatter problem.

Afrikaners had practised nationalisation of industry, for example in the steel industry, for many years for the purpose of financing apartheid structures.

To suggest that the South African economy would suffer because of nationalisation policies practised by the new-order government was racist, Mr Lekota said. The economy had survived under Afrikaner nationalisation policies. — Sapa

● Simon Barber reports from Washington that sanctions proponents in the US Congress yesterday vowed to block any move by the administration to suspend the effective US veto on South African borrowings from the International Monetary Fund.

Mr Herman Cohen told a congressional panel that such a move was being "studied" by the administration and might be permissible under existing law.

Congressman Howard Wolpe, chairman of the House Africa Subcommittee, said he believed Pretoria was already sounding out the fund on the possibility of a loan.

Mr Cohen said he was "unaware" of any such discussions.

ANC's nationalisation 'policy' only guideline

ARGUS 23/2/90

49

By KEN VERNON, Argus Africa News Service

THOSE who have not understood the African National Congress (ANC) policy on nationalisation can cheer up — the truth is the ANC does NOT have a nationalisation policy.

The organisation's foreign affairs spokesman, Mr Thabo Mbeki, said shortly after their national executive committee meeting last week that what the organisation had were "guidelines", according to Mr Mbeki.

The foundation for these devolve to the 35-year-old Freedom Charter.

They are not hard enough to be called a "policy", he says — and to judge by the varying statements on the topic by various ANC leaders in past weeks — not even the guidelines are universally agreed.

VAGUE IDEALS

Most of the ideals included in the Freedom Charter are vague enough to be interpreted virtually any way one wants, with the exception of those pertaining to nationalisation.

These paragraphs read: "The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole.

"All other industry and trade shall be controlled to assist the well-being of the people."

While Mr Mbeki says nationalisation is not mentioned anywhere in the Freedom Charter (the word itself is, indeed, not mentioned), the above paragraphs unambiguously mean nationalisation.

Privately, many leading members of the ANC's "new guard" dismiss the nationalisation bogey.

Mr Mbeki says: "The reality is that 99 percent of South Africans have nothing that could be nationalised," implying that they have, therefore, nothing to fear from nationalisation.

He says the present economic system has been distorted by monopolies and cartels and the system has gross inequalities and imbalances that have produced great poverty within the black sector.

"Any democratic government will have to alter the structures inside the economy to create a system that can redress these imbalances.

"The issue is: who controls the wealth in order to effect more equitable system of distribution. The Afrikaners understood this when they used the helpmekaar programme to build their power bases such as Sanlam."

He says nationalisation remains an ANC option in the restructuring of the economy.

"I have been told that the economy is so finely balanced that both nationalisation and increased taxation will derail it and the only way to effect a re-distribution of wealth is to create more wealth that can then be re-distributed — but I cannot accept this argument."

TAKEN BY SURPRISE

The initiative of President F W de Klerk has taken the organisation almost completely unawares, events have moved faster than anyone could have imagined, especially for an organisation such as the ANC, dedicated to long-winded, theoretical conferences leading to group decisions.

So, Mr Mbeki's candid admission is seemingly correct: taken by surprise, the ANC does not have an economic policy capable of being trotted out.

The result could be that nationalisation could be one of the first topics for debate when any negotiation process finally gets under way — and one of the first casualties.

Govt's plans for economy

CAPE TIMES 24/2/90

(49)

Political Staff [illegible]

THE restructuring of the South African economy would involve more emphasis on inward industrialisation — including a more dynamic approach to urbanisation and more emphasis on labour-intensive methods of production, President FW de Klerk said last night.

"This involves the creation of new jobs by expanding infrastructural developments such as special housing projects for lower-income people, a more dynamic approach to urbanisation and more emphasis on labour-intensive methods of production," he said.

Mr De Klerk was speaking at the closing dinner of the annual conference of Frankel, Kruger, Vinderline Inc in Cape Town.

Restructuring would also include a deliberate policy of reducing the role of the government in the total economy, an aggressive programme of deregulation and privatisation, and a restrictive monetary policy, he said.

NATIONALIS

Star 24/2/90 (49)

Robbery or righting of economic w

CHRIS MOERDYK

TO dyed-in-the wool capitalists, nationalisation is nothing short of highway robbery.

To many ordinary white South Africans it is equally threatening, something they perceive will rob them of everything from their life savings to hard-earned pensions.

But to black South Africans, nationalisation is being proferred as a symbol of economic hope, a way of speeding up the dissolution of past imbalances and of bringing about an equitable distribution of wealth as quickly as possible

Assuming for the moment that nationalisation is not simply a card the ANC is keeping up its sleeve to play at the negotiating table, what are the effects the process will have on South Africa?

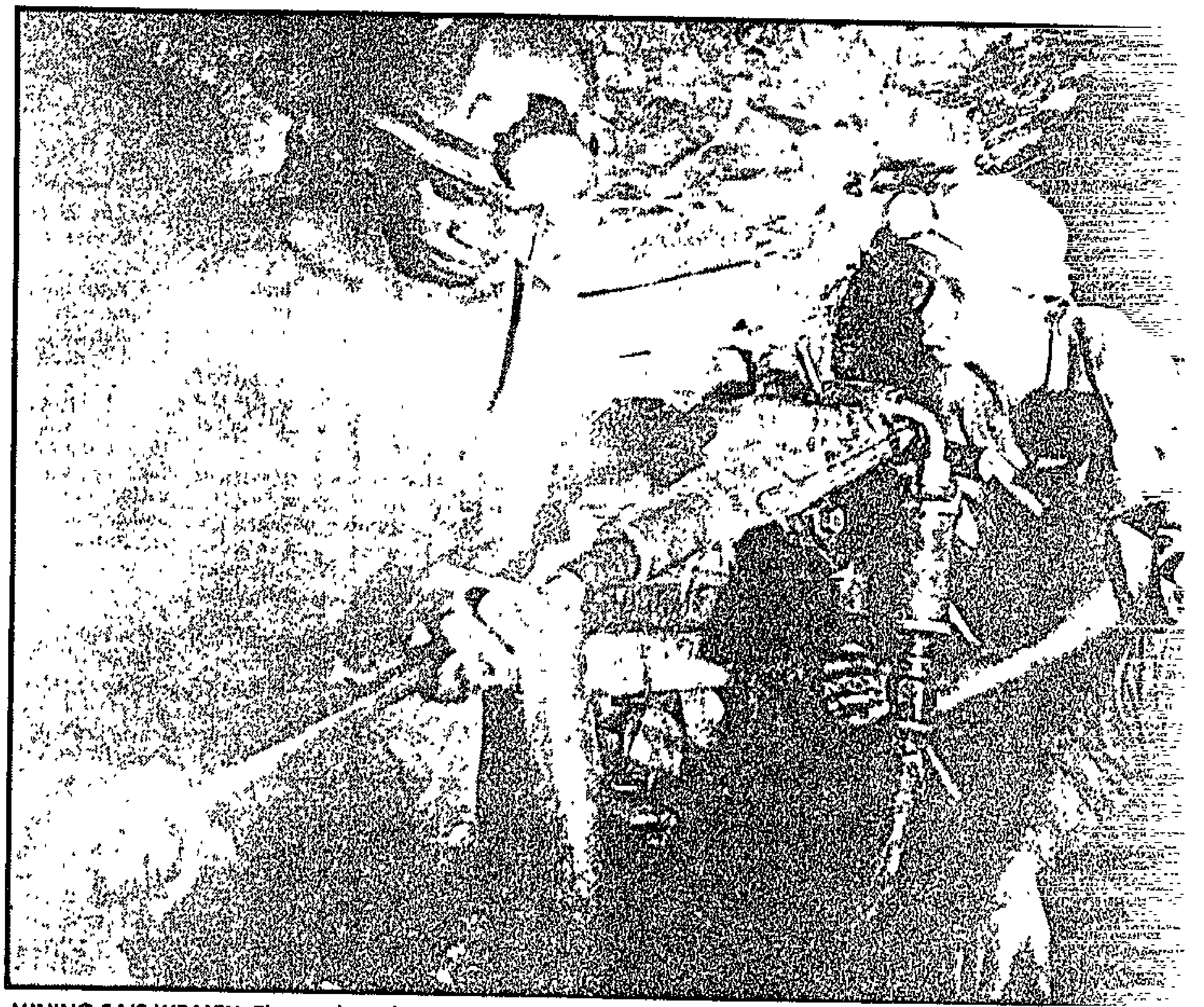
Some of these have been felt already — even though the ANC's version of nationalisation is still far from clear. Mere talk of it has scared the daylights out of businessmen and investors, and has had a dramatic effect on the financial markets, prompting Mr Nelson Mandela this week to publicly reassure businessmen that there will be no changes to the economy without thorough discussions with the private sector.

For black South Africans, however, it has given them the reassurance that the ANC is not only intent on eliminating social but economic apartheid as well.

They perceive that a small, elite group of whites dominate the South African economy, in which the prevailing policy is to make the rich richer and the poor poorer

Blacks see a white-dominated business community which is protected by apartheid and which in recent years has been beset by corruption and all manner of shady practices A business community founded on monopolies, cartels, price rings and rip-offs They continue to experience widespread unemployment.

They might well believe, as a result, that South African business hasn't done a particularly noteworthy job of keeping its house in order. And that maybe the state could make a better job of it. Which suggests that these perceptions and not the theories of nationalisation are what the free enterprise lobby will have to debate in order to entrench their cause in a new South Africa.



MINING SA'S WEALTH: The workers do all the work and the whites reap the benefits. Right or wrong, that's the
But will nationalisation be the answer?

> To many white South Africans nationalisation is something that will rob them of everything from their life savings to their hard-earned pensions.

What though, is the ANC hoping to achieve by what seems to be an intention to stop the privatisation clock and return to state ownership?

Quite justifiably, the ANC wishes to spread the wealth of the country to all people. To ensure, as quickly as possible, that black housing, education and health services are upgraded. And that blacks are able to benefit on an equitable basis in the economy of the country.

Laudable goals indeed. And goals for which the ANC will find no argument from the incumbent Government nor the business community. The only argument they will have to face is whether nationalisation is the best or indeed, the only option.

And those proponents of capitalism and free enterprise will have a tough time convincing the ANC that their system is better. Because they will have to admit that just as nationalisation can be shot full of holes, free enterpise is by no means perfect.

But they will have history on their side. Because history has shown that in spite of its imperfections, free enterprise has had the best track record.

And while the ANC might well admit to this, the point they will promote is that time and not the system will be of the essence. Free enterprise might well create equality, but peace and stability in a new South Africa could depend on bringing about this equality with historically unprecendented speed.

For one cannot blame black South Africans for saying: "You whites have had a 40 year start on us, so we'll need something other than the slow process of free enterprise to put us on par with you."

But so far, attempts to rationalise quite what the ANC has in mind with regard to nationalisation, have failed because the ANC has not let on precisely what it has in mind.

It is not altogether clear whether the ANC is more interested in bringing about a fair distribution of wealth or a fair distribution of opportunity. Though superficially subtle, the difference between the two is enormous.

A fair distribution of opportunity might simply entail a political solution — the abolition of apartheid — with certain compensatory factors. But a distribution of wealth in a literal sense would entail the usurping of private sec tor assets.

So, on the assumption that the ANC is intent on the swiftest possible route to economic equality — spreading wealth and simply allowing equal opportunity to follow naturally — then when they talk nationalisation they mean it in its strictest sense.

The ANC has mentioned nationalisation in terms of mines, banks and of breaking up monopolies.

What then, would be the effect of nationalising a bank? If this was done without compensation — if the bank was simply declared a state corporation — then the first to suffer would be shareholders.

Local shareholders would lose their investments as would overseas shareholders who would probably then turn their backs on South Africa forever.

But this form of nationalisation does not mean that investors — those ordinary people with savings and fixed deposit accounts — would lose their money. At worst their interest earnings might drop, depending on how efficiently the bank was managed under state ownership.

Self-defeating

On the other hand, nationalisation could take place on a basis of partial ownership where the state "buys" a share or even in the case of total ownership, compensation could be paid so that no one loses out. However, full compensation — the market value of shares — would be self-defeating and therefore highly unlikely.

Recent history has shown many countries nationalising their banks. An example is France When banks were nationalised there a few decades ago, there was an immediate benefit to the man in the street. Banking became a free service.

Those who paid for all these free services were the borrowers. Interest on loans and overdrafts were higher than would have been the case if the bank had not been nationalised.

And strangely enough the nationalised banking system in France worked very smoothly and extremely efficiently. However, in recent years service charges peared and the era of f

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ONALISATION

Star 24/2/90 (49)

ery or righting of economic wrongs?

EALTH: The workers do all the work and the whites reap the benefits. Right or wrong, that's the perception among blacks. But will nationalisation be the answer?

ill promote is that time and will be of the essence. Free ht well create equality, but ity in a new South Africa could ging about this equality with historically unprecendented speed.

For one cannot blame black South Africans for saying: "You whites have had a 40 year start on us, so we'll need something other than the slow process of free enterprise to put us on par with you."

But so far, attempts to rationalise quite what the ANC has in mind with regard to nationalisation, have failed because the ANC has not let on precisely what it has in mind.

It is not altogether clear whether the ANC is more interested in bringing about a fair distribution of wealth or a fair pportunity. Though superfi- difference between the two is

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And strangely enough the nationalised banking system in France worked very smoothly and extremely efficiently. However, in recent years service charges have once again appeared and the era of free banking has ended.

So, while the nationalisation of banks need not necessarily be to the detriment of the man in te street, it should be remembered, however, that many pension funds are bank shareholders and should nationalisation cause the value of a bank's shares to fall considerably or even disappear completely, this would impinge upon the performance of any pension fund involved. Which in turn would depreciate the value of individual pensions with the result that contributors would find that the amount of money they expected to receive on retirement would decline.

The question of nationalising the mines appears a to be a lot less complex. Indeed, the state would find itself up to its neck in money if it owned the mines But as, for example, roughly 20 percent of the shares in local gold mines are held by overseas investors, nationalisation of the mines would scare off foreign investors to the point where investment capital into South Africa would become as rare as hen's teeth

In theory, nationalisation of the mines need not have an impact on the ordinary citizen. In fact, nationalisation in general should theoretically allow government to reduce taxes. However, history has shown that this doesn't necessarily happen. Mostly from the point of view that the reason for nationalisation is usually that government needs money for projects that could not normally be financed out of tax revenues.

But what of the monopolies? That handful of companies that dominate the economy? Is it possible to argue against the black view that so much economic power in so few white hands is as odious as the political oligarchy they have lived under for more than 40 years?

But will nationalisation solve the problem? Will nationalsation dissipate power?

The belief, for example, that 80 percent of the shares on the Johannesburg Stock Exchange is owned by four or five companies is an old chestnut used by critics of the South African economic system as an example of everything that is wrong within that system. It is not strictly accurate, however.

"Controlled" perhaps, but not "owned". And the difference is quite significant. Take the prime "culprit" — the Anglo American Corporation — and an example of how it might appear to own shares that in fact it merely controls for the benefit of tens of thousands of people.

Black consumers

Anglo has a significant stake in Southern Life which in turn has a equally significant stake in African Life. Thousands of predominantly black consumers have African Life assurance policies. A significant portion of the millions of rands of premium income that flow in from these policies every month might be invested in public company shares in order to gain maximum benefit for policy-owners.

But while ultimately Anglo American controls these shares, it does does not own them

This taken into account, the shares actually owned by this handful of so-called monopoly companies probably amounts to a maximum of about 35 percent and not 80 percent of all JSE shares

But the monopolies that perhaps the ANC is quite justifiably intent on getting rid of, are those that benefit from legislation precluding competition South African Airways is a prime example.

So, given that the principle of nationalisation is generally fraught with economic disadvantages, what other options are there?

There are, it seems, all manner of ways of skinning the cat.

For example, Professor Pieter le Roux of the Department of Developmental Studies at the University of the Western Cape, believes that social democracy is the answer.

He says a social democracy — a calculated but limited state intervention in the economy — is a reasonable compromise which leaves the way open for a Thatcherite reversal at a later stage when most of the leeway in providing equal opportunity has been made up, or for a move toward a more radical socialism if desired.

There are many such compromise options. But at the end of it all, the best compromise will be one which brings about equality as quickly as possible but which has least impact on the economy — particularly on the inflation rate.

Equality is going to cost a lot of money. And whether this comes from nationalisation or social consciousness contributions from the private sector, the inflation rate is bound to increase and productivity almost certainly curtailed.

Which, in turn, could well create a situation where the very things that are created to improve the quality of life of black South Africans will at the same time increase their cost of living burden.

> Blacks perceive that a small group of whites dominate the economy, in which the prevailing policy is to make the rich richer and the poor poorer.

A Jobscor for our economic Joweto

S/Times 25/2/90

49

Mike Olivier and Nick Binedell

of the Five Freedoms Forum, call for open debate on the post-apartheid economy

LAST week, the Johannesburg Stock Exchange underwent a major downward turn and stock market values fell by 9,8 percent, amounting to R38 000-million.

This decline has generally been attributed to statements from Mr Nelson Mandela and the ANC regarding economic policy in general and in particular the prospects of nationalisation.

The statements by Mr Mandela reflected the longstanding policy of the ANC regarding the means that would be used to redress what they believe to be historical laws and practices which have prevented full access to economic opportunity and fulfilment of basic human needs in the black community.

The statements on nationalisation by Mr Mandela and those reflected in the Freedom Charter are characteristic of an ideological orientation that has been the cornerstone of socialist practice.

Today, it is commonly asserted this ideological framework is not workable as industrial economies head for the 21st century.

In response to Mr Mandela's and the ANC's proposals, reaction from government and business leaders this week has been strongly critical of the proposals.

Vision

Mr Barend du Plessis referred to nationalisation proposals as "plundering". The Financial Mail last week referred to these policies in extreme negative terms. In our view, this is reactive in nature and reflects a gut-level, emotional response.

In spite of the sharp differences of opinion concerning economic policy, and nationalisation in particular, perhaps the debate should begin with the view that South Africa is headed for a non-racial democracy in which all South Africans should enjoy equal opportunities and rights.

This vision must be based on an acceptance of a common and interdependent future.

In our view, the debate concerning economic policy should begin with a joint examination of the problems that stand in the way of this overriding national purpose.

In terms of economic policy, four interconnected objectives must be achieved. These include the equitable distribution of wealth, equal opportunity and access for advancement, the enhancement of overall economic growth and hence job creation and, finally, the maintenance and improvement of South Africa's global competitiveness.

In the political arena, the initiatives taken by Mr Mandela and Mr De Klerk have created an unparalleled opportunity for South Africa to resolve its problems peacefully.

The boldness and speed with which the main protagonists have established a national political agenda has surprised the majority of South Africans.

Economic policy is perhaps as important as constitutional frameworks and the political franchise.

Perhaps both political groupings as well as business leaders need to grasp the thorny nettles concerning economic policy with the same vigour and vision as the political issues are being tackled.

For this to happen, there needs to be a debate in both business and political circles on how to tackle the abovementioned and other economic problems.

Perhaps a lesson can be taken from Mr Ron Kraybill's suggestions in Leadership magazine concerning political negotiations.

Mr Kraybill proposed that effective negotiations were conducted when, rather than arriving at the bargaining table with alternative and opposing proposals, the parties jointly worked towards reaching a common understanding as to goals and a common definition of the problems.

Both the ANC and other actors may have to follow Mr Mandela's lead when he commented last week on the nature of compromise.

In his SABC interview, Mr Mandela suggested true compromise was not at the fringes of issues but rather concerned the most important parts of any negotiation.

Given the goals of a prospective ANC government as well as the goals needed to maintain an effective and viable economy, it is perhaps incumbent on all groups to develop a vision and policy that will include both frameworks and perspectives that are radical departures from current thinking and practice.

Perhaps a bolder approach must be developed in which a unique solution that is effective and suited to specific South African conditions could emerge.

Tax

We are, after all, in *Joweto* as opposed to Sydney, London or New York.

A wide range of solutions to the question of economic policy in general and nationalisation in particular are possible.

These include, first, outright nationalisation, which is being discussed in many quarters.

Second, a taxation policy which could either increase flows to the fiscus or creatively redirect tax flows into programmes that relate to social and economic upliftment.

Third, a new tax policy which would provide for stronger positive incentives to business to support social and advancement programmes. This could cover a wide range of areas such as job creation, housing, education and health care.

A fourth option is the examination of the viability of joint ventures either at State or local level. These could use private-sector managerial skills along with State resources to develop job creation programmes. Maybe we need a Jobscor as opposed to an Armscor.

Reality

Finally, employee equity ownership within existing corporations is an opportunity which has not yet been seriously tackled. Major equity participation, linked to performance and productivity, in which employees are given the opportunity to obtain a significant stake in the organisation in which they work, should be pursued.

As political debate continues, it is becoming clear to all South Africans that our future is a common one and that we are totally interdependent.

If the vision of a unified country is to become a viable reality we need to keep an open mind when examining economic policy choices.

We need to engage each other to search hard for truly creative South African solutions.

We should not leave the final definition of our economic future solely in the hands of the top political actors, who are likely to make unwise and damaging economic compromises.

Mobil to stay in SA Picture: TERRY SHEAN

Barend takes the plunge

S/Times 25/2/90 49

Business Times Reporter

THE Government has signalled a radical Budget for March 14.

It has promised a "substantial decrease in personal income tax over a period of time", starting this year and "modest" pay increases for public servants.

Economists expect Finance Minister Barend du Plessis to go some way towards matching in State finance the political changes made by President De Klerk.

This year's is expected to be Mr Du Plessis's first supply-side Budget, aimed at boosting private-sector output by reduction of the tax burden.

Shortages

It is also tipped to be the first Budget in which there will be large-scale transfer of funds from defence and strategic spending to health, education and welfare.

Value added tax is expected to replace general sales tax in 1991. A clear definition of capital gains is forecast. That could transform a stock market plagued for years by shortages of scrip.

Mr Du Plessis is also expected to say something about the privatisation of Foskor, which could bring in at least R1-billion to State coffers.

Privatisation Minister Wim De Villiers says personnel involved in law enforcement, security services, nursing and education will get more than the 10% across-the-board increase to be granted to public servants.

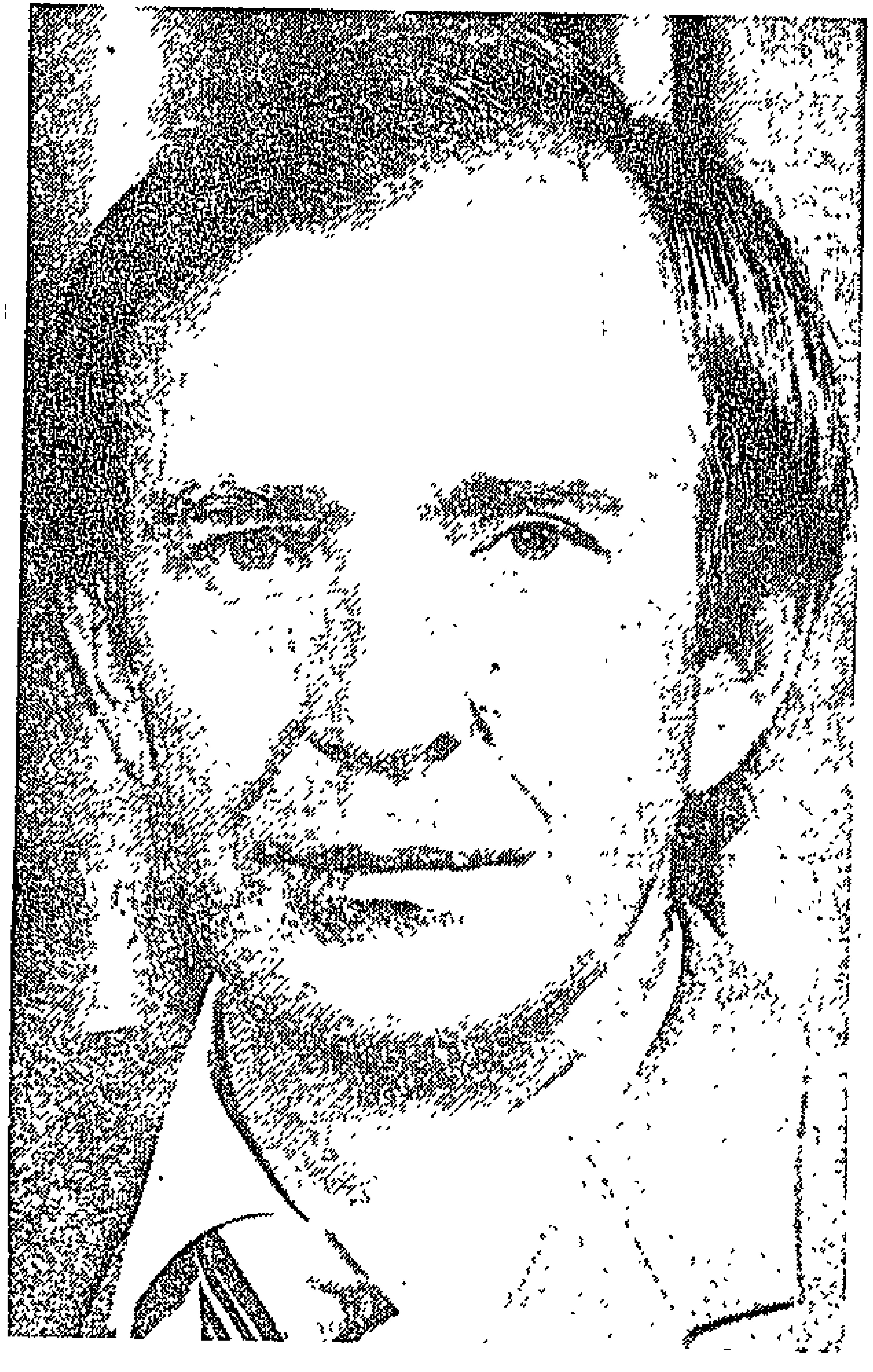
Thanks to large savings on consumables, personnel and non-essential services because of the end of the Namibian war, analysts expect cuts in security expenditure, though law and order will continue to enjoy priority.

President De Klerk and Mr Du Plessis have hinted at higher spending on black education, housing and health services. Development money could be diverted from homelands to black urban areas.

The import surcharge is likely to be partially scrapped, lopping R1-billion off Exchequer income, complicating tax cuts, and reducing inflation noticeably.

Interest on State debt will again be one of the largest spending items.

Nelson Mandela . . . only morally fair.



Barend du Plessis . . . nationalisation is theft.

Change of stance by Mandela and ANC on nationalisation

(49)

With big business and commerce still reacting to the Mandela/ANC statement on nationalisation and the Finance Minister dubbing the move theft, the effects of sanctions has been brought to the foreground with the call to tighten the economic vendetta. REVELATION NTOULA reports:

NELSON Mandela and the ANC appear to have changed their stance on the concept of nationalisation of certain economic sectors in the event of their assuming political control in the country.

The question of the effects and desirability of sanctions, have also forcibly been brought to the foreground following the ANC's call for the reinforcement of the economic vendetta against South Africa.

C/Pron 25/2/90

An important by-product of the nationalisation debate has been the oft-acclaimed government policy of privatisation of all sectors of economic activity in the country.

Mandela's release from prison has met with universal approval – with the exception of a handful of Conservative Party diehards. The situation, however, seems to have altered somewhat after his Soccer City rally speech two days after his release.

His image of "a fine old fellow", particularly in the eyes of the white liberal section, appears to have changed to that of "a leopard never changes its spots". This was after he had reaffirmed the ANC's economy policy as contained in the Freedom Charter adopted by the organisation in 1955.

In subsequent interviews, Mandela maintained that allowing the status quo to continue in a free and democratic South Africa would be tantamount to the betrayal of those who had been dispossessed by apartheid. The apartheid system, by its very functioning, had deliberately designed a situation which rendered blacks impotent in the economic race.

It would therefore only be morally fair for those who had been at a disadvantage for about half a century to have their share of the national economy without the hazards of an open market system under South African circumstances.

Mandela's statements caused an outcry from corporate business as well as in government circles.

One of the sharpest reactions came from Finance Minister Barend du Plessis who said the ANC economic policies amounted to nothing other than theft.

Another important reaction came from the director-general of the Chamber of Business, Raymond Parsons. He said the greatest impediment to liberty in the world was economic poverty and that the nationalisation of key South African industries would lead directly to such poverty.

Black intellectual thinking today shares much with that of Afrikaner nationalist intellectuals when the National Party came to power in 1948.

Those Afrikaners were bent on "righting" past wrongs and claimed "English capitalism" led to Afrikaner oppression. They vowed to nationalise the mines and other key industries.

In the pursuit of their goal State concerns like the Post Office, Railways and Harbours and parastatals like the SABC, Iscor, Eskom and others became synonymous with sheltered employment.

It was also in these areas that the job reservation regulations were vigorously applied.

Afrikaners must have realised that their quest for "redistribution" of wealth could only come about when they used the apparatus of the State (nationalisation).

Furthermore, it is clear from history that the Afrikaner has always been suspicious of competing openly in the market place.

It therefore becomes ironic that the Afrikaners who today own the Santams and have left a heritage of sheltered employment in literally all key positions in the civil service, should raise their eyebrows when anybody else speaks of nationalisation.

Du Plessis terms it outright theft and by definition, a criminal offence. If that is the case, Mandela would surely be the second to be indicted. Who then would be the first?

VAT in 1991 despite snags

S/Times 25/2/90.

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By Robyn Chalmers

FINANCE Minister Barend du Plessis is expected to announce in his Budget speech that VAT will be implemented by October 1991.

But he will do so against advice from accounting firms.

Pim Goldby senior consultant Rob Collins believes that the implications of VAT will be so wide that the Government should remain with an amended version of the Sales Tax Act.

Comment

Mr Collins says: "We suspect that a draft version of the legislation will be released for public comment within six months.

"The Government will discuss it with financial institutions, farmers, the mining industry, exporters and importers, professional services, the TBVC countries, Namibia and the BLS countries.

"The feedback will probably be reviewed in Parliament and we expect the new tax to be implemented in mid-to-late 1991."

The biggest impact of the new tax will be on accounting systems, placing a huge administrative burden on both Inland Revenue and business.

It could also have a negative effect on the ordinary man because it could fuel inflation, especially if the VAT rate is higher than for GST.

SI Times 25/2/90 -

(49)

Nationalisation the kiss of death

By David Carte

NATIONALISATION would be the kiss of death for mining development in SA, warns Brian Gilbertson, a director of Genmin.

At the Frankel Kruger Vinderine investment conference in Johannesburg this week, Mr Gilbertson spelt out the formidable technical and financial risks inherent in new mining ventures.

"Of one thing you may be certain: there will be no new deep-level gold mines in a nationalised industry. Under that scenario we would also see a pretty rapid end to many promising exploration programmes."

Foregone

Mr Gilbertson was one of four SA speakers at the conference who warned against nationalisation.

Sankorp managing director Marinus Daling listed it as one of six negatives in the SA economy, but he did not think the threat was all that imminent.

Mr Daling said: "It is not a foregone conclusion that large parts of the SA economy will be nationalised. President De Klerk and his Government are clearly committed to a market-oriented economy.

Devastating

"Surveys among blacks show that the majority are committed to such an economy and lately even in ANC circles none less than Joe Slovo . . . has said that there may me better methods than nationalisation for the State to achieve its aims.

"Mr Thabo Mbeki . . . also made a public statement that the creation of wealth is a prerequisite for achieving a better quality of life for all in SA . . ."

Mohale Mahanyele, managing director of Manpower Assignments Consultants, warned: "We in SA ignore the devastating consequences that now engulf nations in Europe, Africa and the rest of the world at our peril . . . we have a great opportunity to improve the well-being of all our people, especially blacks. But let us not spoil it by pursuing misguided economic policies that have clearly failed here and elsewhere."

Finance Minister Barend du Plessis said that for all its faults, the Government had never nationalised industries. Like many other developing countries, SA had merely made large-scale capital investments in industries regarded as too risky by the private sector. Through privatisation it was returning these investments to private ownership.

Mistakes

Mr Du Plessis said: "To talk of nationalisation is to turn the clock back 100 years. The contrast in Eastern and Western Europe is a stark reminder of the folly of Marxism.

"There you have similar types of people with vastly different living standards. Nationalisation and redistribution are recipes for stagnation and poverty. I believe good sense will prevail in SA"

Mr Du Plessis acknowledged past mistakes. One was exclusive reliance on monetary policy — and contradictory fiscal policy. He admitted that Budgets had lost credibility and expressed determination to rectify this.

Although reluctant to disclose anything in his Budget scheduled for March 14, Mr Du Plessis said the R1-billion contingency reserve set aside last year was virtually intact.

He warned that spending on white health and education would tend to stagnate while expenditure on more-needy population groups would increase.

An American delegate asked Mr Du Plessis about SA's allegedly huge oil stockpile.

Blockade

Mr Du Plessis replied: "It is true that to counter the threat of a blockade of supplies we have made an immense investment in strategic commodities and industries, such as Sasol, Mossgas, Armscor and even in the nuclear area, where we were obliged to develop enrichment capability to supply Koeberg.

"There were substantial technical spinoffs from these investments but they were bought at a terrible price and distorted spending priorities. The cost to black education and development may have been R10-billion.

"If these pressures reduce, we can change our spending priorities and draw on wealth previously stored for strategic purposes."

Payoff

Mr Gilbertson said mining employed 750 000. Its output was R34-billion, of which R27-billion came from export receipts. It accounted for 12,7% of gross domestic product and 55% of exports.

SA could establish new sources of chrome and manganese ore, coal and platinum group metals more quickly and cheaply than competitor countries. "However, to do so would simply lead to an oversupply of the world total market, hence to lower prices and to the impoverishment of the industry and of the country."

He asked whether SA was about to embark on a "third great mining boom with 19 new gold mines by 2010, six new platinum mines and huge expansion of chrome, granite, and diamond mining".

"Judging from the growth in their exploration expenditure — from R90-million in 1983 to R254-million in 1987 and probably to R400-million in 1990 — the six big mining houses are betting on the big payoff."

Frightening

Genmin lifted exploration spending from R16-million in 1985 to R95-million in 1989, a compound increase of 50% a year "because the rate of spending was too low in the early Eighties and because our geologists have persuaded us that, with new conceptual theories and with new exploration technologies, the payoff might be within our grasp".

Mr Gilbertson said an investment in gold exploration resembled the purchase of an option on the gold price or new technology. The stock market placed no value on such options because mining houses traded at a discount to net asset value.

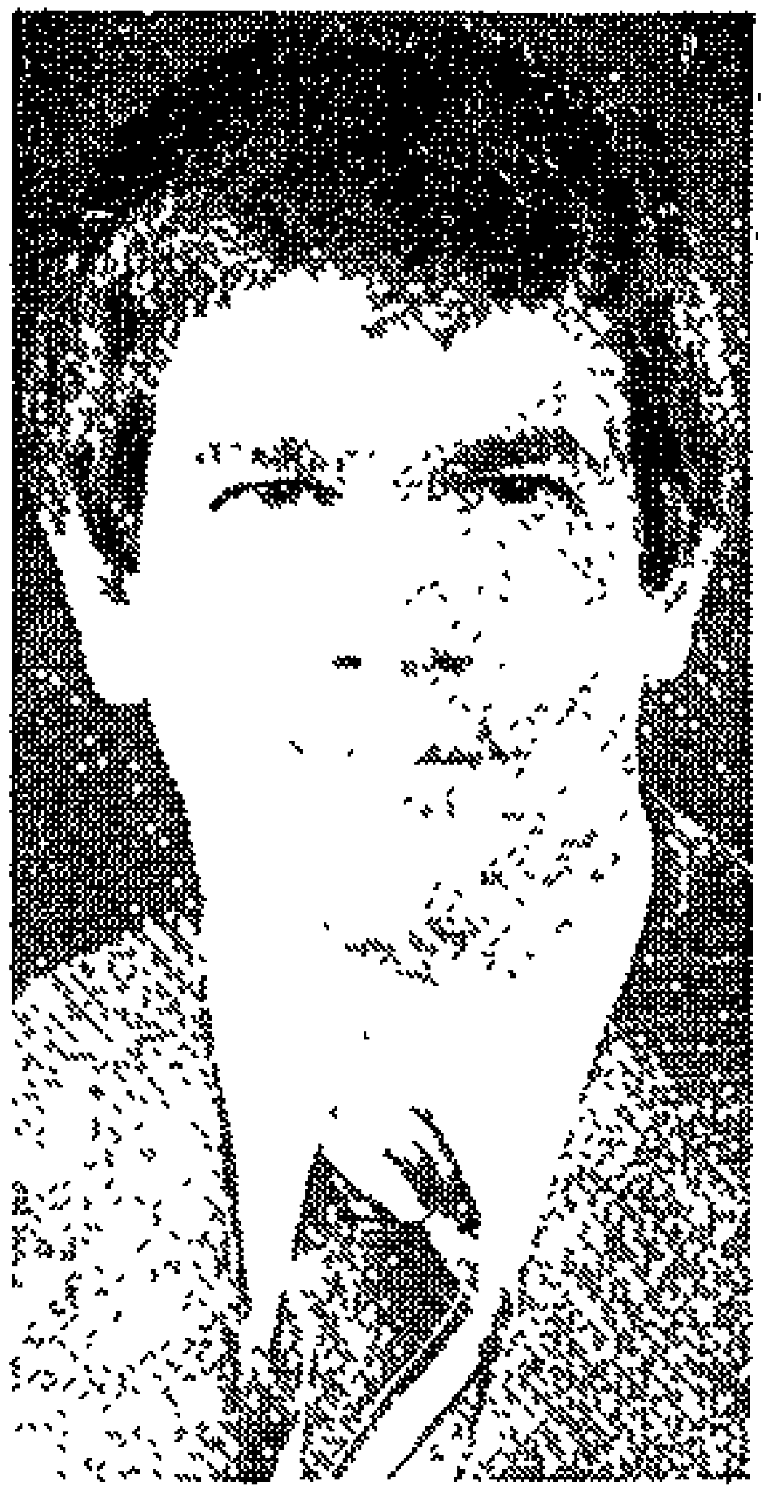
The Potchefstroom Gap illustrated the option idea. There was no doubt the gold was there, but it lay at depths from 3,5km to 6km. A reasonable increase in the gold price would make the prospect an important investment opportunity.

"In similar vein, the southern Free State area between Joel, Beatrix, Oryx, Unisel and Harmony will almost certainly be mined in time to come."

Mr Gilbertson said the proposed Buffelsfontein tertiary shaft illustrated the expense and difficulty of deep-level mining investment.

Reef existed at 3 500 to 4 000 metres, where "nobody has ever been before".

The rock mechanic problems were frightening. The shaft would pass through intrusives where strain-bursting would be a problem. There could be unstable areas of rock in shaft sinking. Lacing would have to be installed on the sidewalls and shot-creted after each cleaning to stabilise shafts.



BRIAN GILBERTSON . . . risks in deep-level mining

More than R250-million would have to be spent on a 25mW refrigeration unit.

"If the refrigeration system should fail for any reason, we would have only hours to evacuate our men before heat-stroke conditions built up. Part of this (disaster recovery) planning involves an unusually large underground dam, containing 5-million litres of cold water to supply coolth for three hours.

"When all this has been done, we will face the greatest uncertainty of all — whether or not there is enough gold down there to justify our huge investment.

"To estimate from 35 Reef intersections the grade we will eventually recover is equivalent in numerical terms to entering a city the size of New York asking the age of the first person you see and using his or her answer as the average age of all the inhabitants."

Reform

Mr Gilbertson said that by paying taxes of up to 78%, the mines were already semi-nationalised. He called for radical reform of the tax system, elimination of lease payments, the existing 100% allowability of capex to continue and abolition of ring fencing.

Mr Gilbertson said the Budget might provide a clearer directive on capital gains.

"Estimates have been made that the six major mining houses hold about R21-billion's worth of gold-mining shares of which R13-billion might be regarded as mature. However, mining houses are reluctant to realise these mature investments, as up to now the proceeds realised could be paid in as tax.

"This uncertainty ties up funds that might otherwise be released for investment in new mining ventures."

Economic debate must dispel some myths and legends

BDay 26/12/90

KEN OWEN

(49)

TWO vexatious questions are bound to dominate the coming constitutional negotiations: the need to assure minorities, whites in particular, that they will not be oppressed, and the need to restructure an economy grossly distorted by the injustices of apartheid.

On the first of these issues Nelson Mandela has been extraordinarily generous in offering to confront the fears of the white community. Actually, I thought the ANC's opening offer of simple equality was preferable to the special status which President de Klerk demands, but if he and Mandela agree to make whites a kind of royal game, who am I to blow against the wind?

The economic problem is more contentious and more pressing. It can be succinctly stated: how do we reconcile the legitimate demand of a deprived black population for a restructuring of the economic system with the requirements of a successful, growing economy?

The demand for restructuring, let me say at once, is not only legitimate but inescapable. The system has been skewed against black people for more than a century (and in the Cape for more than three centuries), and they are entitled to redress. Anyway, their demands are too emotionally charged to be wished away. Restructuring is a political imperative.

The question is how?

The worst proposal, indubitably, is that contained in the Freedom Charter: to nationalise the banks, the mines, and the commanding heights of the economy, and to redistribute the land to "those who work it".

These ideas were inserted into the Charter (after the liberal Peter Hjul had been bundled out of the drafting committee) by men and women who were convinced that the ideas which then prevailed in Eastern Europe represented the wave of the future. Today we know where those ideas lead.

Meanwhile, however, the Charter's demand for nationalisation has been sustained by the teaching at our universities of what might be called Bulgarian economics: a collection of economic myths whose survival is attributable mainly to the fact that economic debate has come to be dominated by social scientists, historians and grammarians with Firm Views on Morality.

Among the favourite myths, to cite one, is that the five corporations which dominate the Johannesburg Stock Exchange also "control" the economy. The argument is ignorant, confusing the JSE with the economy, and leaving out of account — at a guess — 50 000 unlisted companies, half a million close corporations, partnerships and small businesses, and vast agricultural empires, not to speak of the accumulated wealth in the suburbs.

Nevertheless, from this myth has sprung the idea, amounting to an obsession among those who lust for power to "plan" our lives, that totalitarian control of the country may be easily achieved by nationalisation of the Anglo American Corporation and a few other "commanding heights".

The idea is silly. Anglo's market capitalisation is roughly R30bn, while government's revenues from taxation of the entire economy is R60bn a year and growing. Any peasant knows, if I may resort to the bucolic imagery of my childhood, that it is better to milk the cow than slaughter it. Anyway, we have the Zambian example of what happens to a mining industry when it is taken over by clerks and economists.

The tragedy is that the ANC, by continuing to mutter about nationalisation of "the commanding heights", is inflicting damage on the economy as great as the damage of sanctions, and it may well destroy the country's capacity to produce the rich flow of revenue to state coffers which is, indeed, the ANC's only hope of redressing past wrongs.

Nelson Mandela's first speech sent foreign investors (though not many South Africans) scuttling for safety. As one broker reported: "Those foreign politicians and businessmen who for years have called for the 'normalisation' of politics in SA have headed for the hills in no uncertain manner."

But that's not the worst of it. Continuing talk of nationalisation is unsettling South Africans, who are beginning to eye moveable investments like yachts and small art works rather than productive, wealth-producing, job-creating investment. As Brian Gilbertson of Gencor said last week, in a nationalised mining industry there will be no new deep-level mines.

To put it plainly, if the ANC does not button its lip on this subject, the gold that lies deep in the Potchefstroom gap will stay there forever.

How, then, is reconstruction to be achieved?

The short answer is to view it not as a constitutional question to be settled in constitutional negotiations, but as a political question of economic management to be pursued afterwards. The answer to poverty and deprivation is to create wealth, and the constitution should not put obstacles in the way.

Unfortunately, the argument for rapid economic growth has been discredited from two sources. On the one hand, purist free-marketeers take the argument to absurd lengths, disdaining all political realities, and at times — in discussing health services, for example — they descend to obscenity.

On the other hand, there is the Bulgarian myth that economic growth simply makes the rich richer, leaving the poor poor. Nothing could be farther from the truth. Modern corporations generate far more wages and taxes than dividends, and the benefits of economic growth spread quickly through the nation.

To put the argument at its simplest: if we achieve growth rates of 7%-10% a year, which is well within our capability, the national wealth will double before the end of the century. A major beneficiary would be government, whose annual revenues would double (at present rates) to about R130bn.

Next in line would be unionised workers, who — you may be sure — would bargain for wage increases to the limits of the profitability, and perhaps to the limits of corporate survival.

More important than all of this, however, is that economic growth creates a myriad of new opportunities, new jobs, undreamed-of new economic roles, to be filled by aspiring people at every level of society. And there is no more dramatic improvement in the lot of an individual than to go from unemployment to a job.

On top of this comes restructuring, in which the principle formulated by the liberal John Rawls should apply: government intervention in the economy, whether in providing education or charity for the destitute, or health or housing, should favour the poor. Or, if you like, the historically deprived.

This raises the final Bulgarian myth: that a poor, backward country like ours can sustain the social services of a rich and educated people like Sweden. In fact, excessive taxation undermines competitiveness, and drives skilled people to emigration. But the proper balance of taxation, investment and social expenditure is bound to be the very stuff of post-apartheid politics.

So far, only that marvellous politician Harry Schwarz has been thinking seriously about that balance, but that is the subject for another column.

LETTERS

Business Report

Informal sector rejects restrictive economic system

Cape Times 26/2/90

49

Own Correspondent

JOHANNESBURG. — The informal sector yesterday rejected an economic system which did not encourage free trade.

Responding to ANC hints that sections of a future SA economy may be "nationalised", many black entrepeneurs were non-committal and said they wished to study the matter further.

However, African Council for Hawkers president Lawrence Mavundla said his council was in favour of free trade because it made people more competent through competition.

"We have fought against laws preventing us from operating freely as the informal sector — a clear indication that we are committed to freedom in trade — and we do not want to go back to where we came from," Mavundla added.

Other businessmen, among them, the SA Black Taxi Association (SABTA), were non-committal.

Sabta's projects co-ordinator Tebelo Radebe said on Friday that the issue had not been sufficiently discussed by Sabta's members.

"We understand the reasons for Nelson Mandela and the ANC's call for nationalisation but we do not want to debate the matter in the press before meeting with various political groups," Radebe said.

Black Management Forum's Johannesburg Branch chairman Lot Ndlovu said although the forum had not met to discuss the issue, it was in favour of an open and fair economic system from which the majority of the people would benefit and which would work for the country.

"If the majority of the people opt for nationalisation the BMF will fall in line with them," Ndlovu said.

Richard Maponya, a black businessman, was quoted last week by a Johannesburg newspaper saying the ANC's nationalisation policy was the organisation's bargaining strategy, a trump-card, to take to the negotiating table and with which it hoped to win concessions.

Maponya was also quoted as saying that he did not believe the ANC would make the same mistakes as SA's neighbouring countries.

Nelson Mandela issued statements shortly after his release reaffirming the ANC's adherence to a "nationalisation" policy.

However, when concern reigned in the business world Mandela compromised saying the issue would be negotiated with all interested parties.

REPUBLIEK VAN SUID-AFRIKA
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Vol. 296 PRETORIA, 27 FEBRUARIE FEBRUARY 1990 No. 12316

PROKLAMASIE

van die

Staatspresident van die Republiek van Suid-Afrika

No. 31, 1990

INWERKINGTREDING VAN ARTIKELS 3 EN 4 VAN DIE WOEKERWYSIGINGSWET, 1989 (WET No. 91 VAN 1989)

Kragtens artikel 7 (2) van die Woekerwysigingswet, 1989 (Wet No. 91 van 1989), bepaal ek hierby 2 Februarie 1990 as die datum waarop die bepalings van artikels 3 en 4 van genoemde Wet in werking tree.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Kaapstad, op hede die Negende dag van Februarie Eenduisend Negehonderd-en-negentig.

F. W. DE KLERK,
Staatspresident.
Op las van die Staatspresident-in-Kabinet:
B. J. DU PLESSIS,
Minister van die Kabinet.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. 451 **27 Februarie 1990**

REGULASIES KRAGTENS DIE WOEKERWET, 1968 (WET No. 73 VAN 1968)

Die Minister van Finansies het kragtens artikel 16 van die Woekerwet, 1968 (Wet No. 73 van 1968), die regulasies in die Bylae uitgevaardig.

BYLAE

Woordomskrywing

1. In hierdie Bylae beteken "die Wet" die Woekerwet, 1968 (Wet No. 73 van 1968), en het enige woord of uitdrukking waaraan 'n betekenis in die Wet geheg word, daardie betekenis.

PROCLAMATION

by the

State President of the Republic of South Africa

No. 31, 1990

49

COMING INTO OPERATION OF SECTIONS 3 AND 4 OF THE USURY AMENDMENT ACT, 1989 (ACT No. 91 OF 1989)

Under section 7 (2) of the Usury Amendment Act, 1989 (Act No. 91 of 1989), I hereby fix 2 February 1990 as the date on which sections 3 and 4 of the said Act shall come into operation.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town on this Ninth day of February, One thousand Nine hundred and Ninety.

F. W. DE KLERK,
State President.
By Order of the State President-in-Cabinet:
B. J. DU PLESSIS,
Minister of the Cabinet.

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. 451 **27 February 1990**

REGULATIONS UNDER THE USURY ACT, 1968 (ACT No. 73 OF 1968)

The Minister of Finance has under section 16 of the Usury Act, 1968 (Act No. 73 of 1968), made the regulations in the Schedule.

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SCHEDULE

Definitions

1. In this Schedule "the Act" means the Usury Act, 1968 (Act No. 73 of 1968), and any word or expression to which a meaning has been assigned in the Act shall have that meaning.

‘Nationalisation still makes sense’

Cape Times 27/2/90 (49)

SOWETO MEETING . . . Anglo American chairman Mr Gavin Relly with Mr Nelson Mandela after their meeting at Mr Mandela's house in Soweto yesterday. Picture: REUTER

SOWETO. — Mr Nelson Mandela, following his first talks with the chairman of Anglo American, Mr Gavin Relly, reaffirmed his commitment yesterday to nationalisation but said the ANC sought an economy based on private enterprise.

Mr Mandela and Mr Relly said their 30-minute talks concentrated on industrial relations and did not include the issue of nationalisation. But the two men told reporters that further discussions were necessary on the subject.

Nationalising key sectors of the economy remained basic ANC policy, Mr Mandela said. Nationalisation had been adopted in the past to meet social problems in the country, “and it should come as no surprise whatsoever that the ANC has made it one of its policies”, he said.

“The sectors which we have selected are those which we feel will give us the resources as a country to tackle some of the problems facing especially blacks,” Mr Mandela said in reference to the ANC's commitment to nationalising SA's mines and banks.

“I must stress that the entire economy, insofar as we are concerned, will remain intact,” he said. “It will continue to be based on private enterprise.”

“Nationalisation will have to be subjected to the tests of debate and the tests of what is reality and what is practicable in trying to make modern economies work,” Mr Relly told reporters.

International community

“The international community should not get itself in a flurry of excitement over the issues of nationalisation. These are for sensible men in due course to address in a quiet and rational way.”

Establishing a “far more equitable social structure” in the country should be the prime object of any future government policy, Mr Relly said. Social problems in housing and education called for a reallocation of resources, and private enterprise had an important role in filling gaps left by the government.

Former Premier Milling head Mr Tony Bloom, who also held a 20-minute meeting yesterday with the ANC leader, said the situation in the country would have been very different had former president Mr P W Botha released Mr Mandela instead of making “that moronic Rubicon speech”.

He told reporters Mr F W de Klerk should be congratulated for his “extremely courageous, far-reaching and visionary move”.

Speaking about sanctions, Mr Bloom said the situation in the country up until recently had warranted “some stick”, but it seemed the time for carrots was now due.

He expressed his sorrow that Mr Mandela had not been released 10 or more years ago.

Mr Mandela praised Mr Bloom — who is in SA for two weeks to attend board meetings — saying he was a “humble and honest man who had done many things for the community which had placed him the frontline of people seeking basic human rights in the country”.

Although the climate had changed in SA, Mr Bloom thought it would take time for foreign investment to return. — Own Correspondent, Sapa and UPI.

Private enterprise economy under ANC, says Mandela

B/Day 27/2/90

49

ANDREW GILL

IT SHOULD come as no surprise that the ANC was committed to the nationalisation of certain sectors of the economy, Nelson Mandela said yesterday after meeting Anglo American chairman Gavin Relly.

At a Press conference in Soweto, Mandela said under ANC rule the economy would remain intact and continue to be based on private enterprise, "but the sectors which we have selected are those which we feel will give us the resources as a government to tackle the problems facing the blacks".

Relly said they did not discuss nationalisation during their 40-minute meeting, but he said it should be subject to the test of debate and reality.

"The community and international community should not get into a flurry over nationalisation. These are issues for sensible men to discuss."

Relly said they had talked about the issues which had preoccupied the mining industry over the past 10 years.

"We were able to have a very profitable discussion about the issues relating to future industrial relations and the importance of industrial relations in a new SA."

Mandela said they discussed the problems facing management with regard to black trade unions.

"White trade unions enjoy the vote and that is why management attaches a great deal of importance to meeting their grievances, and while that situation exists black workers will continue to operate at a disadvantage."

ADELE BALETA reports that former Premier Milling chief Tony Bloom also met Mandela yesterday.

He and Mandela — who invited the former SA businessman to his house — discussed only personal matters as the leader was under "enormous pressure".

Mandela praised Bloom — who is in SA for two weeks to attend board meetings — saying he was a "humble and honest man who had done many things for the community which had placed him in the frontline of people seeking basic human rights in the country".

Bloom, an ardent anti-apartheid critic who quoted personal reasons for leaving the country, said he was still passionate about SA and would do whatever was required of him to work for change. He had no plans to resettle here.

Although the climate had changed in SA, Bloom thought it would take time for foreign investment to return.

Asked if he agreed with the ANC's call for continued sanctions against SA, Bloom said: "I am a carrot and stick man finally. Some stick has been needed to reach the current situation in the country."

Addressing the ANC's call for nationalisation, he said it was not a strategy he would choose as he believed it did not work.

☐ Sapa reports Mandela spent almost four hours yesterday visiting an undisclosed number of Diepkloof prison inmates, most believed to be political.

Anglo American chairman Gavin Relly and Nelson Mandela in Soweto yesterday, and, right, former Premier Milling chief Tony Bloom hugs Mandela. Pictures: ROBERT BOTHA

Politics emerges as big market mover

GRETA STEYN

MANDELA-watching is taking precedence over money supply and other figure watching in the markets as politics emerges as one of the major market movers.

Volatility in the gilts market — a factor in options pricing — has more than doubled to above 9 from 4, reflecting the importance of foreign investors. Overseas buyers who had been bullish on SA's political situation now hold about R6bn of gilts.

A spin-off of the activity generated by the foreign participation is that the options market has to adjust to a new trading environment. Participants have become wary of writing options and prices have soared.

First National treasurer Ken Russell said: "There was a time when a five-point move in the spot rates was considered fairly excessive. These days, a 25-point move either way is nothing out of the ordinary."

Trying to predict movements of gilts rates on the basis of SA economic fundamentals was a futile exercise, as political perceptions of foreigners had become a vital element. If foreigners start getting out "we've got trouble".

Belief

(49)

The financial rand market has calmed down.

"The realisation has taken hold that a new government will not nationalise everything in sight," Russell said.

B/Day 27/11/90

However, the market is discounting a new economic order in SA with more emphasis on state control and less on free markets. With the violent swings over, the investment currency has lost about 3% in the past week. It closed at R3,59 yesterday, mainly on creation of financial rands in London as foreigners sell SA equities. They have largely retreated from gilts.

Standard Merchant Bank treasurer Chris Kenny said the finrand no longer feared nationalisation — but there was a belief that "some kind of redistribution of wealth" would take place.

The fundamentals that should determine the finrand's level, such as equity sentiment, had become important again. Quite apart from politics, Kenny said, a view that SA golds had been over-priced in terms of the gold price could also account for the generation of finrands in London.

The commercial rand has so far seen only positive spin-offs from political developments. Dollars continue to flow into the market in the form of foreign trade finance. Yesterday the rand hardly weakened against the dollar, in spite of the twin bearish factors of the US currency's strength on foreign markets and gold's weakness. It closed marginally weaker at R2,5450 from Friday's R2,5410 and gained on the crosses.

Next upswing may be long, strong — bank

49

SYLVIA DU PLESSIS

THE upswing commencing in 1992 could well be SA's longest and strongest economic recovery in more than 20 years, if political factors and foreign economic relations improve sufficiently, says TrustBank.

But despite the promise of a return to financial stability in the early 1990s and to sustained economic growth thereafter, at least two risk factors need to be taken into account.

The bank says in its latest economic review that one danger is rising unemployment, likely to accompany the 1990/91 economic downturn.

"Judging by past experience, and seen in the context of political uncertainty and rising expectations, this could produce a renewed cycle of unrest and violence on both extremes of the political spectrum — with highly negative economic effects," it warns.

It expects the dollar to maintain a weak undertone for most of 1990, bringing a rising gold price in its wake and further reducing the likelihood of higher European interest rates.

International trends are expected to help improve SA's financial position over the next 18 months. This includes the prospect of rising Japanese interest rates during the year in response to an overheated economy and rising inflationary pressures. Mon 22/1/90

"With US interest rates falling and Japanese rates rising, 1990 could well witness a considerable appreciation of the yen against the dollar. Full cover on the yen/dollar leg of planned forex purchases up to a year ahead would appear to be a highly commendable strategy for the relevant SA importers."

Meanwhile, Die Afrikaanse Handelsinstituut said in a statement released yesterday that the SA economy was cooling down more rapidly than evidenced earlier.

The organisation said its view was that the consolidation phase of the economy would take greater effect in the coming months, but while this year would be tough for the business sector, there were positive factors and the economy would start to improve in 1991.

Budget might contain some tax surprises

Star 27/2/90

(49)

By Derek Tommey

The Government has generated some excitement among taxpayers by informing public servants that in addition to their 10 percent pay rise they will benefit from the tax cuts in the forthcoming Budget.

This statement, which suggests that the March Budget might have some surprises, was made by Dr Wim de Villiers, a well-known businessman who was recently appointed Minister of Administration and Privatisation to help the Government control its finances.

Minister of Finance Barend du Plessis has been saying for some time that South Africans are over-taxed. However, this is the first intimation that the Government plans to do something about it.

It has been accepted that there will be some tax cuts in the Budget, if only to offset the adverse effects of fiscal drag. This happens when people are given a pay rise to compensate for the decline in the value of money.

But owing to our progressive income tax system, the pay rise puts them into a higher tax bracket and they end up paying a large proportion of the increase in taxes.

Rough calculations suggest fiscal drag has resulted in most people paying about eight percent more in tax in real terms this year than last year and 17 percent more than in 1988.

Taxpayers clearly have reason for complaint for the increases have been accompanied by higher interest rates as well.

Minister of Administration and Privatisation, Mr Wim de Villiers said last Friday that public servants were getting only a 10 percent pay rise instead of the 15 percent expected because the difference would be made up by a reduction in income tax. This table shows the extent to which he has to reduce tax rates in order to ensure that public servants are no worse off financially this year after tax and after taking into account the 10 percent pay rise, than they were last year.

	RANDS				
1989 Monthly income	1 500	2 000	2 500	3 000	3 500
1989 Annual income	18 000	24 000	30 000	36 000	42 000
Annual tax	2 860	4 480	6 460	8 700	11 080
Net income	15 140	19 520	23 540	27 300	30 920
Needed in 1990					
Net + 15%	17 411	22 448	27 071	31 395	35 558
1990 pay (1989 + 10%)	19 800	16 400	33 000	39 600	46 200
Tax	3 314	5 232	7 570	10 104	12 802
Net income	16 486	21 168	25 430	29 496	33 398
Shortfall	925	1 280	1 641	1 899	2 160
Tax cut needed to make up shortfall	27,9%	24,5%	21,7%	18,8%	16,9%

Footnote: The tax rates are those applicable to married people before providing for rebates and other tax deductions.

As a result, living standards of most people have dropped significantly in the past two years.

This is showing up at the retail level in the decline in the sale of durables and semi-durables, but it has been even more in evidence in the slump in personal savings.

But Mr de Villiers' statement suggests something better than an eight percent or 10 percent cut to compensate for recent fiscal drag might be in the pipeline.

For a substantial reduction in personal taxes would be needed if the five percentage point pay rise public servants did not receive is to be made up by tax cuts.

This is seen in the accompanying table. It shows that tax rates, especially on smaller incomes, would have to be drastically reduced if public servants are to be put in the financial position they were in a year ago.

The table takes into account their 10 percent pay rise and assumes a 15 percent inflation rate. It shows that a married couple in the public service earning R1 500 a month last year would need a 28 percent reduction in their tax payments to maintain their purchasing power.

Someone earning R2 500 a month last year would need a 21,7 percent cut in tax. The recipient of R3 500 a month would need a cut of around 17 percent.

These are large cuts and various officials have warned that the public should not expect much from the Budget.

On the other hand, Mr du Plessis promised last year that the Government was aiming during its present period in power to raise the maximum tax rate from its present 45 percent at R80 000 to 40 percent at R100 000.

A married man reaches 40 percent at R40 000. This suggests Mr du Plessis plans ultimately to cut taxes by 60 percent from current levels.

There is no doubt Mr du Plessis could afford to cut taxes substantially this year if he wanted to.

The huge savings on defence expenditure and on public service salaries and the expected severe cuts in other state spending should give him enough leeway.

State spending

Any tax cuts, moreover, if offset by reductions in state spending, would not be inflationary. They might even be deflationary if one accepts the dictum that all state spending is inflationary.

The man in the street deserves some relief. So far he has borne the brunt of the Government's anti-inflation campaign.

But with the corporate sector now about to be squeezed hard, it is no longer so important to pressure the ordinary man.

In fact, as the squeeze on corporations intensifies, the economy could turn down sharply later this year. Increased consumer spending as a result of tax cuts could provide a useful cushion.

One other argument in favour of a significant cut in personal tax is that South Africa's economic growth rate will remain low as long as personal savings remain at their present parlous level.

Only a reduction in inflation and a major cut in tax are likely to change this situation.

Business must act on redistribution or face future state action

(49)

B/Day 28/4/90

Three SA economists presented papers to the Indaba between the ANC, businessmen and others in Paris last December. In this first excerpt, RONNIE BETHLEHEM addresses the problem of redistribution.

IT WILL take much less than the destruction of the SA economy to create a disaster for the country in 10 years' time. All that is required for disaster is that the economy's growth be reduced to an average 1% per annum in real GDP terms.

In such a case, the evidence suggests net new job creation stops, and structural unemployment continues to rise. No new job creation on a net basis implies an additional two-million unemployed by the year 2000; their dependants would take possible increased deprivation to in excess of five-million. This could be enough to make social and political stabilisation of the country impossible, even for a future non-racial democratic government.

Inequality is the central issue of the political crisis. Too much wealth is in the hands of the white minority; too limited is the share of the majority in the total national income; too small is the participation of the majority in the entrepreneurial sector.

This suggests a need for redistribution, but how can redistribution take place without causing damage to the economy? It would serve no stabilising purpose were the consequences of redistribution to be an aggravated flight of capital, a further withdrawal of white skilled manpower and declining production levels, especially declining levels of food output.

A policy of redistribution would have to be implemented with caution, wisdom and due regard to complex social processes whose outcomes may be quite different from those assumed by those unfamiliar with economics.

Essentially there are four ways in which redistribution can occur. The state can act by confiscating the property of the wealthy to give it to the poor, what might be described as the punitive option. Or the state can act through the fiscus, raising taxes to finance increases in welfare spending. Alternatively, the private sector can take action of its own to make state action unnecessary. Or redistribution can happen through the normal consequences of economic growth.

Economic growth is by far the best of the alternatives. In a market economy, growth redistributes both income and wealth constantly, and over an extended period such redistribution can be considerable — greater and more enduring than redistribution by other means.

The problem is that it takes time for growth to do its work, so growth is caught in a Catch 22. There can be no growth of sufficent magnitude to meet the challenge of demography unless there is an inflow of foreign capital to finance needed investment. But there will be no capital inflow without improved prospects of growth. The need for a political solution, thus, follows from economic as well as from normal imperatives.

The need for redistribution is compelling and transcends party or ideological differences. The business community must know that a future democratic government will have no choice but to act against inequality if nothing is done now to reduce or eliminate it.

The business community owes it to itself to do something about the matter. To neglect it is to invite future trouble. Under a worst-case scenario, punitive state action involves a significant nationalisation of industry with all that implies for a discouragement of entrepreneurship.

SA cannot afford a discouragement of entrepreneurship. It means lower levels of investment and growth at best. At worst it means stagnation and decline, and it would be wrong to think that the state can step in and take needed initiatives once these have been abandoned by the private sector. If SA is to succeed, it will do so because the state and the private sector reinforce and support one another.

It is in the entrepreneurial sector that the most serious defect in the SA economy is found. While black economic power has increased impressively in recent years, in the entrepreneurial sector black participation remains infinitesimal.

The growth of black power can be seen in many areas of the economy. In labour bargaining, in income shares, in the share of retail sales, the black presence looms large and will certainly dominate the future.

But, as long as blacks remain outside the entrepreneurial sector, they must harbour ideological preferences in conflict with those of the business sector. The great majority of blacks in SA see socialism as the preferred system whereas the business preference is for capitalism. This threatens the future because of the conflict it implies.

In today's world, the conflict between capitalism and socialism has lost much of its previous revelance. Both ideologies have been so changed by events as to make old arguments meaningless. However, in SA, the conflict between the ideas of philosophy of the business community (mainly whites) and of its workers and customers (mainly blacks) is both real and important.

This conflict cannot be resolved by jawboning. The business community will not persuade blacks that socialism is a failed system, not even by citing the changes in Russia and Eastern Europe as evidence; and black socialists will not persuade businessmen that capitalism is a failed system, not even by citing its links in SA with apartheid.

The business community needs to come to terms with black ideological preferences and to work with them and not against them in acting to secure its own future.

This it can do if it is prepared to acknowledge that it is a market economy rather than capitalism per se which is critical to its interests. Given the movement towards market socialism in the Soviet bloc and the shift away from central planning, the area of common ground between previously opposing ideological interests can be greatly expanded.

If the business community does nothing regarding inequality, or if it does too little, the state will be bound to act, most likely in ways discouraging to the business community.

What can the community do to pre-empt the need for state action? In a final reckoning, the whole matter reduces to the question of ownership. Ownership in SA has to be restructured in order to correct the defect regarding black non-participation in the entrepreneurial sector.

Although redistribution has negative connotations for businessmen because it has been associated with punitive state action in the past, the restructuring of ownership, after all, is the normal process of the market economy. Ownership is restructured every day by market fluctuations and executive initiatives in the corporate sector.

Disinvestment from SA by foreign companies involves restructuring away from offshore towards onshore interests. Privatisation involves restructuring away from the public sector towards the private sector. Restructuring away from whites towards blacks is now also needed.

Linked to the debate about the state's role in dealing with inequality is the matter of the broader intervention of the state in the economic system. Socialists, until recently, have always believed the state's role in the economic system should be dominant. This view, however, has come to change in the West and in the Soviet bloc for various reasons, all of them linked to hard experience.

In the Soviet bloc, market socialism has become the new idea to accommodate adaptability and adjustment in the face of change, over which no government, unwilling to contract out of the global market economy, is able to exercise control.

All this is to the good, and especially for SA caught between the two worlds of capitalism and socialism.

What gives hope for the future of SA is the fact that a market system can accommodate simultaneously economic institutions which are both capitalist and socialist. It is the duality of capitalism and socialism that SA will have to incorporate in its mixed market system.

☐ **Bethlehem is group economics consultant at JCI. The three papers have been published by Idasa.**

LETTERS

Chamber index reflects confidence

'Even softer landing' for SA economy

Cape Times 28/2/90 (49)

By AUDREY D'ANGELO
Financial Editor

THE economy may be in for "an even softer landing than initially anticipated," SA Chamber of Business economist Keith Lockwood predicts.

His commentary accompanying the February Business Confidence Index — which, at 95,9%, was unchanged since December — was one of four economic forecasts issued yesterday.

Volkskas economist Adam Jacob says in the Economic Spotlight that although we are now in a period of consolidation "we may enter a decade of greater economic prosperity than the 'eighties."

Sanlam chief economist Johan Louw thinks the coming 12 months will bring "more positive than negative consequences for SA", with a strong possibility of foreign debt being rolled over.

But Nedcor economists take a less cheerful view. They forecast, in their latest monthly Guide to the Economy, that "The 'Nineties are likely to be a decade of constraint and monetary and fiscal discipline.

"It will be a period of dilemmas and hard choices, particularly with regard to inflation and growth, and will be accompanied by inevitable worsening unemployment and social conditions.

"In short, SA will remain a wealthy country with growing poverty."

However, they temper this by continuing: "Should world perceptions change and foreign capital become more readily available, the position will become correspondingly easier and more expansionary."

Lockwood says that although "it is perhaps unrealistic to expect much in the way of tax reform" there should be scope for a reduction in individual and corporate tax rates because of the underlying resilience of the economy.

But Johan Louw suggests that tax concessions will be "limited" although they might include a reduction in the import surcharge.

Jacob stresses the need for continuing fiscal and monetary discipline to bring down the inflation rate.

And Nedcor economists suggest that there is likely to be a shift to indirect taxes, with the introduction of value added tax (VAT) "possibly at the 15% level."

Pointing out that the rand has been kept low to boost exports they continue: "The repercussions of this have been inflationary through inflated import prices. Indeed, it may be argued that this is the principle cause of inflation in SA.

"On this basis the problem of inflation will not be addressed until there is stabilisation of the exchange rate which, in effect, means that export industries will no longer be cosseted and will have to face the full brunt of international competition and reduced rand incomes.

"A stable rand will also terminate the rise of foreign exchange losses by the SA Reserve Bank on forward exchange contracts.

"However, prospects for exports in the 'Nineties appear good. World real growth will be maintained and international trade will continue to expand. The long term development prospects for the Far East, Asia, Europe and the USSR, in particular, are good and demand for SA exports will grow."

Nedcor economists are also optimistic about prospects for the gold price. Although fluctuations are inevitable, they say: "The gold price could rise duing the 1990's to very high levels as a result of soaring international oil prices."

But, they warn, if the gold price rises above $500 an ounce, "improved mechanisms will have to be devised to prevent large doses of liquidity being injected into the SA economy."

This could be done, they say, "by holding part of the super-profits of the gold mining industry offshore as either part of the country's reserves or for the redemption of international debt."

Sanlam forecast for the Budget

LESLEY LAMBERT

CAPE TOWN — Tax concessions in the 1990/91 Budget will be limited if Finance Minister Barend du Plessis plans to maintain the current year's budget deficit of an estimated 2,4% of the gross domestic product, says Sanlam economist Johan Louw.

Sanlam's view is that Du Plessis will budget for a deficit of not much more than R7bn (2,5% of gross GDP), which will leave him about R2bn for tax concessions. (49)

Louw believes the concessions may include a reduction in the rates of the import surcharge, which contributed approximately R2,6bn to the exchequer in the past year.

To encourage personal savings, Du Plessis may increase the tax-free interest income of individuals but Louw warns he is unlikely to be overly generous in countering the effects of inflation on individuals' pockets. An increase of only R100/R150 in the primary rebate for unmarried/married people, for example, would result in a loss of about R500m in revenue.

GST is expected to be replaced by value-added tax (VAT) in the 1991/92 fiscal year. B/Day 28/2/90

Du Plessis will be introducing his Budget in March against the background of an economy which has not yet cooled sufficiently. This, says Louw, together with the low level of foreign exchange reserves, will compel him to formulate his Budget proposals to have a moderately restrictive effect on the economy.

On the whole, the Budget is likely to contribute to a levelling off in the growth of corporate profits.

ANC asks Nafcoc for nationalisation study

BARRY SERGEANT

NAFCOC has been asked by the ANC to investigate the nationalisation of business in SA. B/Day 28/2/90.

This follows a recent meeting in Lusaka between a top-level, 21-member Nafcoc delegation and members of the ANC's executive committee.

The meeting, chaired by Nafcoc president Sam Motsuenyane, discussed the ANC's stated aim on nationalising mines, financial institutions and large corporations.

Nafcoc is to invite major SA businesses to a conference to give their views.

Nafcoc public affairs director Gabriel Mokgoko says the Lusaka meeting established that "any (ANC) policy of nationalisation would be carefully applied only after taking account all the facts".

Nafcoc has been asked by the ANC to help compile those facts.

"The meeting decided to set up a Joint Economic Commission (JEC), one of whose tasks will be to examine issues of mutual concern in the economy. It will report back to the ANC and Nafcoc national executive committees." (49)

Motsuenyane says Nafcoc's stance is that "while nationalisation will not necessarily solve all our socio-economic and political issues, it can serve as a vehicle to provide an answer to some of them."

He says alternative methods of redistributing wealth have to be examined, including persuading companies "to hive off

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(49)

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portions of their productive assets and pass these over to the disadvantaged black majority to hasten economic participation and empowerment."

Motsuenyane sees one viable alternative as being concerted action programmes by government and the private sector to facilitate black economic participation, primarily by creating a favourable business climate and appropriate structures for funding, and providing legal advice and development assistance.

"The creation of trusts that will allow blacks to acquire a meaningful stake in the SA economy through projects such as privatised companies and capital-generating structures such as the JSE, is another alternative."

"Nafcoc and the ANC share the concept of a mixed economy in SA...

"We at Nafcoc envisage the economy being based on public, private, small business and co-operative sectors, and with government operating some state enterprises along the same lines as Western countries."

● See Page 3

Restructuring SA: the choice is very clear

Cape Times 28/2/90 (49)

By RONALD SEGAL

Ronald Segal, publisher of the journal "Africa South", was under a banning order when he left South Africa with the ANC's Oliver Tambo at the time of the declaration of a state of emergency in 1960. For a while he published "Africa South in Exile" from London. In 1964 he convened the International Conference on Economic Sanctions against South Africa.

WHATEVER the argument about the extent of change represented by President De Klerk's recent remarks and measures, they have started a process which now has its own momentum.

The hopes raised by the promise of structural change would make any attempt to stop, let alone reverse, the process explosive beyond anything South Africa has experienced and to resort to repressive violence on the apparently appropriate scale is no longer a sane option.

Even if it succeeded, at enormous cost to life, in achieving a temporary containment it would lead to countermeasures of a magnitude which must negate the whole purpose. The world is rather different to what it was a few months ago.

The choice, therefore, is now between an orderly restructuring of power and a profoundly disruptive one. Since only the deranged would choose the latter the government would be well-advised to act with dispatch and unmistakable direction in promoting an orderly process.

Armed struggle

It should abandon soon the tribalist engagement essential to apartheid and establish an integrated state before the details of how that state should be governed come to be determined. No less urgently, it should recognise that a settlement is meaningless if it cannot be secured.

When the ANC speaks of the need to maintain the armed struggle it is not only against a recalcitrant government that such a strategy may have to be employed. There are those in South Africa openly threatening violence against the process of change. The government, if committed to such change, may yet have cause to be grateful for the existence of an ANC with tho capcity to defend itself through industrial and other forms of organised power.

In any event, the government's commitment to change will become the more credible the closer it works with the ANC to protect the process.

Such working is not being encouraged by the excited and excitable attention of TV: TV wants to make history as well as record it and the medium's reporters from distant places have descended on South Africa not merely to catch on film the emergence of Nelson Mandela from imprisonment but to pre-empt negotiations towards a settlement by collecting representative figures in a studio and firing at them questions which require instant answers.

Television is notoriously impatient with thought.

Reprehensible

Why, one wonders, talk at all, let alone talk about talks, if the most complex issues can be resolved with such little expenditure of time and so much publicity?

What is reprehensible about the exercise is not that it is absurd but that it is dangerous for it provokes statements so simple that they are likely to make moves towards a settlement all the more difficult. The main participants in the real negotiations that ought to take place soon would do well to bear this in mind. The attractions of a massive audience are no substitute for the value that belongs to the most searching consideration of the issues.

Inside the studio and out, there should now be an end to the exchange of doctrinal platitudes about the appropriate structure of the economy in a non-racial, democratic South Africa. The subject is too complex and too important to be treated with such scant regard. The choice is not between some ideal version of capitalism and some ideal version of socialism, as the old text books define these. South Africa has long been a curious mixture.

If one conventional measure of socialism is how much public ownership there is in the economic sector then the country, with its nationalised transport, telecommunications, electricity, oil-from-coal extraction and steel manufacturing would be markedly more socialist than all the major social democracies. If one conventional measure of capitalism is the extent to which private capital is left free to accumulate and concentrate productive wealth, then the country is markedly more capitalist even than such supposed citadels of the system as Britain and the United States.

Economic interest

Executives of Anglo American, in particular, should be more prudent in celebrating the achievements of thriving capitalist economies abroad. There is not one of these where the law would have allowed such a company to acquire or retain anywhere near the market dominance that it enjoys in South Africa.

Certainly, the existence or success of capitalism does not depend on the absence of centralised government control. Finance, industry and commerce in Japan are supervised and adjusted by the relevant ministries. France has been particularly prominent, under governments of differing political complexions, in state intervention to protect and promote the national economic interest.

And West Germany's legislative nourishment of collaboration between management and labour is such as to strike Mrs Thatcher as quite deplorably socialist. But then Mrs Thatcher is as irrational on this issue as she is on the issue of economic sanctions. For all her praise of the miracle her government has wrought, the West German economy is a great deal stronger than that of Britain.

What should matter, and sooner or later inevitably does, is not how an economy is named but to what purpose and how effectively it functions The popular support for a new regime in South Africa will ultimately be determined not by whether the regime lays claim to one or other economic classification but by how far the wealth of the society is being redistributed and increased.

The structural injustices of apartheid South Africa will not be removed by accommodating a few blacks in the possession of disproportionate wealth while the multitudes of the deprived wonder what all that talk of liberation was about.

Tax system

As the experience of both "social" and "people's" democracies has shown, excessive nationalisation is not necessarily conducive to the efficient management of public assets or the promotion of general economic welfare. All the evidence suggests that a free market, not excessively dominant but, operating to provide a competitive pricing mechanism and a responsiveness to consumer attitudes, is essential to confront artificial economic constraints and the complacency or ignorance of bureaucratic management.

The tax system and anti-trust legislation may be much more effective in both augmenting resources and directing them to established social priorities than an insulated state sector immune to any influences but those directed at the advancement of its own prerogatives.

The arguments for sustaining and even intensifying international pressure to ensure a real transition to a non-racial democracy in South Africa are in no danger from the disdain of Mrs Thatcher but they may be weakened to a degree that they come to be seen as ultimately serving the development of a state monopoly, which has propelled so many other societies on to the economic critical list.

The challenge facing the liberation movement in South Africa is to develop an economic system which combines the constructive functions of the free market with the democratic direction of overall economic policy to promote social justice. If a new South African regime can liberate everybody from the despotism of property without providing instead the despotism of the state, it will have engendered one of history's seminal revolutions.

Little hope for tax cuts — Sanlam

Sta 28/2/90 (49)

CAPE TOWN — If the Budget to be tabled on March 14 is restrictive, individual spending capacity will remain under pressure, Sanlam says in its *Economic Survey*.

Should this be the case, suppliers of durables could be affected.

The expected sharp cut in government spending in certain departments could have an adverse effect on some sectors and industries in the private sector — for example, the electronic industry and companies concerned with the manufacture of defence equipment and road-building.

On the whole, the Budget should contribute to a levelling off in the growth of company profits.

"Insofar as the Budget proposals help cool the economy further and ease the general liquidity situation, decreases in short-term interest rates can be expected from the middle of the year," says Sanlam.

It says bank prime lending rate will be around 18 percent at the end of the year.

"If the Minister (of Finance, Barend du Plessis) wishes to limit the 1990/91 Budget deficit to more or less the same level as the estimated 2,4 percent of the current financial year, he will have little room for reducing taxes.

"We believe he will budget for a deficit of not much more than R7 billion and this would leave him with about R2 billion for tax concessions."

Possible tax proposals include:

- A reduction in the rates of the import surcharge.
- An increase in the interest income of individuals that is exempt from tax to encourage saving.
- Tax relief to individuals to counter the effect of inflation.
- An announcement that GST will be replaced by VAT in the 1991/92 fiscal year only.

Sanlam expects an average inflation rate of 14 percent this year, against 14,7 percent last year. — Sapa.

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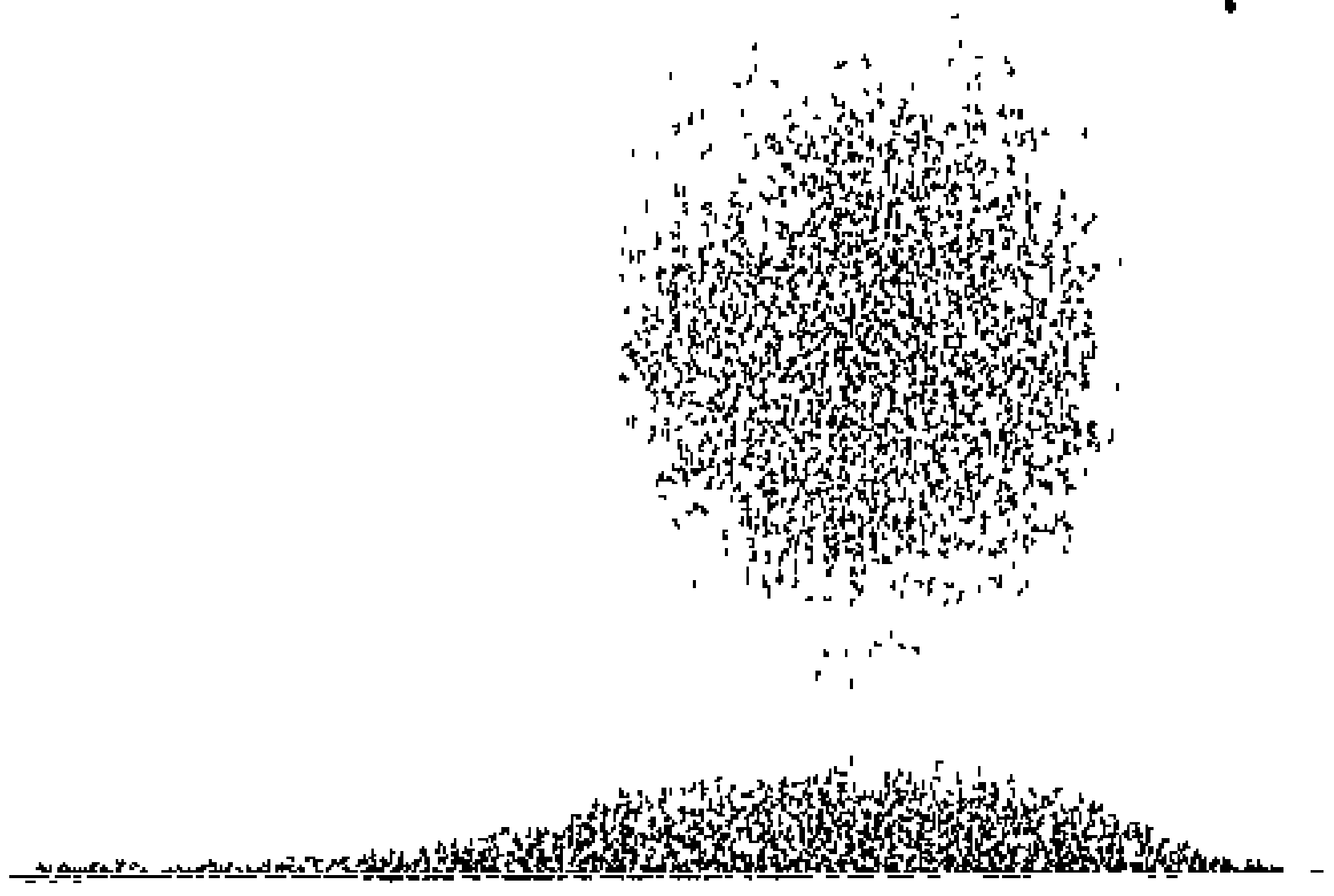

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Talking about nationalising

Sowetan 1/3/90

FOCUS

There have been some heated debates on nationalisation during the past few weeks. In this article LYNN PIKHOLZ looks at some of the issues involved.

ONE of the crucial questions to which those struggling for a new South Africa must address themselves is to what degree, if any, can nationalisation best fulfil the demands of those living here.

As Thabo Mbeki, ANC International Affairs head, recently said, it would be wrong to omit the option of nationalisation from future discussion because of the concentration of wealth in a few hands.

It is also naive, however, to believe, as Prof Francis Wilson said in the book *Uprooting Poverty*, that the "state" will necessarily embody the " will of the people" and act automatically for the good of all.

We have sadly learnt this lesson from the independence of several African countries where the state was taken over by an elite group within the society who, despite their rhetoric, failed to act in the society's best interests.

Disregard

Whatever the degree of nationalisation that a future government decides upon, its aim should be economic and/or social efficiency - insodoing empowering and enriching the lives of the masses.

The over-reaction to Mandela's recent statement about the nationalisation of mines, banks and monopoly firms reflected, to an extent, the lack of understanding of key issues at stake in the economy. Also it shows total disregard for Mandela's firm acknowledgement that both compromise and negotiation are needed on fundamental issues.

The business sector has failed to come to grips with the fact that there can be no liberation without economic liberation..

Acknowledging that the poverty that exists in South Africa is a profoundly political issue which the state has failed to redress, it follows that alternatives to the status quo need to be found.

A radical restructuring of relations between capital and labour, thus opening the questions of power and ownership, seems unavoidable. The smugness by many over the failure of the Eastern European style of socialism has tended to mask the fact that the form of capitalism followed in SA has also failed.

Efficiency

Neither system, owing largely to their economic and political inflexibility, was able to address the needs and wants of the majority of their respective populations appropriately.

Nationalisation of certain sectors, as part of a strategy involving a fundamental redistribution of power and aiming to meet the demand of the masses by raising capital to finance reform in health, education and housing, is thus being considered as a serious option. Such nationalisation would have to meet certain efficiency criteria as well as strive to avoid errors made in the past.

The costs that nationalisation would impose on certain areas would also have to be assessed. International investors, for one, would be greatly discouraged from investing in SA. This is significant as foreign funds are essential for the well being of our economy. Zimbabwe is currently suffering the effects of a dearth of foreign investment.

Initiative

There are many misconceptions surrounding the issue of nationalisation. Properly used, it means merely the "ownership by a body ... representing the general public of consumers" (Tawney). The word has, however, become charged with other interpretations.

In the USSR, critics have described the command system as being characterised by monopoly, lack of, initiative, wastefulness, mismanagement and a disregard for consumer interests. (These incorporate many of the fears surrounding nationalisation).

The trend now is towards a "plan-market" economy with a variety of property forms such as co-operative property, private property and state property. Here, state enterprises are being associated with elements of a mixed economy rather than pure socialism.

It is argued in SA that the state enterprises could be more efficiently run in the hands of the private sector where capitalists are eager to invest in the parastatals. This would alleviate the burden on the state thereby releasing resources for it to encourage growth and job creation.

Resources

While this may be so, it remains extremely difficult to see how a transfer of ownership by the state to the private sector will have any material effect on the masses who lack the financial and economic resources to participate in the buying of the industries that are being privatised.

Such a transfer of ownership would not, at least intially, create jobs. On the contrary, retrenchment, as a solution to cutting labour costs, is feared. Another criticism of the recent privatisation of Iscor and the forthcoming privatisation of other state industries is the fact that it will lessen the resources available for a future government to distribute.

It is not private enterprise per se but rather the "private" ownership of large-scale enterprises that is often found to be unappealing by proponents of nationalisation. Private property that is small, personal and local may be considered extremely desirable.

The land issue in SA where, in 1913 13 percent of the land was allocated to over 80 percent of the population, clearly needs to be redressed. Here, redistribution does not necessarily mean the confisication of land or nationalisation without compensation.

Again the economic costs of nationalisation will have to be carefully evaluated. Just as subsidising unprofitable state industries constitutes a drain on the private sector, the paying out of compensation could have a negative effect, by raising the rate of inflation.

Ruthless

Although there are clearly huge difficulties in reaching for equality while maintaining productivity, land reform (with its initial costs) could be seen as a necessary prerequisite for economic dynamism, especially if it addresses the widespread rural poverty in this country.

It is misleading to say, as is so frequently asserted, that the success of newly-industrialised economies like Japan was based solely on free enterprise. Government involvement in the Japanese economy was extensive particularly during the 1950s and the 1960s.

South Korea's rapid growth was also largely due to the ruthless and efficient use of state planning and state monopoly of financial institutions and state enterprises.

Despite the myths surrounding nationalisation, the track record is often not very encouraging. Future policy makers will have to seriously consider the, dangers of putting economic and political power in the same hands as well as address the risks of repeating past failures.

That issues of power and ownership need to be addressed is uquestionable. That the solution is necessarily the nationalisation of certain economic sectors needs, at this stage, to be seriously debated.

Nationalisation: the fears and the alternatives

By ROBIN DREW, Star 1/3/90

The Star's Africa News Service

(49)

HARARE — Mention of nationalisation sends shivers down the spines of South African business leaders.

But black politicians maintain it is a ploy that cannot be ruled out as a means of redistributing wealth in a lop-sided economy which has been dominated by whites.

The Zimbabwean experience shows there are many other ways of wealth redistribution without resorting to outright nationalisation.

The most obvious is the government participation in new and existing ventures. In this respect, state participation in the world of business is widespread.

The government of President Robert Mugabe holds, for example, nearly 40 percent of the shares in the giant Delta Corporation, which runs the breweries, a hotel chain, the OK Bazaars retail outlets, and supermarkets and furniture shops.

Delta was formerly controlled from South Africa, and the shares obtained by the government used to be held by the offshore trading arm of South African Breweries.

The Delta deal is one of many in which the state and the ruling Zanu (PF) party, whose separate identities are becoming less distinct, have taken part.

Zanu (PF) has its own trading and holding companies, and has interests in or control of concerns as diverse as Woolworths shops, farms, garages, import and export agencies and duty-free shops.

Areas of the economy in which the state has a substantial investment include mining, through its holdings in Wankie Colliery Company, and its ownership of MTD copper and gold mines.

It also handles sales of all minerals through the Minerals Marketing Corporation.

The government has interests, too, in banking through its majority shareholding in Zimbank; in newspapers, booksellers and the printing industry, through the Mass Media Trust; in chemicals and pharmaceuticals through its negotiated takeover of the biggest company in this market; and in food processing through its partnership with Heinza.

Deals which the government negotiated were based on a willing-seller basis, with the bait often being a speedier remittance to overseas sellers of the purchase price, provided they sold at a hefty discount. There were cases in which the sellers took only 15 percent of the market value.

In its early years after independence in 1980, the government also managed to redistribute wealth through its taxation policies, price controls, restrictions on pay increases for higher earners, and labour laws favouring workers.

The system worked for a few years, but wealth redistribution was not accompanied by growth. While there were about the same number of people in employment at the end of a decade of independence, the population had grown by 35 percent.

And it was estimated that the wealthy were losing more than 70 percent to the state in direct and indirect taxes.

So how successful has redistribution of wealth been? For people with high profiles — top public servants, Ministers and leading black businessmen — the overall impact has been favourable.

But for those in the middle or bottom of the pile, the answer might be that they are not much better off now than before the advent of black

Sow 1/3/90 ([redacted]) (49) ([redacted])

Nafcoc to investigate nationalisation

The African National Congress has asked the National African Federated Chamber of Commerce to conduct an in-depth investigation into the nationalisation of business in South Africa.

In a statement yesterday, Nafcoc president Dr Sam Motsuenyane said the ANC made the request at a meeting in Lusaka between Nafcoc and members of the ANC's executive committee.

The meeting had discussed the ANC's stated aim of nationalising mines, financial institutions and large corporations.

He said Nafcoc would call on major South African businesses to attend a conference in May to discuss the issue.

At the meeting in Lusaka it had been agreed that any policy of nationalisation would be carefully applied and all facts surrounding the issues would have to be considered.

"Nafcoc has been asked by the ANC to play a major role in compiling these facts," Dr Motsuenyane said.

"While nationalisation will not necessarily solve all our socio-economic and political issues, it can undoubtedly serve as a vehicle to provide an answer to some of them," he said.

Alternative methods of redistributing wealth had to be examined, including the persuasion of companies to "hive off portions of their productive assests and pass these over to the disadvantaged black majority in order to hasten black economic participation and empowerment".

One viable alternative, he said, was concerted action programmes by government and the private sector to facilitate black economic participation.

He added: "Nafcoc and the ANC share the concept of a mixed economy in South Africa, and one that represents a realistic acceptance of the situation that must prevail in the future." — Sapa.

Quest for black economic freedom

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Sowetan 1/3/90

It's my business

THAMI MAZWAI

BAREND du Plessis's description of nationalisation as theft is gross irresponsibility, and this from a Cabinet Minister.

Is he suggesting that blacks want to steal white property? If this is what he believes, then it is time he was told some home truths.

Before Jan van Riebeck's arrival, this was our land and it still is. The Hintsas, Dinganes, Moshoeshoes, and today, the Nelson Mandelas and Zephania Mothopengs fought for this birthright.

Freedom

The liberation struggle in this country is another manifestation of mankind's quest for political freedom and the equitable distribution of the country's wealth. Nations throughout the world have at one stage been part of this struggle.

Nationalisation, or theft, as Du Plessis chooses to call it, is the black community's conception of what it believes is an inviolate and integral component of the package due to them at the end of negotiations.

Insensitive

To call this theft is insensitive, unless the Minister is now joining *Siyayinyova* politics. He surely must know which terms are acceptable at a meeting of Broeders and the AWB, and which to use in his public life.

May I also remind the Minister that, during the early days of National Party Government and the heyday of Afrikaner nationalism, nationalisation was an oft-talked about term. At the time Afrikaners believed that for them to get an equitable share of the country's wealth, the mines had to be nationalised.

Glorified

The very sentiments that made Afrikaners look to nationalisation are now embraced by the black community. Yet today Du Plessis scorns nationalisation.

Double standards have become so much part of the white way of thinking that blacks are not seen as capable of having the same noble sentiments as whites. Theirs must be base. For instance, when European countries resisted Germany's aggressive colonialism, they were glorified. When Africans resisted colonialism, they were called native savages resisting civilisation.

Unless Du Plessis and his supporters move away from their preposterous statements on nationalisation, they may find that blacks adopt similarly radical positions.

Nationalisation is not robbery, it is a form of redistributing the country's wealth.

While there can be and there is argument about nationalisation, all parties in this country, except, of course, the far right, agree that redistribution is non-negotiable. It is rightly pointed out that centuries of exploitation, discrimination and a disproportionate allocation of the country's wealth, cannot be shrugged off.

In 1988 the Government spent R2 722.00 on a white child's education and R595.39 on a black child. For that matter in the public sector (Government service), the average salary for blacks is R760 and for whites R2 272.

If Du Plussis is so concerned about criminal activity and the protection of people's property, surely he must have something to say about his Government's appropriation of black property in the past, all in the name of group identity.

People were paid peanuts for their properties when the Government conducted its forced removals just over five years ago.

With this history behind it, the Government cannot afford to call anybody a thief - it legitimised the felony.

It is time that Barend du Plessis and his ilk wake up to the truth of the day - political change without economic restructuring is not on.

Sure, the goose that lays the golden eggs must not be killed, but we are entitled to eggs laid in the past.

Govt 'need not borrow'

(49)

GRETA STEYN

GOVERNMENT has already borrowed R2bn for the next fiscal year and will have virtually no need to borrow more on the private capital market, say economists.

This should emerge in next month's Budget, along with the announcement that part of the tax bonanza received this year will be used to reduce government's debt to the Reserve Bank for forward cover losses.

Economists say substantial pre-borrowing and huge investments in government stock by the Public Investment Commissioners (PIC) will virtually do away with the need to sell more RSA stock on the private market.

Talk is that about R2bn was pre-borrowed at favourable interest rates in December and January, when government capitalised on the foreign buying spree of SA gilts. Official spokesmen say this figure cannot be confirmed until the Budget, but acknowledge pre-borrowing took place.

The R2bn is expected to go towards financing the deficit in 1990/91 — put at about R7bn by most economists — and is not likely to be used to reduce the forward cover debt. B/Dy 1/3/90

Frankel Kruger economist Mike Brown says: "It would be sound economics to use current income to pay the forward cover debt."

Current revenue in the 1989/90 fiscal year is expected to exceed budgeted projections by about R4bn. Talk is that about half of that will be used to reduce the forward cover debt, now at about R14bn. Such a move will amount to "money destruction" as the current revenue, taken out of the system, will not be returned. This offsets the money-creating effect of the forward cover losses.

Debt other than for forward cover losses will be redeemed from privatisation

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Govt borrowing

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proceeds and not new borrowings. Brown expects an inflow of R1bn-R2bn from privatisation. B/Day 1/3/90

Another reason government will not need to borrow from private investors is the PIC, which invests the state's pension funds in government stock. The PIC can provide about R6bn in the new fiscal year.

Interest as a percentage of GDP grew from 2,9% in 1978/79 to 3,9% in 1988/89, and last year 15% of the total Budget went towards servicing government debt.

B/Day 1/3/90 (49)

Cuts in personal tax likely in Budget, says Schwarz

GERALD REILLY

PRETORIA — There will be a little comfort for wage and salary earners in the March 14 Budget.

According to DP finance spokesman Harry Schwarz, there will almost certainly be a reduction in personal tax to counter fiscal drag.

The only other concession which taxpayers could expect was a scheme to encourage savings. This could take the form of tax relief on interest earned.

Schwarz said expectations should not go much further than these two possible concessions.

Meanwhile, Volkskas economist Adaman Jacobs said perhaps the most urgent issue for taxpayers was the need to eliminate or significantly reduce the impact of fiscal drag.

Jacobs said it was clear the deficit before borrowing would be about a third less than budgeted for — probably between R6bn and R6,5bn.

The reason was not that government was spending less, but that tax revenue had risen sharply way beyond the Budget estimate.

He estimated the revenue overrun at about R4bn, including substantial bracket creep revenue.

Jacobs said in the first nine months of the financial year spending had been lavish but had in the current quarter fallen drastically.

The result was a big build-up of funds.

BARRY SERGEANT reports the SA Chamber of Business (SACB), in its recommendations to Deputy Finance Minister Org Marais on the Budget, has asked for personal tax tables to be restructured.

"South Africans have been subjected to consistently higher individual tax rates over many years through the insidious fiscal phenomenon of bracket creep. In the interests of equity, it is suggested that the tax tables be restructured.

"Particular attention should be given to those individuals with monthly incomes of between R2 000 and R4 000, since it is believed that these persons bear an inordinately high tax burden."

Social democracy: compromise between SA's hopes and fears

B/Day 1/3/90

In the second excerpt from the three economic papers presented at the Indaba between the ANC and other South Africans in Paris, PIETER le ROUX argues for a social democracy.

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SOUTH AFRICA should take the social democratic vision seriously. I am convinced that if there should be a negotiated settlement soon, it is most likely to be of a social democratic nature.

Those who have power today would rather enter a siege economy than accept a more radical socialist system; the oppressed would rather continue their struggle than settle for an economic system which does not alter the pattern of economic domination. A social democracy would thus constitute a compromise between right-wing fears and left-wing aspirations.

Secondly, social democracies, in contrast to Marxist-Leninist socialism and the capitalist systems, have the proven ability rapidly to enhance the political and economic power of those groups excluded under more exploitative and authoritarian systems.

A social democracy, I would thus argue, is the only system which could rapidly eliminate the consequences of apartheid, where apartheid is defined as the system which has caused the radically skewed distribution of economic and political power. It is the system which, under present circumstances, is by far the most likely to meet the aspirations of the poor and the suppressed.

Thirdly, to think carefully about the correct mix once one gets into power may in itself bring the settlement closer. A settlement is feared much less once it is realised that there is "life after death", to use Van Zyl Slabbert's term.

During the past year or two, progressive social scientists have investigated how the goals of the Freedom Charter regarding housing, health, education, welfare and employment are to be met. Time and again the discovery has been made that cuts in the defence budget and an equalisation of welfare expenditure on all will not meet even the most pressing needs.

Only rapid economic growth could provide the resources. Whether the SA government will be able to meet the aspirations of the people, as spelt out in the Freedom Charter, will depend on the rate of economic growth.

Should SA grow at 4,2% a year, the national income will increase by 50% in 10 years and 125% in 30 years. On the other hand, should the economy grow at 7,2% it will double in 10 years and quadruple in 20.

High growth rates in themselves will not be sufficient to eliminate poverty and redress economic inequities. There will have to be a significant redistribution if problems such as housing, education and health are to be dealt with. The benefits of growth will have to be experienced primarily by those presently excluded.

There are those who believe that attempting to redistribute out of growth would destroy the growth potential of the economy. They argue that high rates of growth demand a limited government spending of not much more than 20% of national income.

I would argue the reverse. Only if we invest more and more in the education, health and housing of our people, will it be possible to realise relatively high rates of growth. Social democratic countries such as Sweden, that started off with real per capita incomes similar to those of SA today, show these social investments are soon beneficial for growth.

Only a social democratic economy, albeit one more radical than the Scandinavian model, could in the SA context overcome the structural obstacles to economic growth. It is the only socially just and truly democratic system proven in practice.

Originally the social democratic aim was to socialise gradually all the means of production. But because greater emphasis was given to democracy and to the actual economic outcomes, the emphasis has shifted from the ownership issue to who controls the economic decisions of importance to society.

Indirectly government and the trade unions exercise a tremendous influence on the type and level of investments industrialists make. Fiscal and monetary policy become instruments in determining how much of the surplus is channelled to investments, and trade union representatives on the board of directors have a great deal of influence on how profits are invested.

Although most social democratic movements have at some stage had the nationalisation of the commanding heights of the economy as their goal, during the past few decades it has been acknowledged that attempts to realise this undermine the primary objective of creating a more equal society that can cater for the welfare needs of the people.

Nationalisation will be considered only in a limited number of cases, such as when a right-wing government has privatised activities clearly better handled by central government.

In SA there is a strong sentiment in favour of nationalisation of the mines, the banks and what is called monopoly industry.

The question is not whether democratic control should be established over these organisations, but whether this should be done directly through nationalisation or indirectly thought appropriate fiscal, monetary and wage policies, and by insisting on trade union and perhaps also government representation on the board of directors.

Although there may be an unambiguous case for nationalisation in some instances, experience all over the world seems to indicate that large-scale nationalisation will be counter-productive. It would be tragic if the mistakes of other countries were repeated in this sphere.

Central planning, long a touchstone of Marxist thought, has been so thoroughly discredited by a number of recently published books, including Gorbachev's Perestroika, that it is difficult to believe that one would still find people committed to central planning.

From this it does not follow that one must believe in a free market in all spheres. In particular I would defend some type of subsidy on staple food, negotiated wage settlements and some regulation of the market for foreign exchange.

Clearly we need to develop social democratic versions appropriate to our circumstances. Given the specific history of SA, it will have to be of a relatively radical nature. Land redistribution will have to be part of any system that evolves.

There is the danger that social investments may increase at a rate higher than the economy can bear. However, if the economy can grow at a rate of 5% or higher, and if most of this growth can be reflected in increases in the income or social benefits of the poorer sections of the community, their income could grow at rates of more than 10% annually.

Although it will take a couple of years before satisfactory levels are reached, the rate of improvement in the position of the poor ought to be sufficient to meet their aspirations. This will mean increases in taxes paid by those who are better off, but if these are raised in capital gains taxes, estate taxes, wealth taxes and a variety of expenditure taxes, rather than by very high income tax, the capacity of the economy need not be overstretched.

We need to implement economic policies capable of meeting the aspirations of the people. Choices must be based on hard-nosed analyses of the successes and failures of alternative systems.

If the correct choices are made, the future can be bright indeed. If the wrong choices are made, the price SA will pay may be very, very high.

☐ **Prof le Roux is professor of development studies at the University at the Western Cape. The three papers on SA's future economy have been published by Idasa.**

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So much to do, so little done

■ And political reform is no excuse for delay

The excitement of political change should not make government forget its economic objectives. Apart from the fight against inflation, privatisation and the removal of the State from the business arena should still take priority.

A wholly expedient government could be tempted to put privatisation on the political agenda and promise to end the process if the ANC drops its commitment to nationalisation. But it should not take much effort to persuade any rational person that the proceeds of privatisation, such as the R3bn proceeds from Iscor, can build more schools and hospitals than the ever-dwindling profits, and then inevitable losses, of nationalised industries.

Nor should privatisation be seen as a one-off cash injection. The State later enjoys rising taxes from ever-more profitable firms.

According to Patrick Minford, professor of Applied Economics at Liverpool University and one of the intellectual godfathers of privatisation, the process offers even more benefits to a developing country like SA than in the developed world. "It's crucial to encourage competition and incentives and to diminish the centralised power of government, which can so easily become too powerful in a developing economy. I don't have to tell you about the disastrous central planning of your northern neighbours."

Government should take more heart from the Iscor listing, which JSE president Tony Norton describes as a textbook listing. In spite of its size, the issue was 4,16 times

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oversubscribed. It helped to popularise capitalism as it doubled the number of shareholding investors to 300 000.

It proves that the market is ready to handle a big issue. According to *The Economist*, the JSE was the most buoyant major bourse last year. In dollar terms the indices appreciated by 55,1%, outstripping even Singapore and Frankfurt.

There should be no further delay in privatising companies that already operate in the business environment. The *FM* has called for the remaining portion of Sasol to be sold off (*Leaders* October 27). DP finance spokesman Harry Schwarz, no privatisation ideologue, says there should be no delay in the selling off of Phalaborwa-based phosphorus producer Foskor and two listed portfolio investment companies still controlled by the Industrial Development Corp, National Selections and Industrial Selections.

True, two giant corporations, SA Transport Services (Sats) and Post & Telecommunications, will soon take small steps towards listing. Sats (now called Transnet) becomes a public, or State-owned, company on April 1; Post & Telecommunications splits into two business units next year.

But is it right to keep such a diverse range of transport interests under the mammoth Transnet umbrella? Schwarz says there's no reason SA Airways can't be listed soon: it competes on international routes and competition is being developed on domestic routes. Road freight transport operates in an even more competitive environment.

On the other hand, Transnet still has sub-economic commuter services. "These will never be profitable because workers are forced to live far from their place of work because of ideological reasons," says Schwarz.

Unfortunately, empires will have to be dismantled and vested interests that the NP has satisfied for years will have to suffer. The conditions for privatising a company seem simple enough. Privatisation Unit CE Pieter van Huyssteen says: "It needs to be financially feasible for the private sector to take an interest; there should be no reason for government to be in that business; and it should be in the broader national interest to privatise."

But it's this question of the "broad national interest" that provides the most convenient excuse to delay privatisation.

Fred Macaskill, of the Privatisation Centre, an affiliate of the Free Market Foundation, suspects that while former President PW Botha acquired a strong interest in privatisation, even if late in life, this enthusiasm isn't shared by President FW de Klerk. FW still has to prove him wrong.

The market, however, is hungry for a listing. Foskor is the prime candidate. The SA Abattoir Corp (Abakor) is also tipped for privatisation. Both have been delayed, Macaskill believes, partly because of possible objections from vested interests.

Abakor has been delayed subject to a report, due in May, from the Red Meat Producers' Organisation. This body relies on the marketing structure provided by the Meat Board and fears that abattoir owners' bargaining power would increase once competition is introduced.

Foskor looks particularly juicy. But the fertiliser industry, its main customer, feels it should get a share of the business before the public. Says Kynoch Fertiliser MD John Skeen: "Foskor is a sole supplier. It has a limited customer base, unlike Iscor, which has customers in a wide range of industries, so a public issue may not be so appropriate."

Foskor meets the conditions of profitability. Its profits rose by 411% to R98,3m in the year to June on turnover of R429m (40% up). Market conditions are certainly right. As it's less than a tenth of the size of Iscor, the market could absorb it easily enough.

But Van Huyssteen says stakeholders must be given their say before privatisation. The implications of a private Foskor on the fertiliser industry need more examination.

An additional problem for some State enterprises is that they may not qualify for listing. Indeed, because of the Chinese accounting practices in government departments, even their managements don't know if they're making a profit.

Van Huyssteen

Minford

Norton says that's not good enough for a listing: "Companies that are readily privatisable need an established profit history and must already operate in a competitive environment. For example, the present SA Airways balance sheet can't provide a guide to likely profits after deregulation.

"But we won't be too pious. We normally expect a profit history of four years to qualify for the main board but we will show flexibility when listing State-owned companies. We would take note of any committed business plan."

Norton points out that there aren't as many candidates for privatisation — "give or take the odd Foskor or two" — as in Britain, where private companies had been taken over by earlier Labour governments.

The process of privatisation is being put in private-sector hands, such as those of ex-merchant banker Pieter van Huyssteen, rather than those of politicians. Unfortunately, managements of the concerns don't have the final, or even major, say. Says Foskor MD John Stanbury: "I'm only the chauffeur so I can't decide when to sell the car."

He adds, however, that once the decision to privatise is made, Foskor could be on the boards within four months.

SA Chamber of Business president Les Boyd is puzzled at the delay in listing Foskor, though he isn't unhappy about the pace of privatisation in general."It's important to get these enterprises into shape so the full value of the shares are realised and they aren't just sold cheap."

Stanbury says that if Foskor were sold a year ago, it would have been underpriced as it is only starting to reach full potential.

Another school of thought, advocated by author and ex-*FM* journalist Don Caldwell and Ian Hetherington, MD of innovative management consultancy Job Creation, argues price shouldn't be a factor. Hetherington says State industries are supposed to belong to the people and this should be recognised by giving an equal share in the business to each adult.

"Poorer people could sell their shares immediately. This would bring an immediate transfer of wealth from white to black."

The idea has a certain logic and would pull the rug out from under the argument that privatisation puts the nation's resources into the hands of big business or so-called "monopoly capitalism."

But it would deny the State the proceeds of sales which could substantially reduce deficits. In addition, it smacks of paternalism. As Schwarz points out: "Nobody appreciates free hand-outs."

Minford says it's important to create a popular constituency for capitalism through wider share ownership but it is better for the economy to use privatisation proceeds to cut taxes rather than for capital transfers.

Even if ever government sells its industrial concerns it will still face considerable resistance to a sale of Eskom — from some unexpected quarters. Boyd says there is a difference between privatising a company operating in a competitive area and a utility such as Eskom, which doesn't have an obvious competitor. "We should wait to see what mistakes are made in privatising electricity in Britain before we attempt anything."

Norton agrees that Eskom should have low priority. "It is a well-managed monopoly and it may be best to keep it that way."

Minford counters that privatisation provides an incentive structure to encourage companies to work more efficiently, whether in industries or utilities. He adds there's no reason why there shouldn't be competing suppliers of electricity.

It's an argument, however, that still has to be swallowed by many business leaders. Eskom's privatisation may well be some way in the future but, with such a wide measure of agreement over most other State-owned concerns, there needs to be another listing — not just for its own sake but as a signal that privatisation wasn't just a nine-day wonder that ended in November 1989. ■

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Financial Mail

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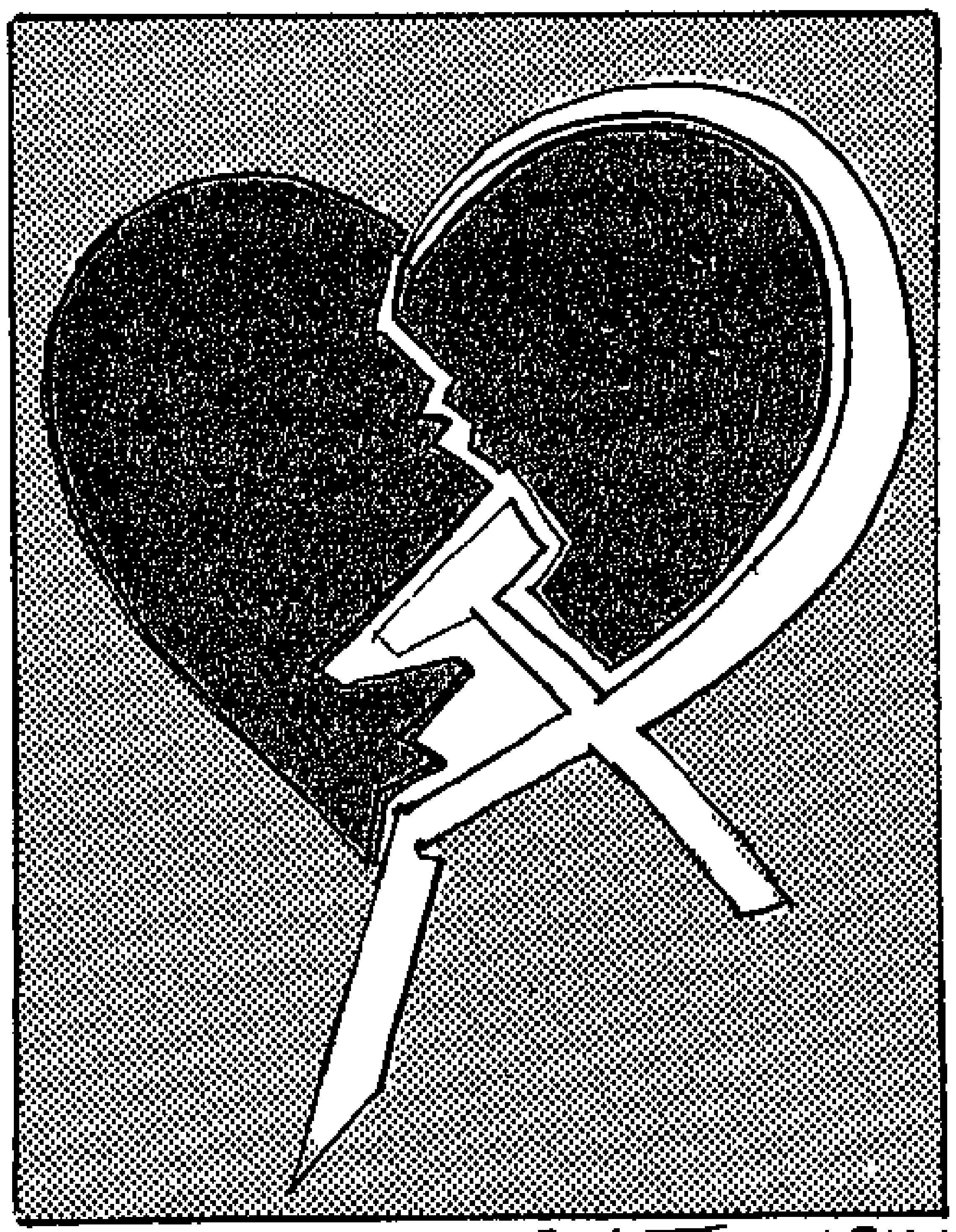
THE 'SCANDINAVIAN' MODEL

Half a bad principle

Over the past few weeks, just about anyone who has presented a hard and logical argument about *why* it would be extreme folly for any post-apartheid government to nationalise the mines, banks and "monopolies" has been accused of hysteria by the intellectual apologists of the ANC.

What they have failed to do is come up with any contrary arguments. They simply repeat that nationalisation is necessary to achieve social justice after so many years of deprivation.

Yet the weight of evidence, particularly in eastern Europe, is against them.



They fail to explain why, if in eastern Europe socialism has done far more to impoverish than redistribute wealth, or restructure economies into more efficient creators of wealth, it should be any different here. Or why an awkward compromise, such as a mixed economy (or a social democracy), would produce the desired result; why, if a principle is essentially bad, half of that principle is not half as bad.

The reason, we guess, is that Nelson Mandela, the ANC and their apologists, in the absence of hard economic argument, are indulging in pure romance — and in so doing are deliberately misleading their perceived political constituency.

No less a distinguished "leftie" than Bertrand Russell said that it was a continuation of the romantic state of mind of philosophers like Jean Jacques Rousseau that led inevitably to the excesses of Nazi Germany and Stalinist Russia.

Following that logic, if the ANC adheres to its nationalisation policy, and should it become the next government of this country, it will be no less authoritarian and racist than the National Party has been for the past 40 years.

If Mandela plans to use the nationalised mines and banks for the same purpose that the Nats used the departments of State and public corporations in the Fifties, he will inevitably become the purveyor of another form of apartheid.

What is currently fashionable in intellectual leftwing circles is to attempt to justify the romantic view of nationalisation, or socialism, by taking as the perfect example of the successful blending of welfarism and capitalism what they call the Scandinavian model of social democracy. What does this amount to?

In simple terms, it appears to be the linking of a highly developed social security apparatus with a managed economy in which there is also a strong private sector. That situation has come about in the Nordic countries largely because proportional representation has led to a multiplicity of political parties which are able to rule only as part of a coalition.

The outcome is weak central government and a strong bureaucracy which makes common cause with a chosen management caste. A similar situation has developed in India. It is the best example of State capitalism, which is what the Left claims apartheid has created here.

The outcome has been, in the Nordic countries, a high degree of bureaucratic control of societies which are austere and conformist, if not authoritarian. They are expensive to run. They are well-known for high prices and high taxes. And, as they have for so long frittered away their prosperity, their welfare systems are beginning to show signs of enormous strain.

Sweden, of course, benefited enormously economically from World War 2 (in which it didn't participate) and Norway from a North Sea oil bonanza. Neither has been very good at preserving that prosperity. And as the wheels come off their social security systems, they are turning increasingly towards capitalist solutions.

The hard fact is that the Scandinavian model is no more than a romantic dream.

It is clearly a desperate attempt to justify an ideology the efficacy of which has been shown to be well short of satisfactory.

Nor is there any reason to believe that even if Scandinavian social democracy had been successful, it could be transplanted to Africa with any more success than the much denigrated Westminster system.

The reason is that every freedom movement in Africa so far has been more concerned, once empowered, with imposing its own authoritarianism in the name of democracy than with democracy itself.

Mandela clearly mistakes what is of concern to educated and cosmopolitan whites here.

It is not the pallor of the inhabitants of the Union Buildings. Provided they are honest, sensible and fewer than they are now, it makes no difference whether they are black or white.

What is of concern — and what Mandela will have to live down — is the deplorable record on human rights and inability to provide the basic necessities of civilised existence of the uhuru governments everywhere to the north. ■

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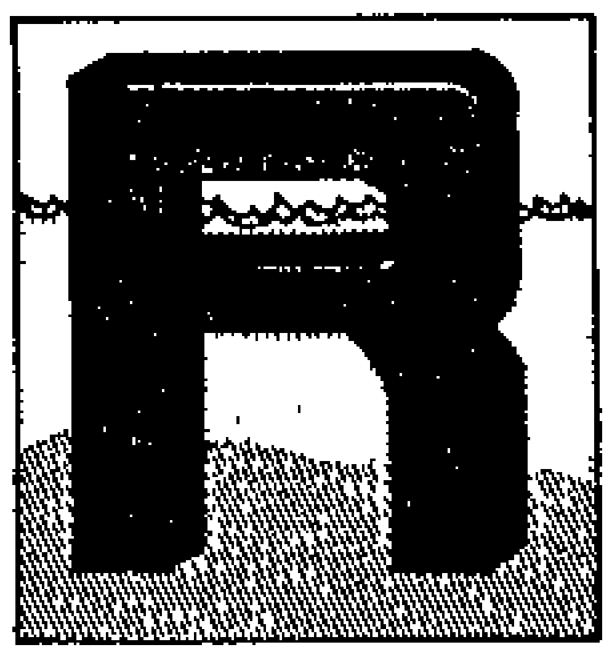
THE RAND

Coming up for air

■ Pretoria must grab what anti-inflationary advantage it can — while it can

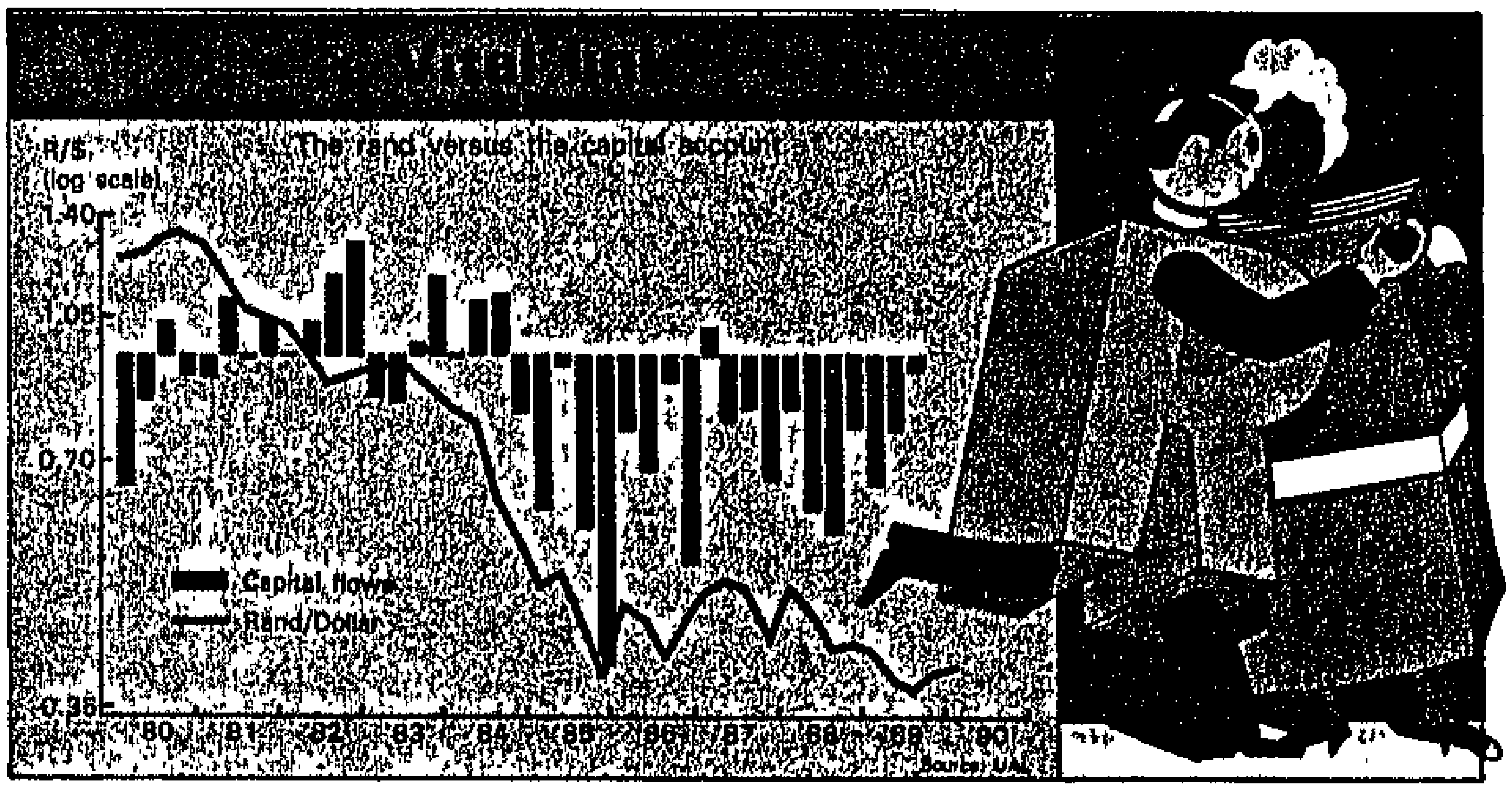


There appears to be some ambivalence in official circles over what policy to adopt towards the rand.

The dilemma is understandable. If the Reserve Bank allows it to continue rising, inflationary pressures will be reduced, but disruptive volatility in the future is a risk if capital inflows are suddenly reversed.

On the other hand, if the Bank buys dollars to keep the rand relatively weak and thus ensure export earnings remain buoyant — which will help repay onerous foreign debts — inflation will be encouraged both by higher-than-otherwise import prices and difficulties in keeping down rampant growth in the money supply.

Yet again, the dilemma may soon disappear. For when the rand/dollar exchange rate moved below R2,60 on December 5, it seemed it would be only days before it reached the crucial psychological R2,50/$ — US40c/R. However, though much has gone its way since then, the rate has stayed stubbornly above that.



Reserve Bank Governor Chris Stals leans towards not letting the external value of the rand rise too quickly. His reasons are that he would first like to see the elimination of the discount between the commercial rand and financial rand (the lower rate at which non-residents can buy the currency). He favours the incentive to exporters and deterrent to importers provided by a weak currency. As a central banker he tends towards a desire to maintain an element of stability in currency markets.

So it is not clear to what extent the rand's value is being determined by the market and how much by Central Bank "management."

Finance Minister Barend du Plessis says: "The value of the rand will be decided in the markets." What is not known, he points out, is what the markets will dictate. His uncertainty was reflected in a speech at the Frankel Kruger Vinderine conference in Johannesburg last week.

"With restrictive fiscal and monetary policies firmly in place, we no longer have to rely extensively on the exchange rate as the adjustment mechanism to realise a surplus on the current account of the balance of payments of adequate proportions to meet foreign commitments," he said. On the other hand: "A surplus (on current account) of R4,1bn was recorded during 1989, but the outflow of capital amounted to more than R5bn, so net foreign exchange reserves declined further." We guess he is reluctant to stop the accumulation of forex reserves the recent rise in the value of the rand has made possible.

The weight of opinion — whatever Central Bank misgivings there may be — seems to be that the rand will firm, despite the danger of the recent capital inflows turning into hot money vulnerable to flight. The rand's upward momentum since its R2,87/$ low point on June 15 seems to be rooted in fundamentals.

Much of the rand's positive performance against the dollar since September is due to the weakness of the dollar itself. Munich's Bayerische Vereinsbank says the dollar has fallen an average 5% against other currencies since then and about 14% against the D-mark.

But the rand has also been buoyant on a trade-weighted basis (though the steep climb between September-December from about 37,7 to more than 40,5 has now flattened).

The original spurt came not only from the US economic problems that undermined the dollar. Other major economies also had their share of difficulties: current account deficits and inflation in the UK; rising inflation and political setbacks for the ruling Liberal Democrats in Japan.

Nor has the currency been gingered up only on bad news abroad. Positive developments here have pushed it up, too. Last year ended with a "R13,4bn cumulative trade surplus which," says the Standard Bank, "was far larger than expected, outperforming even our R13bn upper limit forecast and improving on 1988 by a massive 131%. This created an increasing surplus on current account during the year."

Politically, the rout of the right within the National Party opened the way back from pariah status in the world. What secured the trend, however, was the rise in the gold price in November from below $360/oz to over $400 by year-end.

So the rand, having been overwhelmed by the strength of capital outflows in recent years (**see graph**), has now begun to surface with the help of tentative inflows. Fortunes in the following months will depend on the strength and direction of flows which, in turn, could also depend largely on political developments.

What the governor must keep in mind is that priorities have changed. Curbing inflation is much more important now than easing the debt repayment burden, which he himself has so skilfully negotiated to our substantial advantage since 1985.

Hindsight is always helpful. At a press briefing in April late Reserve Bank Governor Gerhard de Kock conceded that, over the previous four years, the Bank had depended too heavily on the depreciation of the rand.

Referring to the need to build reserves to meet debt repayments, he said: "In retrospect, a somewhat less inflationary (balance of payments) adjustment would have been both possible and desirable."

There are two ways of measuring the value of a currency — externally by the amount of foreign currency it can buy; and internally by the goods and services it can purchase.

If a unit's internal purchasing power declines, its external value depreciates. But the process goes further: the effect becomes a cause and the sliding external exchange rate further reduces purchasing power. So what De Kock was explaining was that, by failing to protect the currency with appropriate interest rates, he had allowed inflation its head.

Hopefully, if the positive inputs now feeding into the rand remain in place, the error will not be repeated. Both Finance Minister Barend du Plessis and Stals have stated the

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priorities: firstly to reduce inflation and secondly to strengthen foreign exchange reserves. They need to act accordingly.

It is hardly surprising De Kock did not hit on the precise mixture of exchange rate depreciation and monetary discipline the occasion demanded in the closing months of 1985.

Reserve Bank's Stals ... wants to maintain stability

After former State President P W Botha's disastrous decision not to cross the Rubicon, events moved very quickly. The currency's recovery was abruptly halted. The imposition of international credit sanctions followed. Then came the debt standstill and closing of the JSE for three working days in August. Emotions were running high.

The country was under siege with sources of capital almost completely severed and a hostile world threatening to do its damnedest. Immediate objective was to protect and build reserves, so as eventually to be able to meet our $23,7bn foreign debt. At the same time, the political upheaval of 1984-1986 made economic growth a political priority.

At the briefing, De Kock was frank about monetary policy in the preceding few years. Its objective, he said, had not been to counter inflation but protect the reserves and simultaneously counter domestic recession.

He allowed the rand to fall — "from its relatively stable level of about US50c between January and late July 1985 to between 36c and 38c in the ensuing months."

By promoting exports and penalising imports, this conserved a surplus on the current account of the balance of payments. The lower purchasing power of the unit was the price paid for this "growth-orientated balance of payments adjustment."

There was another route to protecting reserves — what De Kock described as "Draconian deflationary fiscal and monetary measures which, among other things, would have meant decreases or very limited increases in nominal wages and salaries ... But such a deflationary policy would have exacerbated unemployment which was already high and further undermined business confidence which was already very low."

This option, he pointed out, was chosen by Rumania, which relied on restrictive monetary policy to enable it to pay off international debt. The policy ensured negative inflation but wiped out economic growth.

In SA's case, said De Kock: "In the abnormal socio-political circumstances, the monetary authorities judge that adjustment purely via deflation would have been neither feasible nor in the country's interest."

De Kock was always very good at hindsight, always prepared to smear ash in his hair and rent his garments if he'd misjudged what was later seen to be a difficult and confusing situation. Noble though he might have been, it didn't achieve very much and Stals would be wise not to emulate him.

Time to reassess

In any event, the need to curb inflation has become more pressing. Foreign debt is beginning to look after itself. And every advantage must be taken — however short-lived — to use the buoyancy of the rand to curb inflationary pressures.

It is time to reassess the situation and look beyond US40c. As Du Plessis says: "The depreciation of the rand played a major role in the acceleration of inflation during the past year — not only directly but also indirectly. Higher rand export prices were obviously passed on to local buyers of these products, whereas import prices often served as a yardstick for the upward adjustment of domestic prices, even if the products were not directly imported."

Like any mispricing, an artificial valuation of the rand will create distortions and allow misallocation of resources. With the future providing endless and expensive challenges, we can't afford this.

It is true there is uncertainty about future capital flows. Adverse circumstances may revive capital outflows and again threaten the rand.

But we are not in the happy position in this country that we can turn away from short-term gain in the dubious belief that stability in exchange markets is more important and that a growing balance of payments surplus is critical — though the need for some surplus is important.

Learn to manage volatility

The authorities must learn to manage volatility and crises as they occur. They must take advantage of favourable conditions whenever they can. For inflation at current levels will quickly erode the foreign trade advantages of keeping the rand artificially weak. And if, after a 40% currency depreciation, exporters cannot secure their positions and need further protection, they don't deserve to be in business.

One benefit of allowing markets to price the currency is that no politician has to accept responsibility. A market-determined exchange rate is depoliticised.

So in present circumstances, the authorities should allow the rand to rise, until the market (for whatever reason) imposes its own restraint. If the capital inflows should be reversed because of silly things said by ANC leaders about nationalisation, not only will the country have had some advantage in the meantime, but the rest of the world will see precisely where the reluctance to restructure really lies. ■

(49)

Nationalised business 'not the route for SA to follow'

Cape Times 2/3/90


Mr Julian Ogilvie Thompson

JOHANNESBURG. — Nationalisation is not the route that South Africa should follow, says Anglo American chairman designate Mr Julian Ogilvie Thompson.

Rather, a business community that was credible to all racial groups should be created, he said.

He was speaking at a press conference yesterday after chairman Mr Gavin Relly had announced his retirement with effect from the end of the month.

Mr Ogilvie Thompson, chairman of De Beers Consolidated Mines and deputy chairman of Anglo American, said nationalisation did not feed the population or benefit the economy.

"It is not the best way to develop South Africa and we must try to persuade others of this view."

Mr Ogilvie Thompson said that the solution to SA's problems was not a simple one, but one that covered a whole number of options.

Mr Ogilvie Thompson, the son of the former Chief Justice of SA, was born in Cape Town in 1934 and was educated at Bishops and Worcester College, Oxford.

He was appointed personal assistant to Mr Harry Oppenheimer in 1957 and executive director of Anglo American in 1971. He became chairman of De Beers in 1985 when Mr Oppenheimer retired.

Mr Ogilvie Thompson is chairman of De Beers Botswana Mining Company (Debswana) and chairman of De Beers Consolidated Mines and Namibia's CDM.

He is also a deputy chairman of Anglo American Corporation of South Africa and chairman of Minorco and Anglo American Gold Investment Company (Amgold).

He is on the boards of several major group companies, as well as other local and international non-group companies, including First National Bank, of which he is vice-chairman.

Rhodes University conferred the honorary degree of Doctor of Laws (LLD) on Mr Ogilvie Thompson in April 1988. Fourteen years before, the university had conferred this degree on his father. — Sapa

49

Slovo: White wealth must be redistributed

LUSAKA. — South Africa's top communist said the country's ruling white minority would have to give up economic privilege in the post-apartheid society and that this was the goal of Mr Nelson Mandela's African National Congress.

"There is no way in which you can expect the average black to accept that liberation has happened if virtually all the wealth remains in the hands of whites," Mr Joe Slovo, secretary-general of the South African Communist Party, said in an interview here on Wednesday.

President F W de Klerk's reforms, including lifting of a 30-year-old ban on the ANC and freedom for Mandela, had caught the ANC off guard, Mr Slovo said, and detailed economic plans were not yet finalised.

"We have concentrated for so long on how to get there that we have rather forgotten to make plans for when the day arrived," he said of possible negotiations with Pretoria.

Mr Slovo, 63, a lawyer in Johannesburg until he fled into exile in 1962, is part of the ANC's policy-making national executive committee and a founder and former chief-of-staff of its military wing, Umkhonto we Sizwe.

Mr Mandela's public re-affirmation of the ANC's commitment to nationalise South Africa's gold, platinum and diamond mines sent Johannesburg share prices plummeting two weeks ago. Leading white businessmen denounced his statement.

Mr Slovo said the ANC had no plans for the wholesale dispossession of whites, but he insisted that the ruling minority, outnumbered five-to-one by blacks, would have to to give up its monopoly of South Africa's wealth, land and resources.

"It doesn't have to be only nationalisation — that is just one of the mechanisms. The fundamental issue is to begin the redistribution of wealth."

Mr Slovo referred to basic inequalities that characterised South African society, including differences in earnings, health care and education.

Private residential property and small businesses would not be affected by redistribution, but the ANC could not guarantee compensation to the bigger property owners, he said.

Mr Slovo said the ANC was committed to a mixed economy combining state and private ownership and designed to encourage foreign investment.

Asked about communism's collapse in Eastern Europe, Mr Slovo said: "What happened was not the failure of socialism, but the failure of the application of socialism." — Sapa-Reuter

Big business to meet ANC

Cape Times 2/3/90 ([redacted] [redacted] (49)

Own Correspondent

LUSAKA. — The ANC will meet the bosses of 11 major South African companies and 13 other businessmen and academics in Harare this weekend in the largest meeting between the ANC and big business since 1986.

The business team will include Premier Group chief executive Mr Peter Wrighton, JCI chairman Mr Murray Hofmeyr, P G Bison chief executive Mr Leon Cohen, Development Bank of Southern Africa senior manager Mr Johan van Zyl, Gencor general manager Roodt Senior, Anglo American's Mr Michael Spicer (who is the personal assistant to chairman Mr Gavin Relly) and JCI group economist Mr Ronnie Bethlehem.

The ANC will send a 16-man team, including six senior national executive committee members: Mr Thabo Mbeki, Mr Jacob Zuma, Mr Aziz Pahad, Mr Joe Slovo, Mr Steve Tshwete and Mr Pallo Jordan.

The agenda will include discussions on the issues of privatisation, nationalisation, the restructuring of the economy, the role of business in a changing political and economic climate and the role of the ANC.

Mandela on Israel

BURBANK, California. — Mr Nelson Mandela last night declined to directly criticise Israel in response to questions by an American TV interviewer.

Appearing on the Phil Donahue show, he said, however, that he did support the Palestinian quest for self-determination.

"The enemies of Israel are not our enemies," Mr Mandela said. "And the struggle of the Palestinians for independence and their own home is a struggle we fully support."

● Jews want meeting with Mandela — Page 3

The meeting was arranged by the Consultative Business Forum.

Mr Zuma told the Cape Times that business had a role to play in the process of developing a new constitution.

However, he questioned why the ANC had to negotiate the issue of nationalisation. This was never demanded of the Nationalist Party before it came to power.

He said the ANC was in favour of a mixed economy but there would have to be some nationalisation.

"The Nationalist Party used nationalisation to solve the problem of the poor white, why should we not be expected to solve the problem of the poor?

"We are not talking about poor blacks, we are talking about all poor people.

"The government path to nationalisation did not take into account some key sectors that we will attend to."

Control – not ownership – is aim of ANC economic policy

Star 2/3/90 (49) [redacted]

The general secretary of the South African Communist Party, **MR JOE SLOVO**, talks to **PATTI WALDMEIR** of the Financial Times.

Mr Joe Slovo . . . everything will be done to minimise social dislocation, retain white skills and reassure foreign investors.

‘Pretoria will concede black majority rule if it can guarantee that white economic privilege will survive the end of apartheid.

For when common ground has been found on all the political issues which divide the two South Africas, the hardest bargaining is likely to focus on the economic structure of a post-apartheid South Africa.

The twin objectives of the ANC's economic policy are: to bring about a redistribution of wealth while ensuring that the economy serves the purpose of every economy, that it provides for the needs of the people.

When the transformation comes, we can't just bake slogans, we've got to bake bread.

The fundamental aim of economic policy must be the redistribution of wealth.

Specifics on the mechanism of redistribution? — The movement is still working out its policy.

But nationalisation is not the fundamental policy of the ANC. The ANC has made clear its acceptance of the co-existence of different forms of property: state, private, mixed, perhaps collective. It envisages a mixed economy.

That does not mean that no industry will be nationalised Indeed, some probably will. But the 1955 Freedom Charter does not use the word nationalisation

The narrow issue of nationalisation is a bit of a red herring. The image conjured up is one of sudden 100 percent takeover by the state, without the involvement of other sectors of capital.

But is what Mr Slovo envisages more radical than the nationalisation of a handful of industries? — To me the more important question is one of control, not ownership. The question is whether a particular sector is run purely in the interests of profit, or in the interests of people.

The mines, banks, monopoly industries, other sectors of the economy too have got to be taken under public control, which I distinguish from state control, which in the socialist world has been a bureaucratic concept which has not led to effective public control.

Public control means effective participation through democratic mechanisms of democratic representatives of the people, the producers themselves, and other participants.

Phased transition

The basic economic lesson of Eastern Europe is that if you are going to build socialism, you must go beyond mere state planning and control, you must have democratic participation by producers at all levels.

Building socialism is not, however, the immediate goal of the ANC. The economy of South Africa the day after the ANC flag flies over the Union Buildings will be exactly the same as the day before. You can't transform it by edict without risking economic collapse.

The transition will be phased, and though social dislocation is inevitable, everything will be done to ensure it is minimised and white skills retained. Foreign capital will remain crucial to development and guarantees of stability and security will be offered to ensure investors do not avoid South Africa.’

Economic solutions for a new SA lie in breaking the mould

BDay 2/3/90

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In this final excerpt from the three economics papers delivered at the Indaba in Paris last December, ALEC ERWIN puts the trade union view.

WE MUST break out of comfortable preconceptions and develop innovative policies. Our solutions lie neither in free market capitalism nor in centrally planned command economy socialism.

Cosatu has a socialist conception of the policies necessary to solve our economic problems. However, it is important to define what is socialist.

Firstly, policy is aimed at developing economic and social programmes that must effectively develop and benefit our whole society. This means there must be particular, but not exclusive, development for the working class majority.

Central to our thinking is the development of a democratic political process that will entrench mass participation and involvement in the formulation and implementation of economic policy.

In these broad dimensions we are unashamedly socialist. Our challenge is to develop inclusivist programmes that will build a productive, prosperous, ecologically stable and culturally vibrant society where every citizen benefits in meaningful measure. We have to avoid a future economy where mass poverty exists side by side with minority affluence.

Three important areas of policy help a more informed interaction. The first is to understand the strong opposition to present economic policies of capital and the state, policies centred on a belief in a free market which, it is held, entails privatisation and deregulation.

In our view the free market solution provides a cover for more narrow concerns and interests of capital and the state. The concern of capital is to cut costs to retain profitability and that of the state to shed its obligations in order to solve its fiscal problems. Such policies constitute a systematic attack on the working class because they have manifest impacts on wages and employment with no gains made elsewhere.

If we could attain a more considered agreement based on negotiation within credible forums, then certain potentials within privatisation and deregulation could be developed. There is a component of privatisation which is important, and that is the question of management accountability for actions. If deficits are met by state subsidy then this must affect managerial style when compared to a self-financing enterprise. Equally deregulation, if it is applied to removing protection of narrow interests, could effect important changes.

We will have to accept that, while the present economic policies of capital and the state and the extreme concentration of economic power within a handful of conglomerates will be the starting points of capital, they will be totally unacceptable end points for workers and the broader liberation movement.

A popular wisdom has developed that our problems are caused by disinvestment and sanctions and will therefore be solved by a future inflow of foreign and aid capital. Such a growth path expectation is dangerous, because it is unlikely to happen on the scale envisaged, and will only delay the vital restructuring required in our domestic economy.

For structural reasons the economy even without apartheid will not attract massive or sustained capital or aid inflows. We face a much more serious problem of a capital outflow.

In our research in Cosatu and the Economic Trends Project, three important insights have guided our thinking.

Firstly, a state can intervene in a developing economy in many ways. A brief comparison of South Korea and SA is instructive. The Korean state has been prepared to intervene in capital's investment decisions in order to develop a manufacturing sector that can compete on the international market. It directly influenced where investment takes place, but then provided support in the form of research and development and a coherent and active development of manpower and education.

SA provides an interesting contrast. State intervention in the economy in relation to capital was to create very favourable supply conditions for capital. A cheap and mightless labour supply was secured and parastatals developed a large fabric of infrastructure linked to production. Manufacturing grew behind the protective wall of tariffs, and manpower and technology policies were left in the hands of racially and materially divided education systems.

Such a pervasive intervention in supply conditions by apartheid and, more narrowly, economic policies such as import substitution, created a manufacturing sector that can produce more than the high income white (and a small black) strata of society can purchase, but at prices the vast majority cannot afford.

Manufacturing is therefore structurally incapable of producing for the needs of the mass market and also of competing in international markets. The result is a stagnant and declining manufacturing sector that, with other complex structural problems, prevents economic growth now and in all likelihood in a post-apartheid economy.

Given the magnitude of our problem, and looking at the inability of market forces to generate rather than reflect structural changes, it is necessary to understand the experience of planned economics.

Command economies were capable of effecting relatively rapid structural changes and attaining high levels of employment, particularly in resource-rich economies such as the Soviet Union. However, it is now reasonably clear that such economies did not accelerate the growth of the standard of living, that productivity was static and the quality and variety of products was increasingly unacceptable.

Our economy can be characterised as a high-cost low-wage manufacturing economy. Present economic policies of both capital and the state will perpetuate such a growth path — more realistically a non-growth path.

The challenge Cosatu is addressing is to restructure the existing economy around a low-cost high-wage growth path. This hinges on an increase in productivity.

In achieving an increase in productivity the objectives would be to lower relative prices of manufactured goods in order to expand products of basic social infrastructure and consumer goods to meet mass needs. This must raise incomes through raising wages and increased employment.

Such an economic turnaround or restructuring requires a coherent strategic plan. The key areas are:

☐ Investment policy — which would link foreign investment to technology and markets, increasing employment and making us more competitive on international markets;
☐ A science and technology programme;
☐ A manpower programme which integrates our skill needs and is related to education;
☐ Health and welfare;
☐ Environment; and
☐ Recreation and tourism.

Such planning needs to learn from both socialist and capitalist mixed economies. Centrally planned economic policies are not appropriate either to the political situation or the economic resource base.

This raises the central question of nationalisation. The socialist and capitalist experience of nationalisation requires us to go into a more detailed and disaggregated approach to this problem. In directing production, control of assets by the state is not the complete answer. Neither is the unfettered ownership rights of free market capitalism.

There will have to be social control over production through a range of ownership forms and where the market plays critically important roles. We are going to have to forge new policies.

Of central importance is that the planning processes that will restructure and develop our economic future must be effected by democratic structures not only at national, regional and local levels but more importantly within the institutions of the wider civil society and all processes of production.

☐ **Erwin is education officer of the National Union of Metalworkers, a Cosatu affiliate. The papers have been published by Idasa.**

As Mandela moves in, Relly moves out

WM 2/3 - 8/3/90 (49)

By EDDIE KOCH

GAVIN "GR" RELLY bowed out as head of South Africa's most powerful corporation yesterday without finishing a job he started five years ago: working for rapproachement between the African National Congress and captains of industry over the nature of a post-apartheid economy.

When Nelson Mandela rolled out the red carpet for Relly on Monday, there were many in the business community who believed that the meeting would be a repeat of the pioneering conference in Lusaka between the ANC leaders and big businessmen that the Anglo chief put together in 1985.

Before handing Anglo's reins to director Julian Ogilvie Thompson yesterday, Relly had clearly hoped to round off his career with another boost to the process of reconciliation between business and the ANC.

Instead both men emerged from the half-hour discussion at Mandela's home in Soweto frustrated that the meeting did not allow in-depth talks on key economic issues facing the country.

But on Monday, Mandela used the occasion instead to lobby Relly about a new approach to labour relations — and the agenda was shaped by the fact that labour leaders Cyril Ramaphosa and James Motlatsi were present throughout.

Both men are senior officials of the National Union of Mineworkers and clearly wanted the meeting to signal that the fight for more progressive labour legislation in this country was as important as the issue of economic reconstruction for South Africa.

The end result was that the talks were deflected away from nationalisation.

However, the talks about labour relations did not deal with substantive issues — such as the deep conflict between labour and organised industry over the Labour Relations Act — mainly because Mandela has not had time to familiarise himself with complex trade union developments that have taken place in the last decade.

Relly said that although the pair had not been able to discuss the post-apartheid economy, "the community and international community should not get into a flurry over nationalisation. These are issues that sensible men can discuss."

Relly's adviser Michael Spicer told the *Weekly Mail* both men had clearly felt the meeting "misfired". They were irritated because the shortage of time and the ANC leader's crowded programme on the eve of his departure for Lusaka did not allow in-depth talks on key economic issues.

"They emerged from the talks without having discussed anything substantial about the future of the economy," said Spicer. "Then when the press asked the big questions of the day both men had to trot out fairly standard positions."

Police stop thousands-strong teachers' march

By PHIL MOLEFE

THOUSANDS of black teachers from different Pretoria township schools were yesterday ordered to disperse by the South African Police when they attempted to march to the Department of Education and Training offices. W Mail 2/3-8/3/90

The teachers travelled from Mamelodi and Atteridgeville in buses and taxis and assembled at the Bloed Street taxi rank from where they would have proceeded with the march to the DET head office in Schoeman Street. The march was planned for 10am.

Police barricaded Kruger and Boom streets alongside the taxi rank where the teachers had assembled.

According to Mamelodi Teachers Union member Squire Khumalo, the police gave the teachers three minutes to disperse.

In Soshanguve, over 1 000 teachers, who had gathered yesterday morning at the local community hall, were told by senior policemen that they could not proceed to Pretoria to join their colleagues for the march because it was illegal.

Teachers defied the police order and attempted to proceed to Pretoria in over 50 taxis and private cars.

The procession ran into a police road block near the Soshanguve police station and was prevented from going ahead.

Several taxis and cars took another route via Hebron and Erasmus but again found that police had blocked the road.

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Tackling SA's economic future in a more useful way

About the only thing the latest economic debate proves is that any economist of any persuasion can dig up an analogy to prove a point. A more useful approach is to ground theory in studies of South Africa, argues ALAN HIRSCH

ONE of the most intriguing features of the current debate about the future direction of the South African economy is that every amateur and professional economist is able to produce, on demand, examples from other parts of the world to prove that their solution to South Africa's economic crisis works best.

Liberals can point to the failure of the Eastern European economies to cross the threshold to a mass consumer society, while interventionists can point to the decline of Britain and the relative decline of the United States as instances where state intervention has been insufficient or misdirected The lessons for South Africa seem obvious — until an economist from the other side pulls a new set of facts out of his or her hat.

Of course, comparative analyses are relevant, but they must be grounded in analyses of the specific South African economic predicament

One attempt to do this is economist Stephen Gelb's analysis, in a series of recent papers, of the South African economy as "racial Fordism" in crisis

Gelb is co-ordinator of the Economic Trends Group, a Cosatu-linked network of scholars studying the causes of the South African economic crisis and beginning to look at ways out of it.

Until recently, radical analyses of the South African economy argued that apartheid and capitalism were two sides of the same coin. Racial segregation before 1948 and apartheid after were repressive political systems which ensured high rates of profit for capitalists in South Africa. In part, the radical scholars were responding to the view propounded by liberal economists that apartheid and capitalist growth were in contradiction and that growth would inevitably lead to the weakening of apartheid. The coincidence of high growth and intensifying apartheid in the 1960s seemed to make nonsense of this proposition.

By the mid-1980s the most thoughtful of the liberal scholars had revised their arguments Merle Lipton, in her book *Capitalism and Apartheid*, now acknowledged that capitalist farmers and mining companies may have used racial oppression to lower wages and raise profits, but claimed that by the 1970s they were moving away from this. Merchants and manufacturers, though, had never benefitted from apartheid. Capitalists didn't back apartheid but were not able to do anything about it.

Gelb's argument is different and more complex, though it also points to the beginning of the 1970s as the turning point. It was then that "racial Fordism" fell apart.

When Henry Ford introduced mass production in the 1920s he boosted the wages of his workers to previously unheard-of levels. Ford recognised that his workers were also his potential consumers and that unless their productivity boost was matched with a rise in wages he would be left with acres of unsold motor cars

In terms of "regulation theory", which Gelb uses, the early post-war decades in the advanced capitalist countries were characterised by a Fordist system in which productivity growth was accompanied by rising real incomes so that markets cleared and workers were relatively content.

South Africa had racial Fordism. import substitution policies led to the rise of domestic manufacture of consumer durables funded by rising mineral exports but only whites were fully drawn into the system of mass consumption The system worked and profits grew until a series of crises disrupted it. Rigidities in private and public institutions blocked the emergence of a new system of matched production and consumption.

Three factors disrupted the racial Fordist system. Firstly, a crisis in the advanced capitalist countries led to the price of capital goods imported into South Africa rising steeply. This led to growing expenditures on capital equipment which helped boost the rate of inflation and depress real interest rates, in turn encouraging further expenditure on capital goods.

The second spoke in the wheel of racial Fordism was the crisis in the international financial system with the collapse of the dollar standard in 1971, which led to dizzy fluctuations in the prices of South Africa's precious metals. Business conditions became increasingly unpredictable and uncertain.

The third factor Gelb sees as disrupting the system was the rise in the real wages of black workers, not directly connected with productivity increases, which began in 1973. This also disrupted the match between production and consumption that had characterised racial Fordism and the rate of profit declined.

The crisis was evident in the levelling off of productivity growth while the capital-labour ratio grew. The 1985 credit crisis was the culmination of a deteriorating process begun in about 1970

The implications of Gelb's argument are complex; it suggests that an economic system which would work in a post-apartheid era would have as its priority the full inclusion of black South Africans into its mass consumption system.

Nicoli Nattrass, a Stellenbosch-based economist, has criticised some of Gelb's analysis in two recent articles. Nattrass claims that even in the 1950s and 1960s profit rates were declining and wages relative to profits were rising — first for whites, later for blacks. According to Nattrass, racial Fordism never really worked as a system in equilibrium: there were always contradictions between the racial system and the economic system.

Her critique is largely based on the use of statistical bases different to Gelb's and her different treatment of those figures

Although they disagree, Gelb and Nattrass have something in common. They are both part of a new generation of economists who are grappling with the broad issues in South Africa's recent economic history in a way that is more likely to take us to a useable policy than will facile comparisons with South Korea or Romania.

Sasol's 'white elephants' duck out of petrol

W Mail 2/3-8/3/90

If the oil embargo ended, what would happen to Sasol? That's clearly a point that worries Sasol, which is speedily diversifying, reports ANN FRIEDMAN

IF the oil embargo in force against South Africa since the early 1970s were lifted tomorrow, the country would find itself with two enormously expensive white elephants' billions of rands of taxpayers' money has gone to pay for synthetic fuels production by Sasol and Mossgas

The only consolation might come in several generations' time, if the world were to run out of fossil fuels — then South Africa, with its experience in synfuel technology, would be crowing.

But right now even the government has been signalling that it is not too worried about South Africa's oil supply, although this is a subject shrouded in the secrecy of the Petroleum Products Act.

Late last year the government refused the go-ahead for two further synfuel projects: Gencor's oil-from-torbanite and AECI's methanol-from-coal plans. Minister of Mineral and Energy Affairs Dawie de Villiers admitted recently that if the cabinet were to consider a project like Mossgas now, it would be highly unlikely to approve it, given present changes in the political climate.

But although the government re-evaluated the half-complete Mossgas project in December, it made clear it will go ahead — on the grounds that to cancel would be more expensive than to continue. The project's capital cost is now estimated at R8-billion, well over the original R6,5-billion budget the cabinet approved in 1988 (initial cost estimates had been R5,5-billion in 1987 figures). At least one of those involved in the project has said it could eventually cost R10-billion

Meanwhile Sasol Ltd, a public company although still with a 30 percent state shareholding, has been diversifying out of synthetic fuels and into producing other chemical products as fast as it can.

It is now deriving only about one third of its operating profit from synfuels, a further third from chemicals, and the last third from its coal, fertiliser and explosives operations and its crude oil refining at Natref.

The Sasol group, which at June last year had assets of R5,3-billion, has grown in response to strategic and commercial considerations at different times. But Sasol's management admits it would not build a Sasol Four now. The original Sasolburg plant goes back to the 1950s — now Sasol One is moving almost completely away from synfuel production. Sasol Two was planned at a time when it was economically viable — in the wake of the 1973 oil price crisis. Sasol Three's *raison d'être* was more explicitly strategic: it was decided on in 1979, mainly in response to the fall of the Shah of Iran; South Africa was at that stage totally dependent on Iran for its oil.

But both looked more viable in the 1970s and early 1980s than they do now. The oil price went right up to $40 a barrel at one stage in 1980 — at present the South African industry is working on around $18. And the fall in the value of the rand has also negatively affected Sasol's commercial viability.

Oil produced synthetically — be it from coal as in Sasol or gas as in Mossgas — is by definition more expensive than the crude oil that comes out of the ground (or the sea) since it requires more processing

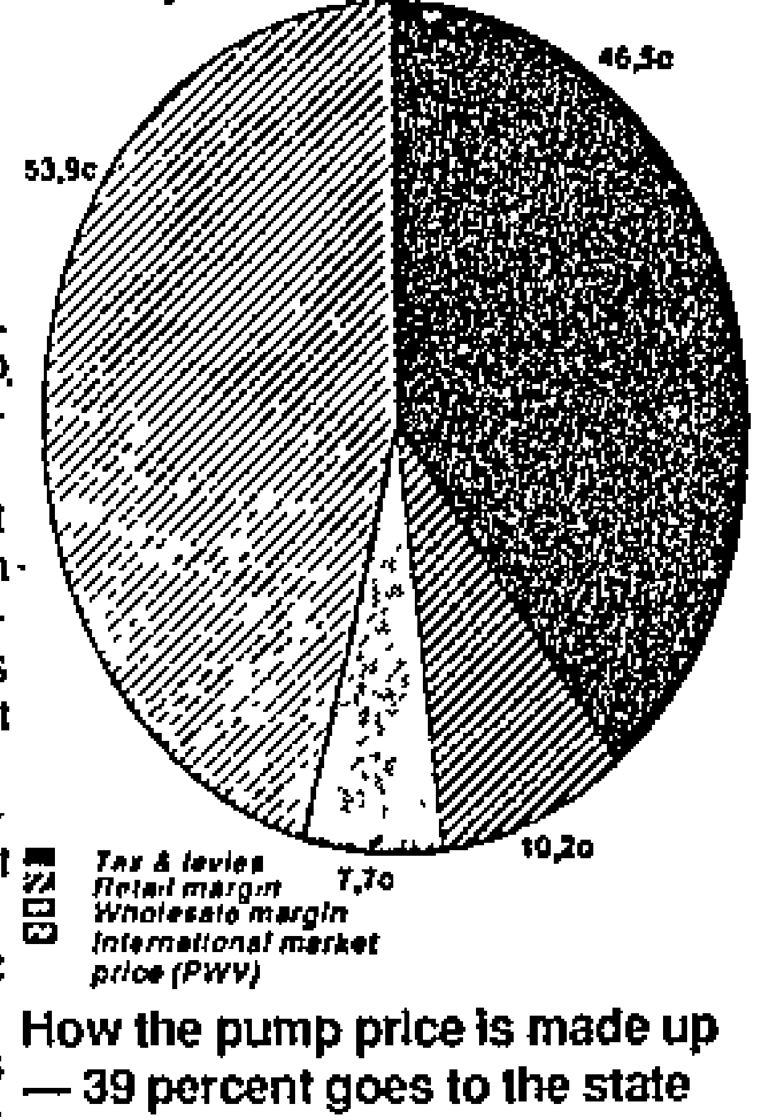
Essentially it has been hefty government protection which has kept Sasol's fuel production viable — and helped to make the company a "blue chip" share.

The protection rate for Sasol fuel is 17,5 percent at present. Oil companies who buy the fuel pay an additional 7,6c per litre over the international market price (which is 53,86c for 93 octane petrol in the PWV area). They then deduct this off the levies and taxes they pay to the government.

Sasol this week gave details of the new framework for tariff protection for synfuels implemented by the government during the second half of last year The new system gave protection of 7,6c in February where the old would have given 6c.

However the new system only subsidises Sasol when the fuel price is below $23 a barrel — which it is at the moment. Above that "floor price" there is no protection, and above $28,7 per barrel Sasol starts paying in: it must pay 25 percent of any extra income earned above the $28,7, until the accumulated protection it has received has been redeemed.

PWV petrol price: 93 octane



How the pump price is made up — 39 percent goes to the state — but Sasol fuel is subsidised

It will be protection, too, which helps to keep Mossgas going. Even with tariff protection, if oil prices are too low it would still end up costing billions more rands once it starts production.

An oil price of $12 is required if Mossgas is just to make the interest payments on its loans; $15 would be required for it to repay its loans; and $19 would be needed to achieve a break-even point for shareholders.

No one has ever suggested Mossgas is anything but a strategic investment. And it has been a large one: so far R5-billion has been sunk in the project.

The government argues it would have lost even more than the R5-billion if it cancels the project, because there would for example be cancellation fees to the contractors. It also has R1,7-billion in foreign loans for Mossgas, which would have to be repaid. If the project goes ahead it could save R120-billion in foreign exchange over its lifespan, according to government figures.

The government keeps emphasising that there is still, formally, a crude oil boycott of South Africa.

It is now assuming that the R5-billion is already spent — or lost — and justifying the continuation of the project on the basis that it is worth spending the extra R3-billion because the return on this additional investment will be acceptable.

Democratic Party energy spokesman Roger Hulley, however, has called Mossgas "the biggest economic liability left over from PW Botha's era". Former Sasol general manager Jan Hoogendoorn has pointed to the millions of rands it will require every year just to service its debts.

Shareholders in Mossgas were the Central Energy Fund (which was built up via levies paid by petrol consumers) which has 50 percent, Gencor (30 percent) and the Industrial Development Corporation (20 percent).

Mossgas was in the news again this week as Gencor transferred its stake to its giant new energy arm, Engen. Engen brings together Mobil (which Gencor bought when the American company disinvested), Sonap and Trek, giving it 1 500 filling stations; it will also hold the 30 percent share in Mossgas as well as participate in oil exploration activities with Soekor.

Don't expect divested US companies to return

W mail 2/3-8/3/90

By HILARY ANDERSSON

SOUTH Africa should attempt to attract new investment from the United States if sanctions are relaxed, since companies which disinvested are unlikely to return.

That's the view of Wayne Mitchell, executive director of the American Chamber of Commerce in South Africa (Amcham), who points out that some of the companies who left did so in an atmosphere of tension with their workforces.

Kodak, which encountered antagonism from affiliates of the Congress of South African Trade Unions on its departure, is a case in point. Other companies, such as Ford, left on favourable terms But even these, Mitchell believes, may not want to "go through it again".

There is, however, potential for attracting first-time US investors and some are "cautiously optimistic" about recent changes in South Africa, says Mitchell.

But he points out the cautious optimism translates into a "wait and see" policy in the short term. This may mean the loss of potential investment in South Africa to newly opened Eastern European markets. The timing of the lifting of sanctions may therefore be crucial.

Despite increasing competition in the field of high technology from Japan, markets for American goods here generally remain good, according to Mitchell. Demand for American health care products, heavy industrial equipment, mining equipment and vehicles is particularly strong.

The ban on new investment and the double taxation of profits are the key sanctions. If these are lifted, any hesitancy to invest, Mitchell believes, will stem from uncertainty about the outcome of government-African National Congress negotiations

Of the 337 American companies which were in South Africa in 1983, only 140 remain. The remaining US companies here are "very excited" and "bullish" about recent political developments, says Mitchell. His impression, following a recent unusually well-attended Amcham AGM, is that they feel vindicated for having stayed.

They are hopeful for the future integration of the southern African economy, as South Africa's increasing political credibility removes barriers, and with Mozambique and others liberalising their economies.

Helping to fuel their optimism is the fact that political pressures from state and local-level sanctions and consumer boycotts are finally beginning to ease as South Africa gets its first taste of positive publicity.

This is important for companies such as Johnson and Johnson, for example, who get more business from New York alone than they do from South Africa.

Amcham will go again to Washington this year to lobby against the Dellums Bill and for the relaxation of sanctions. Mitchell is confident the present feeling in Congress is in favour of any relaxation of sanctions that President George Bush might put forward.

Mitchell has been involved in direct talks with both the ANC and the government on behalf of Amcham He describes the ANC as "pragmatic" and in view of this the redistribution which is inevitable in the future "mixed" economy could occur through taxation, rather than necessarily nationalisation.

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Nationalisation: Third World path

DANIEL SIMON

THE nationalisation of banks and gold mines for the purpose of redistributing wealth would be the surest way of reducing SA's economy to Third World status, Human Sciences Research Council's (HSRC) Prof D J J Botha said.

This was because these industries were not compatible with political interference.

Botha, who heads the HSRC's Centre for Economic Analysis, also called on politicians not to embrace the concept as it would amount to nothing more than a programme of "national handouts".

He was speaking at the HSRC sponsored Population Trends and Consequences in Southern Africa seminar in Pretoria on Friday.

It seemed "some politicians" had not been able to adapt to the new world situation, hence their claims that banking and the gold mining industry should be nationalised.

"This is the surest way of quickly reducing the whole SA economy to the level of a Third World country. Few industries could be less suited to nationalisation than these two.

"Not only self-interest but also, and especially, the very precise and critical calculations of margins and productivity are absolutely essential in both these industries," Botha said.

"The development of new technology is not something that one associates with a nationalised industry."

Botha said nationalisation had been suggested as part of a general strategy of redistributing wealth.

"It has been suggested that this be done in what can only be described as a crude manner: taking away from the rich to give to the poor.

"If this was done once only, the net effect would be negligibly small.

"If done repeatedly, entrepreneurship would be discouraged, production disrupted, unemployment would increase and in due course the economy would settle at a lower level of activity, productivity and wealth."

A reduction in the "wide disparities" in income should receive the priority from whoever was in power.

"It should not be done by decreasing the wealth of some to the benefit of others. It should be done as part of a programme of increasing wealth all round by putting more people to productive employment," he said.

B Day 5/3/90

Gold, the double edged weapon of wealth and survival

Sowetan 5/3/90

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WITH the unbanning of the ANC and the PAC, the debate whether or not to nationalise the mining industry is raging. The mines and the importance of gold in particular, are inextricably linked to the history of mining develoment in SA. Lynn Pikholz looks at the issues involved.

"IN less than 20 years, Johannesburg was tranformed from bare veld into a rich mining city. In this time black South Africans - neither rich nor citizens - came to work on the mines.

The story of the mining industry has often been told as the story of progress - of modernisation, technological achievement and expanding economy. Told that way, the story shows how they (the randlords) were able to gain fabulous wealth - and, at the same time, shape the future of a country.

The same story can be told a different way ... as the struggle for survival of those whose hands made the wealth, the workers who came to eGoli. When gold production began, their lives were drawn into a system. The system developed until it affected every part of their lives, from the cradle to the grave," (*Luli Callinicos : Gold and Workers*).

More than 200 years ago, agriculture dominated the livelihoods of the majority of South Africans. But with the discovery of diamonds in 1867 and subsequent discovery of gold in 1888, this was soon to change.

The second half of the 19th century witnessed a virtual explosion of industrial development activity as miners, many from foreign lands, came to seek their fortunes.

The consolidation of mining, which pushed forward into the 20th century, transformed SA, ushering in an important new socio-economic system. The mining industry soon became the main-spring of industrialisation and of modern economy in South Africa.

Urbanisation

Mining was the first really large-scale capitalist industry in South Africa and it was here that the first major racial distinctions became institutionalised in an industry.

Activity on the mines became associated with an entrenchment of capitalism, industrialisation and the urbanisation of the working class. The far-reaching economic and social changes were soon to provide fertile ground for class and racial conflict.

The words, uttered in Kruger's Memoirs by General Joubert in the 1880's, when a burgher came to gleefully inform him that a new gold-reef had been discovered, have been fulfilled in astonishing fashion: "Instead of rejoicing," he said, "You would do better to weep, for this gold will cause our country to be soaked in blood."

Looking at the impact of the mineral revolution and the consequent industrial revolution on labour patterns in South Africa, it is not difficult to validate his statement even though he meant it in reference to the British Government, who, being tempted by the wealth of the country, engaged in the Anglo-Boer war in defence of the Uitlanders.

Compounds

The migrant labour system and the housing of labourers in compounds, which broke up community and family life, the dangerous and extremely harsh working conditions, the control over workers' lives, and the discrimination that occured on the mines, caused labourers untold pain and suffering.

What tended to complicate matters was the extent to which government laws and practices acted in the service of the mine owners. As early as 1890, Cecil John Rhodes, a man with enormous mining interests, became Prime Minister of the Cape.

It was not that surprising, therefore, that he arranged laws, such as the Glen Grey Act which was aimed to push black people off the lands and to become wage earners on the mines and railways.

After the Anglo-Boer war, successive governments passed laws and enforced order in the interests of the mine owners. Such laws included the introduction of taxes, for example, the hut tax (workers would have to earn wages in order to be able to pay them), the Native Land Act of 1913 which disposed black people of their land, the Job Reservation and Colour Bar Acts.

In reaction to conditions on the mines, significant formal and informal worker resistance developed and the first African Trade Union was formed.

The reliance, that has since developed, on the "barborous relics of gold" has made the South African economy extremely vulnerable to any freefall in the gold price and/or any major stoppages in the gold mines.

Temptation

Whereas common sense dictated the risks in relying on a single commodity too much, the temptation for capitalists was too great. The unlimited pool of labour that was made available to work on the plentiful mines, and the fact that gold was an industry that "feared neither locusts not cattle diseases, neither drought nor summer flood," *(De Kiewiet)*, caused increasing specialisation on the mines.

That gold was exclusively relied upon to bring in necessary foreign exchange becomes a double risk when one takes into account the dependence of the mining industry on foreign countries as the demand for gold, as well as the price, tend to be internationally determined.

After some expensive lessons were learned when the gold price dropped drastically in the early 1920's, causing substantial damage to the economy, the government began to invest in, and protect, the local manufacturing industry.

Although, in recent years the importance of the gold industry has declined a little, it continues to be the country's single largest generator of foreign exchange.

When, owing to declining international demand for gold, insuffient foreign earnings were brought in to finance our imports, there was a tendency to borrow funds abroad.

This came to an abrupt halt in 1985, when, financial sanctions were imposed on South Africa for political reasons. With another source of finance closed, the dependence on gold was highlighted once again.

Volatility

The effect of gold price volatility on the South African economy, owing to our large undiversified export mix, is significant.

The fall in our average growth rate from five percent in the 1950 - 1970 period to around two-and-a-half percent in the subsequent 15 years, has been largely attributed to our much lower foreign exchange earnings.

Although the mining industry will continue to be of crucial importance to the South African economy, the emphasis of future policy makers needs to be less myopic.

Given the widespread poverty, massive unemployment and the two and-a-half percent growth rate in the population, South African society has little option but to diversify substantial energy and resources away from its rich mining heritage and to concentrate more thoroughly on developing its human resource base.

Mining will, of necessity, continue to play a pivotal role in this process, although, the benefits that accrue from the industry will have to be directed towards broad based mass development.

Signals of slower growth . . .

Downturn bites deeper into company profits

Cape Times 5/3/90

(49)

Own Correspondent

JOHANNESBURG. — The first batch of results from major companies for the period to end-December show faltering earnings growth and give an indication of the difficulties which lie ahead as the economic downturn bites deeper into profitability.

Inroads into company profits are putting leading industrial and several non-gold mining shares under pressure on the JSE, and could put a lid on the continual uptrend in prices seen over the last couple of years.

Even those companies which reported earnings growth above the rate of inflation have signalled slower growth in the wake of tighter conditions on the international as well as the domestic front.

John Liackman, partner in stockbrokers Max Pollak and Freemantle, said: "We must expect leading industrial companies to show lower earnings growth than we have seen over the past few years.

"Euphoria over Christmas spending tends to hide the situation for a while but we are now starting to see the impact of the downturn on share prices.

"I do not think there will be a repeat of the 1984/85 recession as companies are better prepared.

"But things are unlikely to get better until interest rates begin to ease from their current high levels," Liackman said.

Mike Brown, of stockbrokers Frankel, Kruger, Vinderine, said: "The economy is now in the mature phase of the downturn but I am not too concerned about the fall in profits, particularly of industrial companies as the level of earnings growth has been very good in recent years."

He pointed out that earnings growth of industrial companies on the JSE was 19% in 1986, 30% in 1987, 36% in 1988, and 34% in 1989. Brown projects 13% growth this year, recovering to 30% in 1991.

Offloading of shares of steel giant Iscor has been a vivid example of the market's swift reaction to faltering earnings growth.

After meeting interim earnings target, serious doubts whether it would fulfill an earnings increase of 20% for the full year to June, sent the shares plummeting.

In the two days since the release of the interim results, the shares have fallen from 270c to touch a low of 225c before closing at 235c, a decline of almost 10% and a fall of 17,5% from its January peak of 285c.

Keener international competition and substantially lower world dollar steel prices have also hit Barlows shares, as the major component of its earnings growth over the last few years has come from Middelberg Steel.

Barlows shares came off their lows on Friday to close at R42,85, a decline of almost 22% from the month-a-go peak of R54,75.

The plunge of the heavily weighted shares has helped push the JSE industrial index down 7,5% to 2 974 from its February 7 peak of 3 218.

The decline in world commodity prices and the relatively strong rand has taken the edge off other rand-hedge stocks.

Highveld Steel & Vanadium shares have slumped from an August high of R22,30 to R16,35 on Friday but off recent lows.

Softening international prices of pulp and paper are expected to impact on the results of Sappi for the period to February, and the shares have plunged from an October peak of R51,50 to R38,50 on Friday.

Dismal results from Bankorp and earnings growth of only 8% from highly rated Anglo Vaal Industries have not helped to quell market nervousness.

But the impact of the economic downturn will be more accurately reflected when companies in the country's major industrial groups, SA Breweries and Barlows, report results for the period to March.

THE debate raging over the alleged nationalisation policy of the ANC has been characterised by confusion on both sides over the importance the other side attach to the topic. Ken Vernon of the Argus Africa News Service, who has just returned from Lusaka, reviews ANC views on the subject.

THABO MBEKI

Nationalisation: Clearing the air on ANC's stand

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Sowetan 5/3/90

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THOSE who have been concerned because they could not understand the ANC policy on nationalisation can cheer up - because the truth is the ANC does not have a nationalisation policy.

This remarkable admission was made by the organisations foreign affairs spokesman, Thabo Mbeki, shortly after the ANC's national executive committee meeting last week.

What the organisation has are "guidelines," according to Mbeki.

The foundation for the guidelines devolve back down to the 35-year-old Freedom Charter.

These "guidelines" are not hard enough to be called a "policy," he says - and to judge by the varying statements made on the topic by various ANC leaders in past weeks - not even the guidelines are universally agreed to.

Ideals

Most of the ideals included in the Freedom Charter are vague enough to be interpreted virtually any way one wants to, with the exception of those pertaining to nationalisation.

The relevant paragraphs read:

"The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole"

"All other industry and trade shall be controlled to assist the well-being of the people."

While Mbeki says that nationalisation is not mentioned anywhere in the Freedom Charter (the word 'nationalisation' is indeed not mentioned), the above paragraphs unambiguously mean nationalisation.

Subject

Compare this to the initial words by Nelson Mandela on the subject in his letter from Victor Verster: "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC, and a change or modification of our views in this regard is inconceivable."

His words are also unambiguous and correlate almost exactly with those in the Freedom Charter.

But privately many leading members of the "new guard"of the ANC dismiss the bogey of nationalisation.

"The reality is that 99 percent of South Africans have nothing that could be nationalised,"says Mbeki, implying that they therefore have nothing to fear from nationalisation.

System

He says that the present economic system has been distorted by monopolies and cartels, and that the system has gross inequalities and imbalances that have produced great poverty within the black sector of the population.

"Any democratic government will have to alter the structures inside the economy in order to create a system that can redress these imbalances.

"The issue is who controls the wealth in order to effect a more equitable system of distribution. The Afrikaners understood this when they used the helpmekaar programme to build their power bases such as Sanlam."

He said nationalisation remained an option of the ANC's in the restructuring of the economy.

"I have been told that the economy is so finely balanced that both nationalisation and increased taxation will derail it and that the only way to effect a re-distribution of wealth is to create more wealth that can then be re-distributed - but I cannot accept this argument."

Figures

One of the most influential figures in ANC economic thinking is the leader of the South African Communist Party, Joe Slovo, who is also a member of the ANC executive, and his thoughts on the topic of nationalisation are instructive.

"We have to look at the substance of the objective of the ANC for a post-apartheid economy, that is, to correct the inherent imbalance in the control and distribution of economic resources.

"Nationalisation on its own does not imply that this objective would be achieved."

He says that while strategies may be evolved or negotiated, what must remain is the committment to restructuring the economy to meet the needs of the population as a whole, not just a privileged elite.

"I see the mechanism evolving being a multi-sided one, with a private sector, a public sector in addition to the involvement of international capital."

Bread

"We are perfectly aware that when the transformation comes, we will have to bake bread, not just slogans.

In order to make sense of much of what leading ANC figures say in private conversation it is necessary to read between the lines.

The present initiative of President FW de Klerk has taken the organisation almost completely unawares, events have moved faster than anyone could have imagined, especially for an organisation such as the ANC dedicated to long-winded theoretical conferences leading to group decisions.

So Mbeki's candid admission is seemingly correct: taken by surprise the ANC does not have an economic policy capable of being trotted out to meet the demands of the Press and others worried about the comments of individual members of the organisation, no matter how influential.

Secondly, most, if not all, of the ANC's leading economists were trained in the Eastern Bloc, and faced with the disintegration of the system they were trained in, they have simply not had the time to come up with a credible alternative.

The result could be that nationalisation could be one of the first topics for debate when any negoiation process finally gets underway - and one of the first casualties.

Getting to know how your taxes are spent

By THAMI MAZWAI

ON Thursday the Sowetan Business - Old Mutual pre-Budget supplement will be published to give our readers background knowledge on Finance Minister Barend du Plessis's Budget speech next Wednesday.

Although the Budget speech will only be delivered next Wednesday, March 14, the articles will help you understand why the Government will be taking specific measures.

Old Mutual economist, Andre Roux, has written four articles.

The housewife, man in the street and business will now have a chance of analysing Government thinking when it comes to spending our money.

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Analyse

More importantly the student will get technical information from an expert, who will also analyse past budgets and what their shortcomings were.

Among the titles to be dealt with are inflation, interest rates, fiscal and monetary policy in general, the deficit and taxes facing us this year.

The day after the Budget speech we will carry all the details, comment from the experts at Old Mutual, the man in the street and our business leaders. Sowetan 5/3/90

As the Budget affects our lives, and particularly in the light of current developments in the country, make sure you get your copy of this special supplement.

You will now know how your taxes will be spent in the coming year, and how the Government will deal with inflation and the ever-rising cost of living.

This supplement will be part of your *Sowetan Business* package this Thursday.

As we promised when *Sowetan Business* was launched last year, we will demistify the economy.

Star 5/3/90

Economy in a rut if ANC nationalises, prof claims

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By Norman Chandler, Pretoria Bureau

ANC plans to nationalise the banks and gold mines would drag SA's economy deep into a Third World rut, a top academic said at the weekend.

Professor D J J Botha, head of the Centre for Economic Analysis, also told a Human Sciences Research Council seminar a politicised educational system did not make economic sense.

Since President de Klerk opened Parliament on February 2, "our hopes have risen ... Let us trust that the discordant note of nationalisation will in time prove to have been the result of political fury getting the better of economic sense," he said.

South African politicians had to heed the lessons of Eastern Europe and the Soviet Union — "some of our politicians have not been able to adapt to the new world situation, hence the claim that banking and the gold mining industry should be nationalised," the professor said.

"This would be the surest way of quickly reducing the whole economy to the level of a Third World country. Nationalisation could only lead to disaster (and) a reduction in national wealth."

Education had suffered major neglect "when scarce funds were diverted to projects that could not be justified on economic grounds. This was at the expense of other, more worthy causes, such as essential services, especially health and education."

Sweden warns ANC against the dangers of nationalisation

Star 6/3/90

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In the 1930s, the Swedish system was held up as a shining example to the West. At the start of the 1990s, the east finds faith in the north for rebuilding the ruins of communism. The African National Congress has its eye fixed on the country which has so far given it more than 500 million kroner (R200 million). SARAH CROWE in Stockholm examines the Swedish model as a possible template for a new South Africa.

The hope of the new socialist world has warned the ANC against the dangers of nationalisation and commando economics.

The warning comes from the country Mr Nelson Mandela calls the ANC's "most reliable friend", Sweden — the country which has in recent weeks hosted an historic gathering of the ANC leadership and where the movement's president, Mr Oliver Tambo, is being treated for a stroke. The country which is the ANC's biggest financial supporter.

Within 10 days, Stockholm will again be the meeting-place for the two kingpins, Mandela and Tambo.

This week, the *Dagens Nyheter* newspaper reports Mr Mandela's praise.

"The socio-economic system you have in Sweden is very tempting for us," he says. "I have often considered that the geographical position of Scandinavia had helped you create an economical and social system which contains the best from both the east and the west."

The Swedish welfare state was born from socialistically inspired values of equality and community concern.

GUARANTEES

Swedes are guaranteed sick leave at 90 percent of their incomes, free education, virtually free health care, and pension at two-thirds of an average income. The unemployment rate is running at 1,4 percent and dropping.

Of course, someone has to pay for these benefits, and the Swedes have one of the highest income tax rates in the world. The scale starts at 30 percent and rises to 75 percent.

Pressure and falling productivity have, however, led to a re-think and the Government is now pushing through a tax reform package that will limit the top rate to 50 percent — still 10 percent higher than in Britain, for example.

All the community concern, and a highly competitive economy, gives Sweden one of the highest standards of living in the world.

But socialist Sweden is not.

"Whites in South Africa misunderstand the Swedish model," says Mr Bertil Oden, economist at the Scandinavian Institute of African Studies.

"They believe Sweden is a socialist country. The dynamics of private capital is the main locomotive of our economy; but, at the same time, with strong trade unions to keep the anti-social effects of the raw capitalistic system in check," he adds.

"The one prerequisite has been the growth of very strong popular movements in Sweden, and in South Africa the United Democratic Front and Cosatu could fill the same function."

However, he warned the ANC against nationalisation.

Government ownership of industry in Sweden is about 7 percent of the production sector, less than half the amount of Conservative Britain, and its record on free trade is more open than most other western countries.

The Swedish Ssecretary of State for Southern Africa, Ms Ulla Strom, also says nationalisation would be a mistake.

"Here the ANC can learn from the Swedish model because nationalisation is not an answer to any problems, and developments this past year have shown that economies based on commando economics never accomplish anything," says Ms Strom.

"The ANC has a very positive view of Sweden because of the massive support they have gained from us. This budget year they received 85 million kroner (R34 million).

"The success of the Swedish model is to leave business to the businessmen and women, but the government's task is to control them and to set up the networks to impose responsible thinking and ensure there are no strong divisions between labour and management."

Ironically, the perfect Swedish model is showing some serious cracks. The country has just survived one of the worst parliamentary crises ever, caused by a series of strikes, and an unpopular austerity packet has been proposed.

But even if a bourgeois coalition government were to take the place of the Social Democrats, who have enjoyed a virtually uninterrupted rule since 1931, Swedish policy on South Africa would be unlikely to change. — The Star's Foreign News Service.

Sweden warns ANC against the dangers of nationalisation

Star

6/3/90

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(49)

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DCM acts as springboard

By ARI JACOBSON

THE Development Capital Market (DCM) is still a springboard for further development and expansion for well-managed companies in spite of the high risk scenario attached to this sector, says stockbrokers Davis Borkum Hare (DBH).

The high risk opportunities reflected in the share price — the majority of which are trading below their issue price — can be avoided with careful attention to long-term selection

In January 1988, states the broking firm, 95 companies were quoted on the DCM and by December of that year this figure was 63 with a further decline to 48 in 1989.

"Only 20% of the companies listed in 1986 and 1987 met their profit forecasts."

At current interest rates, says the brokerage, the cost of share capital is the most efficient means of raising finance, through rights issues.

"However, this is only practical and cost effective for a highly-rated company with the lower-rated companies having to raise relatively expensive capital."

This states the survey has had a prohibitive effect on prospective newcomers with only one listing since June 1989

"Added to this, institutional trading in the DCM is limited with shares in issue tightly held by the original vendors."

In most DCM-listed companies turnover as a percentage of market capitalisation was a mere 8% in 1989.

Some individual performances on the DCM highlighted the investment potential on the DCM.

- Adcorp described "as a dominant force in the SA and Namibian recruitment advertising industry" has been on the acquisition trail with the purchase, as of July, of TWS Communications — the largest public relations consultancy in SA, JSA Design — a leading design studio in Johanesburg and Adplan — specialists in financial advertising.

DBH says the acquisitions will increase Adcorp's market share significantly with earnings growth of 23% for the six months end-July expected to be maintained.

- Aimark, which markets and distributes consumer durables, had a difficult year to June with tight monetary measures having a negative impact on the company's results — net income declined 15,7%.

"But stringent corrective measures in monitoring working capital to boost margins coupled with increased turnover indicate earnings should show fair growth."

- Cenmag, suppliers of electrical equipment to industry, has achieved organic earnings growth to August of 27% by increasing its customer base and benefiting from its involvements in the Lesotho Highlands Water Project.

This momentum is expected to be maintained culminating in a main board listing sometime this year.

Multi-million share deal cancelled

Own Correspondent

JOHANNESBURG — A multi-million share deal between Egoli Consolidated Mines and Taiwanese trust company Kruger International Investment Co was cancelled in a Rand Supreme Court settlement yesterday

Egoli had instituted action by edictal citation against Kruger in May 1988 claiming payment of R30m, the balance of the purchase price of shares in the Johannesburg Mining and Finance Corporation (JMF), in terms of a contract signed in January of that year.

The sale had gone sour when the Taiwanese buyers did not pay for most of the shares.

In an action presided over by Justice Moll, Egoli had claimed R30m — the purchase price of shares in JMF, which has changed its name to Consolidated Mining Corporation (Consmine).

Of such shares, the subject shares (10,725m ordinary issued shares in Consmine) had been transferred to Kruger by Egoli.

In a settlement which was made an order of court yesterday, the parties agreed on Egoli's claim that the transfer to Kruger of 6,435m shares (settlement shares) in Consmine should be cancelled and the settlement shares should be re-transferred to Egoli.

Kruger would deliver to Consmine share signed and completed transfer forms for the transfer of settlement shares to Egoli.

his would constitute Egoli as the Kruger's agent, with authority to deliver the share certificates for the subject shares to the transfer secretaries of Consmine and carry out all other acts necessary to procure the registration of the settlement shares in the name of Egoli.

Kruger would retain the remaining 4,290m shares (the retained subject shares).

Kruger acknowledged all rights, title and interest to participate in the proposed rights issue (announced on February 9) which might attach to the settlement shares vested in Egoli be vested in Egoli.

It also renounced in favour of Egoli all rights, title and interest to follow the rights which would attach to the retained subject shares.

Each party would bear its own costs of the action.

Pennypinchers lifts profits

By ARI JACOBSON

RETAILERS and wholesalers Pennypinchers Holdings increased turnover by 56% to R171,8m (R110,2m) for the year end-December.

Improved margins managed to dampen the large increase in the interest bill at R2,8m (R800 269) to realise taxed profits up 55,4% at R4,1m (R2,6m).

However, an increase in ordinary shares in issue diluted earnings growth to a 27% gain at 20,6c (16,1c).

A final dividend of 5c a share brings the total dividend for the year to 9c compared with 7c for the previous year-end.

Rand firms

JOHANNESBURG. — The rand closed slightly firmer yesterday.

The rand ended at R2,5730/45 to the dollar against Friday's R2,5820/35 close.

The financial rand plunged further to R3,80/84 to the dollar from Friday's R3,67/70 finish.

Against other major currencies, the rand closed at

USA. 2,5730/45
UK. 4,2360-410
Germany: 0,6600/10
Switzerland. 0,5815/25
France: 2,2300/30
Netherlands: 0,7430/45
Japan· 57,85/95. — Reuter

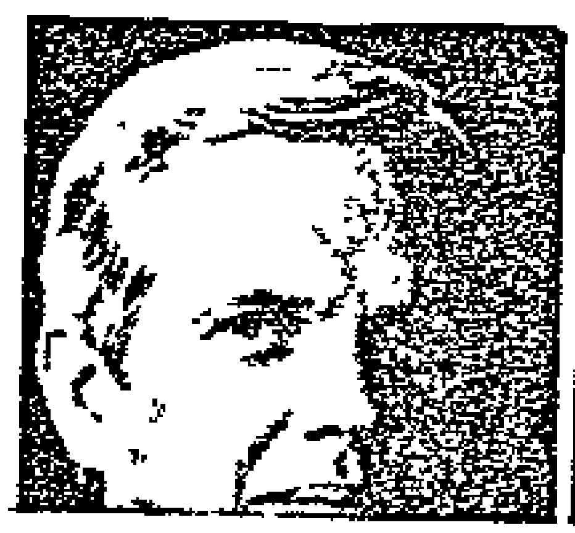
NEW HIGHS

	PRICE	PREV
DE BEERS	7400	7150
TRNSHEX	2450	2350
PROSURE	1650	1600
PANPROP	590	575
S RETPRP	570	550
KLIPTON	260	250
RICHEMONT	2030	1975
TRGR 13CD	200	180

Johan Pauw has been appointed senior marketing manager (marketing) at Sanlam.

Ray Parker has been appointed production director of MCG Indusries.

Ian Trotter has been appointed operations manager of Printpak Cape.



1992: What it means for SA

By BRIAN M HAWKSWORTH,
a partner
of Ernst
& Young

AWARENESS of what is happening in Europe on December 31, 1992 is limited We are not alone in this, even in Britain, which is part of Europe, most businesses are doing nothing in anticipation of it.

December 31, 1992 is the deadline for the creation of a single market across the 12 countries of the European community. This will mean a united market of more than 320m people in which teh free movement of goods, people, services, capital and, I hope, ideas is ensured

Every company with European interests will be affected by the greatest deregulation in economic history and the resulting consolidation and expansion of European business Half of world trade is conducted in Europe and it is anticipated that its gross domestic product will increase by 5% as a result of 1992.

Developments in Europe impact on SA as over 57% of our foreign trade is with the European community

As commented upon by Margaret Thatcher, the development of 1992 creates an opportunity for enterprise.

To illustrate, exhaust emission control legislation will apply to all new cars in the European community from 1993. This will have a major impact on the platinum industry in SA.

The business community should bear in mind that SA needs Europe more than Europe needs SA and our future, to a large extent, depends on ourselves.

With the world's business community pre-occupied with the opportunities of Europe and Eastern Europe and the USSR as a result of "perestroika", we are unlikely to attract significant capital in the near future.

In 1988, 90 Japanese companies set up business in the European community to benefit from the single market. Forty more joined them in 1989.

SA needs to create 1,5m jobs a year, for which we need a bigger economy

However, our productivity is lower than all 12 European community members' and we do not have an export mentality We therefore have a serious problem.

It is not necessary to look too hard to find small countries with fewer natural resources which have done much better than we have done. Taiwan, which is 3% of the size of SA, immediately comes to mind

To benefit from 1992, SA companies need to target specific markets and establish a base in one of the European community countries. Once a business is established in one country, the goods it manufactures may be exported to others

Timeous corporate planning is important. A European identity should be acquired inside Europe. Recommended procedures are to·

- Understand the workings of the Commission of the European Community and related bodies;
- Keep abreast of European community developments,
- Select a professional team of chartered accountants, legal advisors, etc;
- Prepare a corporate strategy plan, including a timetable;
- Ask the question, what happens if your business does nothing?

The SA business community should prepare a Code of Conduct, both for its own regulation and to ensure that the outside world knows where the community stands in relation to matters detailed in the Code.

The Government needs to continue dismantling apartheid and keep Europe informed at ministerial level of what is happening.

Once it has progressed a long way down that road and mutual respect and trust have been established, it should encourage neighbouring states to use the single Europe as a model for this region.

African countries can no longer rely on the consistent support of the USSR and Europe They are steadily being forced back on their own resources and therefore need each other.

Already over 60% of our foreign investments are in Africa and we manufacture over 40% of the continent's exports, although we have only 4% of the population In time SA should become a member of SADCC and therby develop links with the rest of the world through Africa.

Gold averages

Average London PM fix for year to March 2: $412,98 (R1 065,90)

Some scope seen for tax cuts

Star 7/3/90

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By Michael Chester

The SA Chamber of Business (SACB) forecasts that while the 1990 Budget may be relatively strict, there should still be scope for cuts in personal and company tax rates.

SACB economist Keith Lockwood, in a review of business confidence levels, concedes that it would be unrealistic to expect much in the way of sweeping tax reform when the Budget is delivered on March 14.

Holding down the pay increases of public servants to 10 percent, along with various recent statements by cabinet ministers, were clear pointers to a relatively strict budget stance.

"Nevertheless," he adds, "there should be scope for a reduction in tax rates — both corporate and individual — because of the underlying resilience of the South African economy.

"Lower tax rates should also assist to encourage further business activity, thereby resulting in an increase in tax revenue."

But caution has been signalled by the SACB that South Africa must expect the brakes to stay on new big inflows of investment cash from overseas until the political and economic outlook come into sharper focus.

The damper to over-optimism comes with confirmation that the overall level of business confidence in February stayed intact.

With the initial burst of enthusiasm about the release of Mandela counter-balanced by shock waves of talk about ANC nationalisation plans, the chamber's confidence index remained unchanged for the third month in a row.

Mr Lockwood says the JSE saw the start of a recovery from the sharp falls it suffered amid controversy about nationalisation when it became evident that the ANC's economic policy appeared to be flexible and negotiable.

"In many ways," he says, "it is fortuitous that the debate over the future economic system has already got under way and is gaining such prominence.

"The skittish reaction of overseas investors to the various political pronouncementshave served to stress the underlying instability of world financial markets.

"Although the gold price and financial rand tend to insulate South Africa to some extent from developments on other bourses, the JSE remains sensitive to such developments," he says.

● Individual income taxes could bring in over R19 billion in revenue in the 1989/90 fiscal year — R2 billion more than budgeted, it was reported today.

The Finance Ministry had budgeted for a 22,5 percent increase in revenue from personal income tax to R17,1 billion, but as a result of the 20 percent increase in salaries over the period could now receive about R19,1 billion.

When drawing up the Budget last year policy makers had expected salaries and wages to rise in line with the forecast inflation rate of about 15 percent.

The additional inflow is likely to be given back to individual taxpayers to provide relief for fiscal drag, although Finance Minister Barend du Plessis will once again stress the importance of limiting wage increases this year.

Big drop in retail vacancies

There has been a sharp decline in the number of vacancies in Coreprop's retail portfolio over the past three years — 5,15 percent to 2,5 percent.

Chief executive Mr George Skinner says: "Whle there has been a dramatic downward trend in vacancies, rental increases upon renewals or replacement of tenants have continued to grow at close to 35 percent increases on average during the period July last year to January 1989.

"This compares with rises of 28 percent and 31 percent respectively for the preceding two years."

Mr Skinner foresees 1991 as the year of increasing demand for retail space. Many major known projects will be under construction during this time for completion in 1992.

Industry welcomes Sapoa decision on committee

The decision by the South African Property Owners Association (Sapoa) to scrap its Specialist Retail Committee and replace it with the Shopping Centre Committee has been welcomed in the retail business.

The emphasis of the former committee was on the retail side of centres, but the new body's brief will embrace all parties involved in the shopping-centre operation.

Mr George Skinner of Coreprop and Mr Gavin Main, Liberty Life Properties' director of shopping centres, headed a steering committee to set up the new division.

"In creating the new forum for the burgeoning shopping centre industry, we regard interaction with municipalities, town planners, architects and major retailers of the utmost importance," says Mr Skinner.

Other aims of the committee include:

- The promotion of the role of shopping centres in the marketing of consumer goods and services;
- Codes of fair business ethics with retailers and consumers, as well as with Government and public agencies; and
- Encouraging research into the architecture and design of shopping centres and into the development of improved management and maintenance methods.

"It appears that there is also a huge credibility gap between financial institutions, developers and retailers," says Mr Skinner.

Rents 'set to stay ahead of inflation'

Retail rents are expected to outstrip inflation this year, says Mr Grahame Lindop, national leasing director of Anglo American Property Services (Ampros).

"As always," he says, "good locations will stand up to the rental increase."

The property business, though, looks like getting tougher for everyone, and, Mr Lindop believes, new deals will be more difficult to conclude this year.

While Ampros's retail portfolio of 347 835 sq m countrywide is virtually fully let, renewals will be done at the higher levels — particularly in centres which have been revamped.

Johannesburg appears to be lagging behind other major centres in terms of achievable rentals.

"While deals are being concluded at up to R100 a sq m in prime locations in Cape Town and Durban, good Johannesburg locations have some way to go before reaching the same high levels," says Lindop.

"Therefore, rents in Johannesburg are likely to move faster than those in Cape Town and Durban which may have peaked at the top end of the market."

There is unlikely to be any rush of new retail development in the Johannesburg area, mainly because most regions are already saturated.

On the other hand, the needs of black shoppers to the south of the city have not yet been met, so trading conditions in central Johannesburg are expected to remain strong.

"The city's inner core will also continue to be boosted by demand from nearby grey areas and Newtown, once redeveloped, is certain to draw much of its business from residential areas close to the central business district," says Lindop.

Ampros sees big benefits in the revamp of existing retail complexes — a trend which is paying off in higher rents.

(49) (whole page)

Retail property boom is expected

Retail property is heading for a boom on the back of the gathering momentum of urbanisation, which means a golden era for shopping-centre developers.

That's the view of Mr George Skinner, chief executive of Coreprop, which, with a portfolio of 60 retail complexes under its banner, is one of South Africa's largest management companies in the field.

"Harnessing the urbanisation thrust to the benefit of the retail property business, by identifying the opportunities created, can bring new prosperity to the development companies," he says.

Making an interesting comparison in urban build-up, Mr Skinner says the shift to the cities in Europe and North America began in the early 1800s and went on until World War 2.

These countries moved from a 55 percent to an 85 percent urbanisation situation.

In South Africa, since influx control was lifted in 1986, rural blacks have flowed to the cities and the country is now 55 percent urbanised.


George Skinner, chief executive of Coreprop, says there will be big opportunities with the trek to the cities.

"Within 10 to 15 years, I expect the figure to be 85 percent — a tenth of the time it took Europe and America," he says.

"Cities experiencing rapid urbanisation are Johannesburg, Durban and Cape Town.

"Third World people are drawn there because they feel welcome and perceive opportunities. Cities such as Bloemfontein, East London and Pretoria should be encouraging urbanisation."

Mr Skinner foresees areas such as Doornfontein, Ellis Park, Joubert Park and Hillbrow becoming major residential areas, and while Third World shoppers flock to the CBDs, the First World motorised class will flow to the suburbs.

"This is already happening in central Durban," says Mr Skinner.

Looking to the latter half of the decade, the Coreprop chief executive believes housing densities will increase and there will be a shift to non-racialism and class distinction in shopping.

"Even the poorer shopping centres will thrive and require revamping," he says.

Sandton 'needs shot in the arm'

Sandton's rental structure needs a shot in the arm, for at present rent levels in the municipality are three times lower than in comparable business centres overseas.

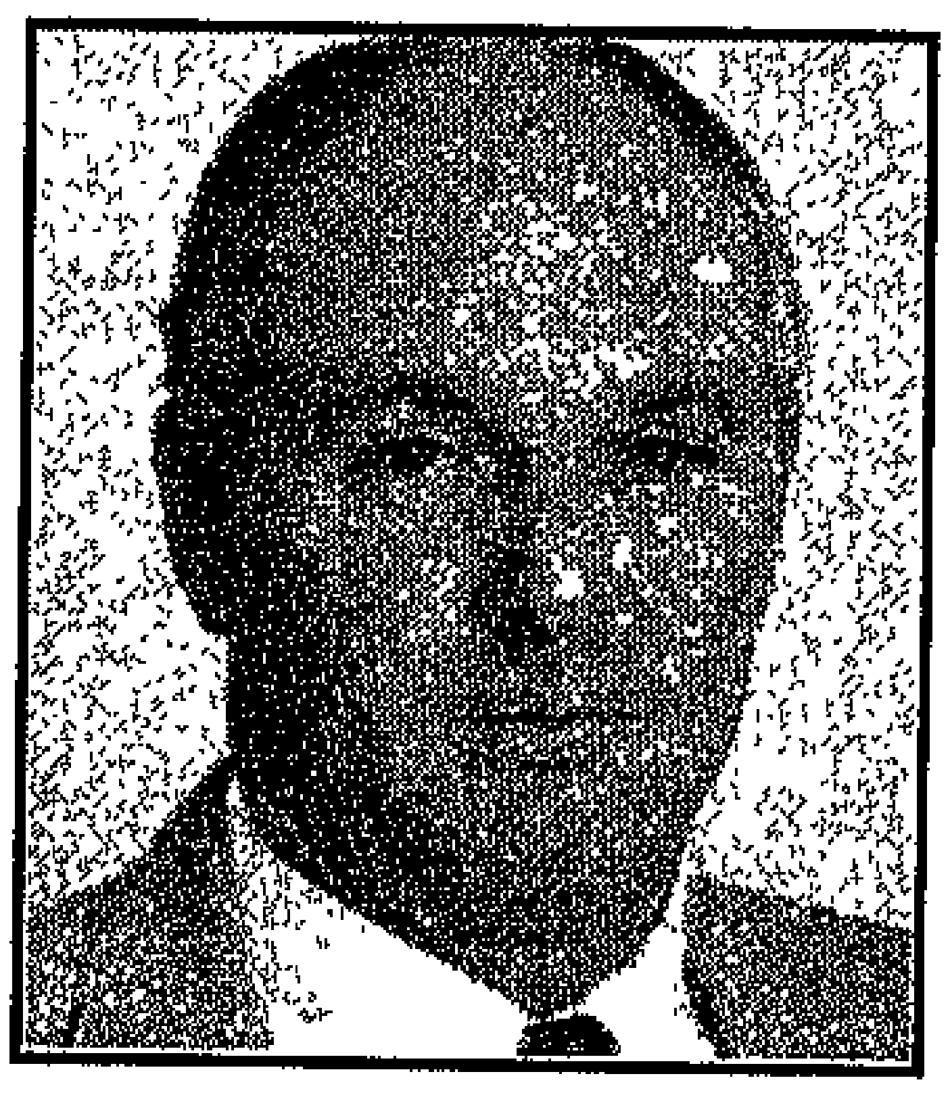
Pointing out that Sandton's rents should be increasing by an additional three percent a year, "at the very least", Mr Jeff Myerson, joint managing director of the Greenfield group, says:

"The effective increase in rentals in Sandton over the past four years has averaged 10 percent a year.

DEPRESSED

"This is because of a number of related factors — such as the high rate of inflation, the depressed state of the economy and a lack of real growth in the economy.

"This is wholly insufficient and rents in the burgeoning muncipality are lagging significantly behind those in similar centres abroad," Mr Myerson says.


Jeff Myerson of Greenfield says Sandton's rents, which, effectively have risen only 10 percent over the past few years, are lagging behind similar areas.

The average escalation of 10 and 12 percent, Mr Myerson believes, needs to grow to at least 15 percent.

Commenting on the retail market, the Greenfield managing director believes that with traders turning more and more to the rural areas of the country, they need to be made more aware of the requirements of a rapidly changing market.

INTEREST

"The siting, design and content of buildings and the structures should blend in with prevailing circumstances, preferences and trends — such as the heightened awareness of the environment.

"A main reason for the greater interest in rural markets is the Government's designation and aggressive marketing of so-called growth points, many of which have excellent potential for the retailer," he says.

Sales indicate rise in demand

The demand for industrial land is hotting up judging by the performance of Randburg-based Bankorp Property Services, which has notched up a total of R20 million in sales over the past two years.

Mr Sakkie de Klerk, Bankorp's general manager of marketing, says the "extremely lively market" is, to some extent, the result of rocketing rentals.

"These rents are approaching high yield expectations," he says, "making it a relatively easy decision for many industrialists to opt for their own developments in which they also enjoy the advantage of capital appreciation down the line."

Another factor has been the noticeable shift from older-style industrial townships to that of industrial parks where a better balance between a productive environment and aesthetic requirements, such as landscaping, can be achieved.

"It is our experience that industrialists do not compromise when it comes to the need for excellence in terms of access, be it roads, freeways, railways along with a strong infrastructure and proximity to labour and markets."

Star performer in the BPS portfolio is Route 24, the industrial township beside the Jan Smuts Highway.

The first phase of 21,5 ha was sold out in record time and business in stage two of 18 ha has been equally brisk.

There is renewed interest for erven in the long-established Alrode area and Bankorp Property Services is planning developments there.


Mr John Whiting, Pangbourne Properties chairman, bullish on the retail sector.

Downturn 'not likely to affect the prime sites'

The expected moderate downturn in general economic activity is unlikely to dampen demand for strategically located retail accommodation in the major areas.

Taking a bullish view of prospects is Mr John Whiting, chairman of Sandton-based Pangbourne Property (Panprop).

"The retail sector of the market will be cushioned against the effects of the downswing by heightened consumer confidence, the Government's perceived inability to smother inflation, heftier public service wage packets and growing trade union bargaining power," he says.

"Prime rentals will probably escalate as retailers clamour for space to take advantage of a perceptible increase in consumer confidence."

Mr Whiting believes that on the back of measures to combat inflation there remains a lack of public confidence in the Government's ability to contain price spirals.

"People, particularly the majority of credit users in the middle income group, are consequently prepared to incur debt by adopting a buy-now policy to counter shrinkage in the rand's future purchasing power."

The effect, too, of strong bargaining power by the black unions has also led to "meaningful wage increases".

High interest rates, it seems, have been no deterrent to purchasing power, for spending last year accounted for about 56 percent of gross domestic product.

● Interim results for Pangbourne for the six months to last December are excellent, with turnover at R12,6 million, up by 8,32 percent on the previous year.

With earnings of combined units recorded at 34,48c each (28,80c) registered unit holders will receive a distribution of 33,66c a unit — 20,12 percent higher than the 1988 interim period.

Star 7/3/90 (49)

Nationalisation early casualty in talks?

The debate over the nationalisation policy of the African National Congress has been characterised by confusion on both sides over the importance the other side attaches to the topic. **KEN VERNON** of The Star's Africa News Service, who has just returned from Lusaka, reports.

Those who have been concerned because they could not understand the African National Congress policy on nationalisation can cheer up — because the truth is the ANC does not have a nationalisation policy.

This remarkable admission was made by the organisation's foreign affairs spokesman, Mr Thabo Mbeki, shortly after the ANC's National Executive Committee meeting last week.

What the organisation has are "guidelines" according to Mr Mbeki.

The foundation for the guidelines devolve back down to the 35-year-old Freedom Charter.

These "guidelines" are not hard enough to be called a "policy" he says — and to judge by the varying statements made on the topic by various ANC leaders in past weeks — not even the guidelines are universally agreed to.

Most of the ideals included in the Freedom Charter are vague enough to be interpreted virtually any way one wants to, with the exception of those pertaining to nationalisation.

The relevant paragraphs read:

"The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people *as a whole*" (my emphasis.)

"*All* other industry and trade shall be *controlled* to assist the well-being of the people" (again my emphasis).

While Mr Mbeki says that nationalisation is not mentioned anywhere in the Freedom Charter (the word "nationalisation" is indeed not mentioned), the above paragraphs unambiguously mean nationalisation.

Compare this to the initial words by Nelson Mandela on the subject in his letter from Victor Verster: "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC, and a change or modification of our views in this regard is inconceivable."

His words are also unambiguous and correlate almost exactly with those in the Freedom Charter.

But privately many leading members of the "new guard" of the ANC dismiss the bogey of nationalisation.

"The reality is that 99 percent of South Africans have nothing that could be nationalised," says Mr Mbeki, implying that they therefore have absolutely nothing to fear from nationalisation.

ic system has been distorted by monopolies and cartels, and that the system has gross inequalities and imbalances that have produced great poverty within the black sector of the population.

"Any democratic government will have to alter the structures inside the economy to create a system that can redress these imbalances.

"The issue is who controls the wealth in order to effect a more equitable system of distribution. The Afrikaners understood this when they used the *helpmekaar* programme to build their power bases such as Sanlam".

Finely balanced

He said nationalisation remained an option of the ANC's in the restructuring of the economy.

"I have been told that the economy is so finely balanced that both nationalisation and increased taxation will derail it and that the only way to effect a re-distribution of wealth is to create more wealth that can then be re-distributed — but I cannot accept this argument."

One of the most influential figures in ANC economic thinking is the leader of the South African Communist Party, Mr Joe Slovo.

His thoughts on nationalisation are instructive.

He says that while strategies may be evolved or negotiated, what must

structuring the economy to meet the needs of the population as a whole, not just a privileged elite.

"I see the mechanism evolving being a multi-sided one, with a private sector, a public sector in addition to the involvement of international capital. We are perfectly aware that when the transformation comes, we will have to bake bread, not just slogans."

To make sense of much of what leading ANC figures say in private conversation it is necessary to read between the lines.

The present initiative of President de Klerk has taken the organisation almost completely unawares, events have moved faster than anyone could have imagined, especially for an organisation such as the ANC dedicated to long-winded theoretical conferences leading to group decisions.

So Mr Mbeki's candid admission is seemingly correct: taken by surprise the ANC does not have an economic policy capable of being trotted out to meet the demands of the media and others worried about the comments of individual members of the organisation.

Secondly, most, if not all, of the ANC's leading economists were trained in the Eastern bloc, and faced with the disintegration of the system they were trained in, they have simply not had the time to come up with a credible alternative.

The result could be that nationalisation could be one of the first topics for debate when any negotiation process finally gets underway

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Govt aims to create wealth - Eli Louw

By MOKGADI PELA

WEALTH creation through sound industrial relations will become the government's major challenge in the 90s, a conference on labour relations was told in Johannesburg yesterday.

In his opening address, the Minister of Manpower, Mr Eli Louw, said the government was faced with the challenge of balancing the interests of the worker, the employer and the economy.

He said when considering any envisaged changes to the economy, the modern tendencies in the world towards a pragmatic market system should be taken into account. Louw said the changes should also be conducive the tackling the problems of high unemployment and inflation.

"Unless there is sufficient inflow of foreign capital, a marked increase in effectivity in the work situation is not going to be achieved," Louw said.

He said anybody advocating for a living wage without agreeing with the preconditions stated did not make allowance for the South African realities.

"We stand on the threshold of momentous constitutional development which will have a vast impact on labour relations."

Louw said if South Africa succeeded in her endeavours, black workers would no longer be in "a political straight jacket."

NEWS FOCUS

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Leave ideology out of economy, urge debate participants

B/Day 7/3/90

GRETA STEYN

AS THE debate on SA's future political economy gets going, prominent participants are urging others to think beyond rigid categories of "socialist" and "capitalist".

Even Finance Minister Barend du Plessis, in a respite from the usual Thatcherite rhetoric, recently told Parliament government had never argued for a "cold, free-enterprise capitalist system". He commended Democratic Party spokesman Harry Schwarz for his suggestion that socialism should be contrasted, not with capitalism, but with the West German social market system.

A prominent voice arguing against a debate clothed in ideological terms is that of Development Bank CE Simon Brand, who notes that the debate so far has been directed towards the conflict between the ideal-type systems of capitalism and socialism.

Alternative

"It is unlikely that a debate at this level is going to resolve anything. Such a debate is fortunately also rather unnecessary," Brand said in response to questions on how the debate should be approached.

He said there was an alternative approach to reacting to the ANC's statements on nationalisation — analytical rather than ideological.

"The useful way to approach the debate on the economic order is rather to concentrate at the analytical and empirical level on developing a common understanding of how the present economic system works, to start by spelling out objectives or ideals which the economic system is expected to achieve, and to identify the discrepancies between expectations and performance and the reasons for them."

Only then could one usefully start discussing ways of addressing those discrepancies, he said.

The outcome of the debate was unlikely to be in favour of nationalisation of existing enterprises. He predicted that the evidence would lead to the conclusion that privately run operations made a more efficient contribution in certain respects, while there is a role for government to play in other respects.

"In considering these respective roles, it would be relevant to note that the public sector already plays a highly prominent role in the SA economy, accounting for close to 40% of the economic activity in the country."

He believed it would become apparent that it would not be desirable to enlarge government's role.

It would be necessary, however, to redirect the application of resources in the public sector.

If concentration of economic power in the private sector were seen as a problem, methods other than nationalisation could be debated. These included competition policy, exchange control policies and stabilisation policies.

"By conducting the debate in these terms it can once again be kept from drifting towards the ideological level, where it is unlikely to be resolved."

The debate on economic issues would also have to focus on the converse of nationalisation — privatisation. Brand noted the "deep suspicion" in ANC and MDM circles, and in the black community at large, over the issue. He described as "understandable" their concern that their inability to buy into privatised entities would further entrench existing inequalities in the distribution of ownership.

This concern could be addressed by using the proceeds of privatisation to address backlogs in infrastructure, facilities, and services — without permanently raising the share of the public sector in the economy.

On the issue of redistribution of land, Brand believed a number of other factors should receive attention before the debate focused on forced transfers of land. These included the Land Act, the Subdivision of Land Act, the role of the Land Bank and the importance of underpinning a land reform programme through more equal access to agricultural support services.

Adapt

"By concentrating on these matters specifically with a view to achieving more equal access to land, while at the same time ensuring its productive use, it is likely again to turn out that an expropriation approach has little to contribute."

It was futile to hope that the economic issues raised by the political developments of the time would go away. Markets would have to learn to live with and adapt to the uncertainties lying ahead. In the past, thinking about these issues had taken place in different compartments — with little interaction.

"A more open debate on these matters could yield a consensus over a wide range of issues that would not necessarily have shattering implications for viewpoints already well established in both camps."

Taking a new road towards financial self-sufficiency

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ROBERT GENTLE

B/Day 7/3/90

A NEW financial development has arrived in SA with the potential to shrink balance sheets, improve financial returns, release idle capital and use the billion-rand cashflows of institutions for black uplifment.

It is known as securitisation, and, says Discount House of SA manager Julian Knopf, is possibly the most important development in the SA financial markets.

Its arrival is all the more timely in that it offers the private sector the chance to throw the nationalisation argument back at the ANC and prove that market-based solutions to structural imbalances are possible.

Securitisation is defined as the repackaging of a given amount of a company's assets into liquid securities. The resulting securities are then marketed like any other commercial paper.

As an illustrative example, United Building Society (UBS) last month completed the securitisation of R250m of its mortgage portfolio (an asset on its balance sheet) by selling it to another company, Morgtage Securities 101.

MS 101 issued R250m of debentures against the mortgages and listed them on the JSE. The resulting mortage-backed debentures were picked up by investors, mostly prominent life institutions. The cashflows from the monthly mortgage payments (that UBS continues to service even though it no longer owns them) serve to provide regular interest payments to the holders of the debentures.

UBS thus simultaneously shifted R250m of assets off its balance sheet and received a R250m cash injection to invest as it pleased (the money will help fund housing).

On UBS's balance sheet, the capital/asset ratio improved, the asset mix changed, idle capital held to cover the risk on the R250m exposure was freed and the interest rate risk on the mortgages was transferred to the market. At one stroke, UBS had R250m it did not have before, the life companies had in their portfolios low-risk, interest-yielding paper they did not have before, and South Africans obtained access to loan capital no one may have been willing to lend them before.

Ignoring the cut everyone took along the way (nothing is free), cash-flush institutions are effectively making money available that otherwise might simply have ended up in the JSE or government bonds.

Rand Merchant Bank (RMB) group economist Rudolph Gouws clearly sensed the political importance of securitisation when he opened a seminar on the subject at the Reserve Bank last week.

"The financial markets should prove that they are capable of providing market-based answers for problems others believe can only be solved by the state," he said.

"The Freedom Charter states 'there shall be houses'. While adequate and affordable housing is a goal we can all identify with, it is unfortunately not one to be reached by decree. The evidence that has recently come to light about the hopelessly inadequate and low standard of mass housing in Eastern European countries, in comparison with that in Western Europe, makes this point very clear."

Gouws went on to praise government for reducing prescribed asset requirements rather than yielding to pressure for new requirements that would have forced institutional investors to invest in housing.

Indeed, it is this abolishing of prescribeds that may well increase the attractiveness of securitisation issues as cash-flush institutions seek alternatives to government paper.

With more privatisation on the way and an expected decrease in government funding requirements, there will soon be a dearth of government paper anyway, a point made by a senior portfolio manager from a large Cape-based institution. "We are very serious about securitisation. I think any institution that ignores it is foolish."

The bottom line for institutional investors, he adds, is low risk and decent returns, both of which largely apply to securitised paper.

Echoing this view is an investment GM from another Cape-based institution. "If it was junk bond debt, investors wouldn't touch it with a barge pole. But mortgage debt is low risk," he says.

So indeed, is a lot of the debt tied up on the books of SA commercial banks — credit card debt, car instalment loans, commercial leases. The consistency with which it is repaid is clearly marketable.

"Virtually anything that isn't nailed to the floor can be securitised so long as you have good loan underwriting policies and procedures, as well as strong borrowers," says Lona Wattenberg, US securitisation expert from KPMG Peat Marwick.

A number of SA banks say they are now seriously considering securitising some of the debt they have on their books, a move that could raise millions for fresh investment without a single rights issue.

"We should not close our eyes to this possibility," says a spokesman from Nedfin, which, like Stannic and Wesbank, has huge instalment and leasing portfolios.

First National Bank (FNB) GM Corporate Banking Johan Meiring says: "Within the next year or two, most banks will have entered the securitisation market."

Nudging them in this direction, he reasons, will be the higher capital adequacy requirements likely to result from the legislation that will supersede the Banks Act and the Building Societies Act.

The present approximate figure of 5% will probably rise to 8%, he estimates, meaning that more capital will have to be tied up in covering credit card debt, car loans and the like. Securitisation would automatically free that idle capital.

Eventually, he adds, one could even see the securitisation of retail credit from stores like Edgars, Russells and Morkels, which face similar financing problems to banks.

Meiring cautions, however, that a successful securitisation issue hinges around factors from inflation and money supply to prevailing interest rates, and should be carefully debated within an organisation. Another problem is that excessive securitisation can erode a company's better class assets.

Either way, the SA financial market, having already embraced futures and options, appears set to meet yet another challenge on the road to financial self-sufficiency.

Focus ‘must shift’ to restructured economy

(49)

BDay 7/3/90

ADELE BALETA

THE Saccola, Cosatu and Nactu forum was a good one for starting negotiations or exploratory discussions on restructuring the economy, National Union of Metalworkers of SA (Numsa) engineering secretary Bernie Fanaroff said yesterday.

He was addressing a labour conference organised by the Institute of Personnel Management and the SA Chamber of Business in Johannesburg on The Challenge of the 1990s: Creating Wealth through Good Industrial Relations.

Fanaroff said negotiations on the Labour Relations Act should be completed as soon as possible and the important issue of restructuring should begin.

Government's solution to the economic crisis — deregulation, privatisation, rationalisation, retrenchment and increased labour flexibility — did not stand up to scientific scrutiny and would not solve the problems, he said.

It was "wishful thinking" to believe there would be a flood of aid for a post-apartheid SA as Western nations and banks were preoccupied with Eastern Europe were there was a highly trained, educated and relatively docile workforce, a substantial infrastructure and a potentially large market, Fanaroff said.

He said the only way to make a transition from a protected low wage, high cost economy into a high wage, low cost economy was through planning.

Many trade unionists were committed to socialist principles which included social ownership of the production means and planning of the economy.

The ecomomy could not be transformed without full democracy and openness at all levels of society. There was a need for economic incentives for some period and market forces had a crucial role to play, Fanaroff said.

Resources diverted to provide housing, hospitals and education could not come solely from tax.

A fundamental change in management's attitude was needed.

In his opening address, Manpower Minister Eli Louw said more workers downed tools and more working days were lost through strikes last year than in 1988 in spite of a 16% drop in the number of strikes.

Business is urged to negotiate new economic deal

B|Day 7|3|90

(49)

LESLEY LAMBERT

CAPE TOWN — SA businessmen were urged yesterday by Pick 'n Pay chairman Raymond Ackerman to negotiate a new package with government to ensure that redistribution of wealth was achieved without damage to the economy.

Speaking at a Cape Times/Seeff Property Organisation breakfast meeting, Ackerman said a free market economy was the only way of achieving the growth needed to begin fulfilling the aspirations of most South Africans.

He said economic growth of about 7% a year would, for example, achieve 100% growth in wealth creation in SA over 10 years, he said.

Ackerman presented a four-point plan which he felt would help to bring about more equality in the workplace. Besides promoting on merit and establishing employee share schemes, businessmen could negotiate with government for better housing, education and social conditions for their employees.

His plan also included persuading black leaders to apply moderation in economic decision-making and encouraging international countries to review sanctions policies.

"Nationalisation will not happen as long as we South African businessmen make our contribution to a stronger more equitable economy," he said.

Ackerman said Pick 'n Pay had invested between R60m and R70m in housing schemes and education and expanded the membership of its employee share scheme from 2 000 to about 9 000 last year.

It had also started buying some of its produce from small businesses and the informal sector.

Ackerman said that in discussions with President F W De Klerk he had recommended the diversion of more funds into black housing, education and social upliftment and had encouraged the board of a US food company, which had recently visited SA, to recommend a review of US sanctions legislation.

Meanwhile, Sapa reports from London that an SA diplomat told Eton College's Political Society that removing or hampering the free enterprise system in SA now would soon lead to a repetition of the economic and social catastrophes of Eastern Europe.

Minister at the SA Embassy in London Justus de Goede said in his address, released by the embassy, that nationalisation of SA's mines would lead inevitably to investment in this sector being cut off.

It would also erase a third of the market capitalisation value on the JSE.

He said up to six million people from neighbouring states depended on the SA economy.

He said that SA, under whatever dispensation, would have to provide the moving force for regional economic survival.

Split puts De Beers above the dangers of nationalisation

B/Day
8/3/90

(49)

ROBERT GENTLE

THE De Beers restructuring has done more than confirm that the bulk of its assets are abroad. By formalising its foreign holdings into the Swiss-based company Centenary, the conglomerate will be virtually nationalisation-proof.

What was previously a de facto situation, given the international scope of De Beers operations — 80% of its attributable earnings are generated abroad — will become de jure if, as expected, the proposal is ratified.

Nelson Mandela has repeated the ANC policy of nationalising mines, banks and "monopoly industries". That may or may not be modified, but if an ANC-controlled government nationalised the new De Beers, it would get precious little.

This week De Beers announced attributable profit for the year to December 1989 rose 37% to R2,87bn. Had the new set-up been in operation, only R579m would have accrued to De Beers in SA.

Simpson McKie mining analyst Rodney Yaldwin, working on the R90 share price De Beers reached yesterday, says a mere 15% of its R34bn market capitalisation now officially remains in SA.

This translates into the SA elements of the Central Selling Organisation (CSO), the diamond research laboratory, investments in Anglo American companies and the local diamond mines.

● OGILVIE THOMPSON

These are the Kimberley, Koffiefontein, Finsch, Namaqualand and Premier mines, which in 1988 only brought in 8-billion (one third) of the 24-billion carats of De Beers production — a proportion that has been decreasing over the past few years.

This spells an ever smaller proportion of diamond revenue coming into the SA portion of De Beers. The heart of the CSO marketing arm in London will hold the diamonds, and the added value profits will accrue to Centenary in Switzerland.

So will the other two-thirds of De Beers' current diamond production, from Consolidated Diamond Mines (CDM) in Namibia and Debswana mines in Botswana. The bulk of De Beers diamond production, mined just across the SA border, might as well be coming out of the ground in Switzerland.

Nevertheless, De Beers' chairman Julian Ogilvie Thompson said at the Press conference confirming the restructuring that it had nothing to do with recent political developments.

Ogilvie Thompson evaded repeated attempts to pin down just when the idea to hive off foreign interests was formulated ("When does an idea start?"). He eventually said, "Sometime last year."

In Britain the move was almost unanimously viewed as "political insurance" against possible nationalisation. The Financial Times Lex column said: "However much De Beers may protest that the move is nothing to do with the ANC, it will make the task of avoiding the threat of state control that much easier."

Observers both here and abroad also spoke of what they saw as the fragility of the "stapled" De Beers/Centenary units which will now trade on world stock exchanges in place of the orginal De Beers shares.

"All that is needed is one board meeting to have those shares unstapled if the nationalisation threat becomes real," says a local mining analyst.

In that scenario, he says, Centenary would float off into international waters, far from the reaches of any nationalising government. Like Rembrandt's separate Swiss-based company Richemont, it would lead a life of its own, no longer under any SA shadow and more able to integrate itself into the world economy.

For the moment the staple remains, and De Beers and Centenary trade as one share. But [illegible] lesson of the nationalisation of Anglo American's copper mines in Zambia appears to have been learned.

Sensing the fragility of staples, The Times says: "Even without nationalisation, we can expect the two companies to drift apart over the years as the staple rusts away."

The other point that has not been lost on investors is that while the separation of local and off-shore interests makes the relative importance of De Beers' local and foreign activities that much clearer, it also serves the convenient purpose of clearly crystallising the conglomerate's nationalisation element.

The stapled unit is effectively saying that barely a fifth of De Beers is able to be nationalised. A major potential element of uncertainty is therefore removed.

Just as companies being courted by predators have in their share price a bid element over and above their fair market value, the new De Beers Centenary unit should have a fluctuating "nationalisation element" that will wax and wane according to economic pronouncements by Mandela and the ANC.

The Financial Times, echoing the unstapling scenario, says: "Indeed, merchant bankers may even now be beavering away devising schemes to help investors separate their interest in the two shares.

"Even placing apparently undemanding price-attributable earnings ratios of 10 on the overseas interests and five on the SA businesses gives a share price of $27, well above yesterday's $22 London close."

A note of caution comes from Richard Stuart, mining analyst from Martin & Co, who suggests that the international nature of the diamond trade means the restructuring is nowhere near as sinister as might appear.

"Of course the move makes them nationalisation-proof," he says. "The argument must have been there in the back of their minds. But it is also a logical thing to do for purely commmercial reasons."

Either way, the reasons which led Rembrandt to set up Richemont and now De Beers to set up Centenary are likely to concentrate both business and political minds.

● MANDELA

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Slowdown may last to 1991 but strong recovery forecast

NEIL YORKE SMITH

ECONOMIC slowdown in SA could extend well into 1991, but afterwards SA may face its longest and strongest economic recovery in more than 20 years, according to TrustBank's latest economic report.

With reduced inflation, lower interest rates, healthier foreign reserves and an improved foreign debt position, SA should be ideally placed to enter a renewed economic upswing in 1992.

Risk factors like political and foreign economic developments, the international economy and risks inherent in domestic economic policy, could change the picture, the report confirmed.

SA's financial situation had begun improving from the end of 1989, boosted by positive developments like a lower dollar and higher gold price, as well as by cuts in domestic spending and imports.

Foreign reserves improvements indicated SA was spending within its financial means for the first time in two years, the report said, reducing potential for inflation "as evidenced by the stronger rand exchange rate, the declining rate of increase in import prices and the recently lower trend in the producer price inflation rate".

These developments were "merely the beginning of a protracted period of improvement in SA's financial environment", while continued economic slowdown during the next 18 months implied import declines and a widening surplus on the current account of the balance of payments (BoP), it said.

Barring an unexpected drop in the gold price the current account surplus should exceed R7bn this year and approach R9bn next year, it said, to exceed net foreign debt repayments.

Resultant net BoP surpluses and rising foreign reserves would keep the rand exchange rate stable and precede declining inflation and interest rates.

Lower rates were expected to commence around mid-1990 and continue throughout 1991, it said.

The consumer price inflation rate was expected to fall to 13% by the fourth quarter of 1990 and reach 10% by the end of 1991, the report said. This would be accompanied by increased foreign reserves which would widen scope for for lower interest rates.

"We foresee the prime rate declining to about 19% by December and about 16% by December 1991," the report added.

The report emphasised risks were prevalent in the above scenario.

Rising unemployment was likely to accompany the 1990/1991 downturn, it said, which could result in renewed unrest and violence, with negative economic effects.

There was also risk of renewed deterioration of international financial trends, especially a stronger US dollar and a lower gold price.

This was unlikely as the US economy was set for a period of low growth.

The dollar was expected to remain weak for most of 1990.

Poverty key to wealth debate

BDay 8/3/90

(49)

SAM VAN COLLER

WEALTH creation is a complex process in which natural resources, government, public and private-sector institutions, entrepreneurs, workers and consumers together with a host of international factors interact to generate income at a level which allows for a surplus after consumption needs have been met.

That surplus is then used so as to generate further income or benefits.

Long-term insurance policies have become major instruments for the ownership of wealth. Their annual rate of increase is also significant.

These are instruments through which the man/woman in the street is steadily increasing his/her share of the ownership of SA.

Pension fund and long-term insurance growth is particularly noteworthy. Perusal of McGregor's Who Owns Whom will indicate the extent to which the major industrial pension funds in the mining and metal industries have become important shareholders in SA's major companies.

The real problem lies in wealth distribution. Because of our historical policies of trying to structure SA along racial lines and thus exclude blacks from the mainstream of economic activity, we have a severe distortion in wealth distribution.

We must, however, be careful not to draw the line along colour lines; we have a more complex income distribution pattern.

It has been customary to describe developing countries as having dual economies comprising the formal and informal sectors. There is a third sector, comprising those who are not yet even in the informal sector — the large numbers of unemployed and unemployables. In a sense this sector could be described as the "non-economy". The classification into formal and informal conveys a picture of two vibrant but different economies. This is not so.

There is an important distinction between the formal sector and the other two for the purpose of this analysis. In the formal sector there is a framework within which employers and employees, represented through trade unions, can in the collective bargaining process make important choices that will determine the rate of wealth in that sector.

They can embark on joint strategies to increase income; in their annual negotiations determine how income is to be distributed; agree on the proportion of income that is not to be consumed and how that surplus is to be turned into wealth which creates further income or benefits.

Those in the informal and "non-economies" have no such framework. Their need is access to economic activity as evidenced by the extent to which they very often have to break the law to achieve it.

While there clearly is a challenge facing the formal sector to create more wealth, the real challenge for the country as a whole is how to enable (or empower) a very large proportion of our population to climb out of poverty — otherwise our society will be bedevilled by instability and conflict, not between white and black but among have-nots and between haves and have-nots.

We must reach a political resolution as there is not much likelihood of economic growth and wealth creation without it.

At the next level is the question of appropriate policies for the country's economic needs. The emphasis in economic policy today is on reducing the role of government, promoting the market and free enterprise, privatisation and deregulation to foster the informal sector.

These policies may be sound in principle but new policies which target on the consequences of wrong past policies are necessary.

The consequences can be seen very specifically in the crisis facing SA cities in the areas of housing, education, health care, local government and service provision. This environment has a negative impact on workers with jobs in the formal sector and obstructs efforts to launch development programmes to overcome deprivation in our metropolitan area.

How best can we address the issue of poverty? It is not my intention to enter the nationalisation debate. There is going to be an intense debate about issues such as control, ownership, role of the market, regulation, taxation and profit levels.

Because of the uneven distribution of wealth, there will be a tug of war between those seeking to create more wealth so that sufficient surplus can be generated to meet the country's social needs and those who wish to extract the maximum surplus out of current levels of income either through taxation or nationalisation for the same purpose due to the situation's urgency.

Hopefully out of this process the political economy that emerges will be able to compete internationally, generate surpluses and thus grow.

Within the Urban Foundation some understanding is developing from our experience and analysis of the key components of a viable strategy to address the issue of poverty.

Poverty is not peripheral to the country's economic problems. It is central. Without progress on this issue, conflict and instability will continue to undermine our efforts.

There may be a feeling that in reality the needs of those on the outside looking in are not the concern of the formal business sector. Failure to find the road out of poverty will stand in the way of wealth-creation in the society as a whole.

☐ Van Coller is CE of the Urban Foundation. This is an excerpt from his address to the Challenge of the 1990s conference in Johannesburg yesterday.

LETTERS

BOTTLENECKS IN THE ECONOMY

Major problem is commitment to repay massive foreign debts

SOWETAN

OLD MUTUAL

BUDGET '90

The new S.A

SOUTH AFRICA is, according to various norms and yardsticks, a developing nation, falling within the same category, namely "upper-middle-income", as countries such as Uruguay and Venezuela.

As such, the local socio-economic scene is one that is plagued by double-digit inflation, high levels of employment illiteracy, relatively low economic growth and rapid population growth, to mention a few.

* * *

These kind of problems can be termed "structural", that is to say they are of a long-term nature and deeply embedded in the economic system.

But, in addition to these South Africa is also confronted by a number of short-term, or cyclical, bottlenecks, the major one probably being our commitment to repay large amounts of foreign debt annually since 1985. Why does this present a problem?

It became clear at the end of August 1985 that overseas creditors were no longer prepared to roll over (that is, permit the postponement of repayment) debt arising before that date.

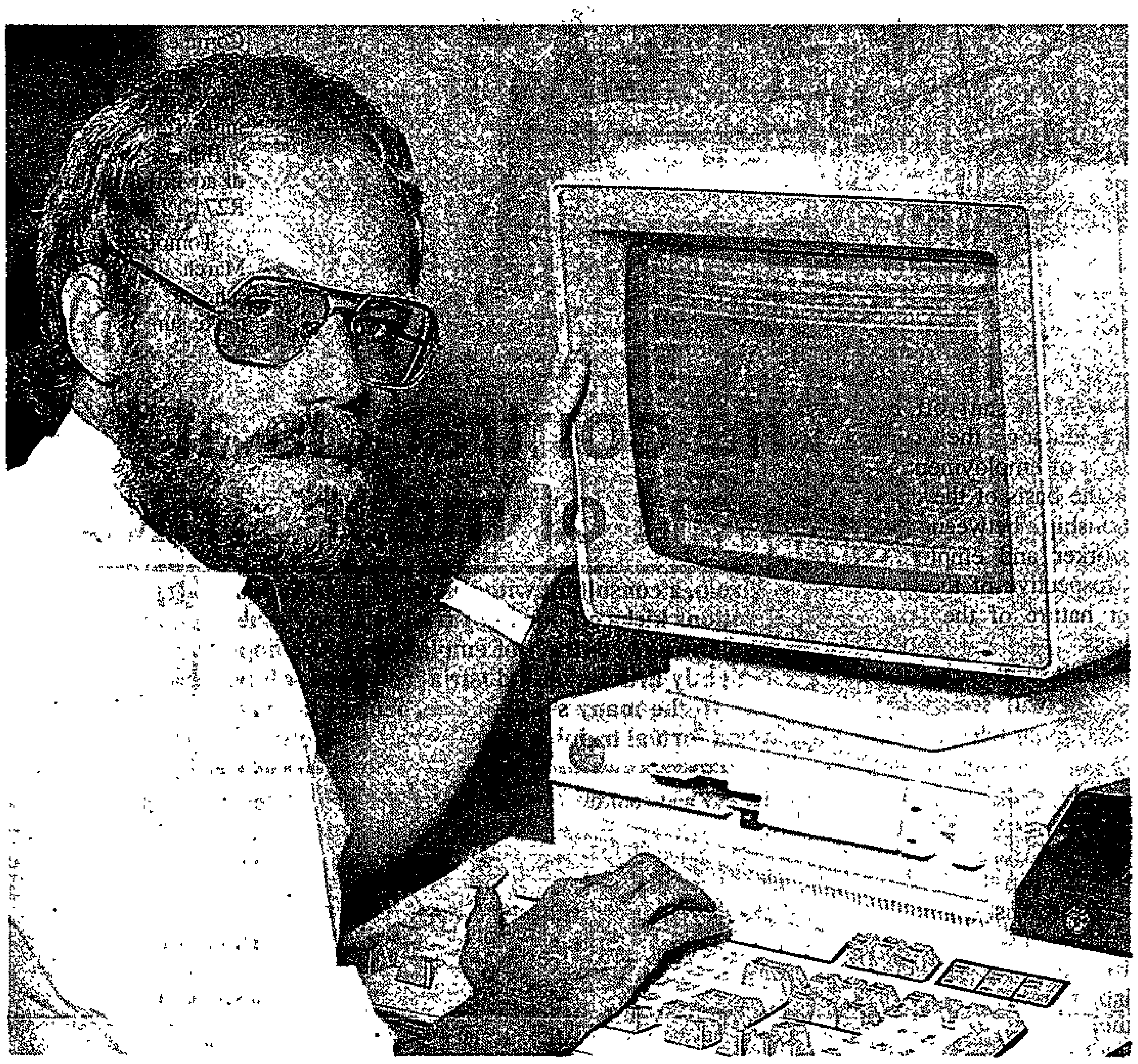
* * *

The potentially massive outflow of capital that would have occurred resulted in the authorities' decision to regulate the payment of certain foreign liabilities existing at the time.

Nevertheless, since 1985 repayments in excess of $6,0bn (approximately R15,0bn) have been made to foreign creditors.

In effect, therefore, South Africa has been exporting its scarcest resource, namely capital - an intolerable situation for a developing nation that is reliant upon capital for investment, economic growth and the creation of new job opportunities.

Without adequate investment in roads, bridges, machinery and schools, the economy is not able to grow fast enough to create sufficient jobs for all unemployed. The foreign debt contraint places a lid on economic growth in another way as well.



Old Mutual Economist ANDRE ROUX analyses the economy

Consistent capital outflows require consistent foreign trade surpluses (that is, export revenue must exceed payment for imports). To a large degree the size of our export revenue is determined by decisions made by foreign importers of our goods. Although South African exports have benefitted from growth in our major trading partners over the past few years, as well as the weak exchange rate of the rand, this improvement was not sufficient to generate the required surplus.

* * *

As a result, a tight economic policy (in form of high interest rates, for example) had to be maintained in order to dampen the domestic demand for imported goods

Consequently, consumer spending on goods and services has risen by only about two percent per year since, which is less than population growth. This means that, on average, each individual is buying fewer and fewer goods and services every year.

* * *

International growth is expected to slow down over the next year or so, while the rand could remain fairly stable. Meanwhile, however, foreign debt repayments will remain high (it is too early at this stage to base economic policy decisions on the possibility that recent economic developments will result in a significant improvement in our foreign debt situation).

This means the economic policy will have to remain strict in order to curb the local demand for imports. In turn, this implies that economic growth will continue to lower than the population growth rate.

> 'If our inflation rate exceeds that of our trading partners then the Rand tends to depreciate against other currencies like the US dollar and the Deutsche Mark'

Clearly then, all South Africans have paid a high price for financial sanctions in the form of low growth, high unemployment and growing poverty.

A second major cyclical problem in our economy is inflation. But how is inflation measured, what causes inflation, and how does it affect the individual?

The most commonly used method of measuring inflation is via the consumer price index (CPI). This method entails comparing the cost of a representative basket of goods and services in one period to the cost of the same basket in a previous period and calculating the percentage change over the period in the price of the basket.

Assume, for example, that a basket of goods cost R100 in February 1989 and that an identical basket cost R115 in February 1990. The cost of the basket has therfore risen by 15 percent, that is to say the rate of inflation is 15 percent.

* * *

Of course, the typical basket of goods and services that you buy every month may differ considerably from the basket used for official purposes. Consequently, your inflation rate may differ from the officially quoted inflation rate.

Be that as it may, the inflationary bias in the South African economy remains high and has been high for more that fifteen years. Why?

Continued and high inflation in South Africa can be attributed to a wide range of factors, including a population that is growing at a faster rate than other factors of production, the large pool of unskilled labour which contributes to low and generally falling productivity, often excessive growth of the money supply (stimulated at times by too low interest rates), the long-term depreciation of the Rand, unproductive form of government spending and, at times, trade union demands for wage increases in excess of the rate of increase in prices.

What effect does inflation have on the man-in-the-street? The first and most fundamental impact of inflation is the monthly erosion of the consumer's purchasing power, that is his ability to buy goods and services with a given level of income.

In addition, regular and seemingly unavoidable price rises reduce the consumer's resistance to further rises, and lead to uncertaintly and even despair. In a broader sense, inflation effectively results in a redistribution of wealth.

For example, debtors benefit from inflation, while creditors and holders of financial assets experience an effective loss of economic power. Medium - and high-income taxpayers also suffer as inflation places them in higher tax brackets which, in our progressive tax system, means that their tax commitments increase by a greater proportion than their income.

Finally, if our inflation rate exceeds that of our trading partners then the Rand tends to depreciate against other currencies such as the the US dollar and the Deutsche Mark.

The issues and bottlenecks mentioned in the brief review above are among those addressed by various authorities in the formulation of economic policy. In the next pararagraphs the goals and nature of economic policy-making will be briefly discussed.

Watch out for our Sowetan/ Old Mutual budget report next Thursday

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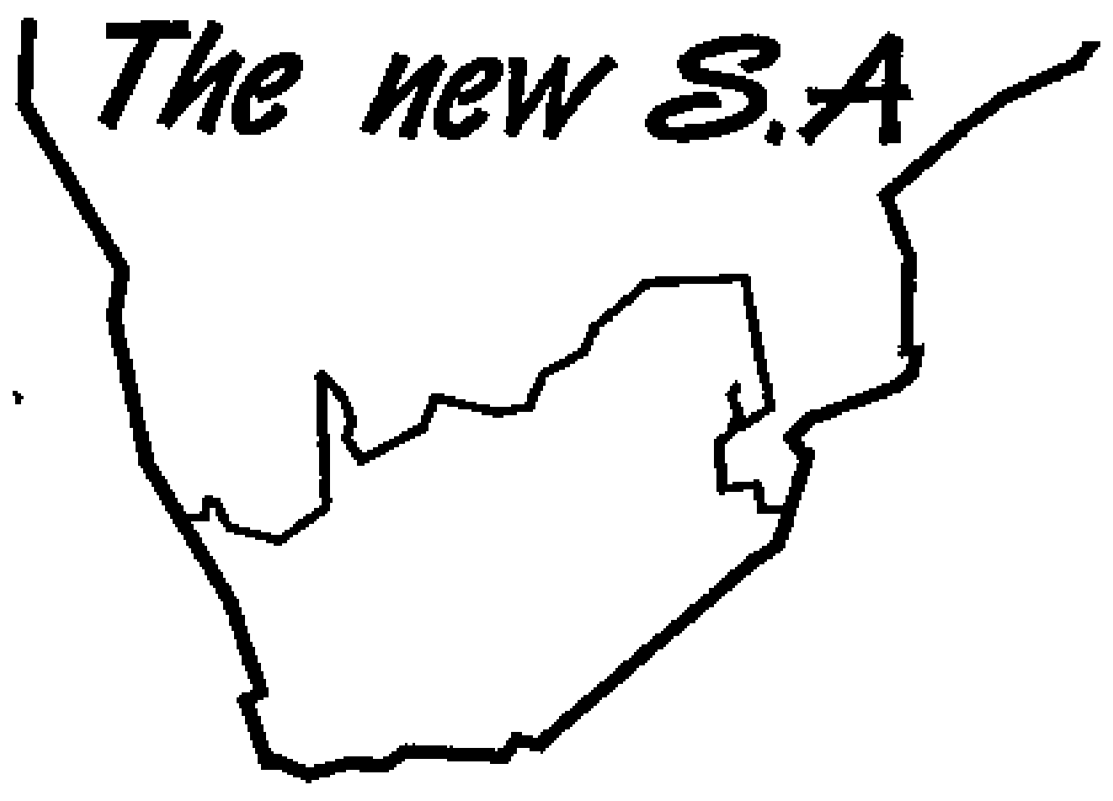
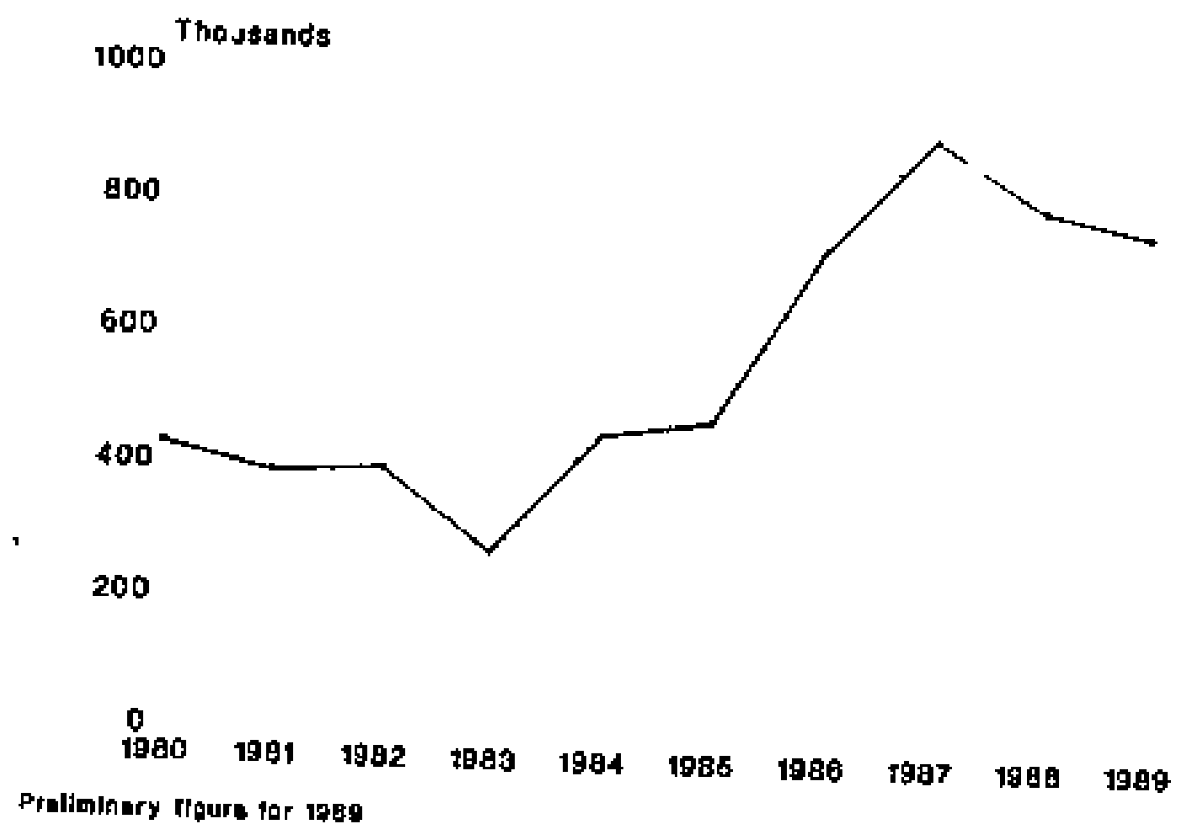
SOWETAN
Building the Nation

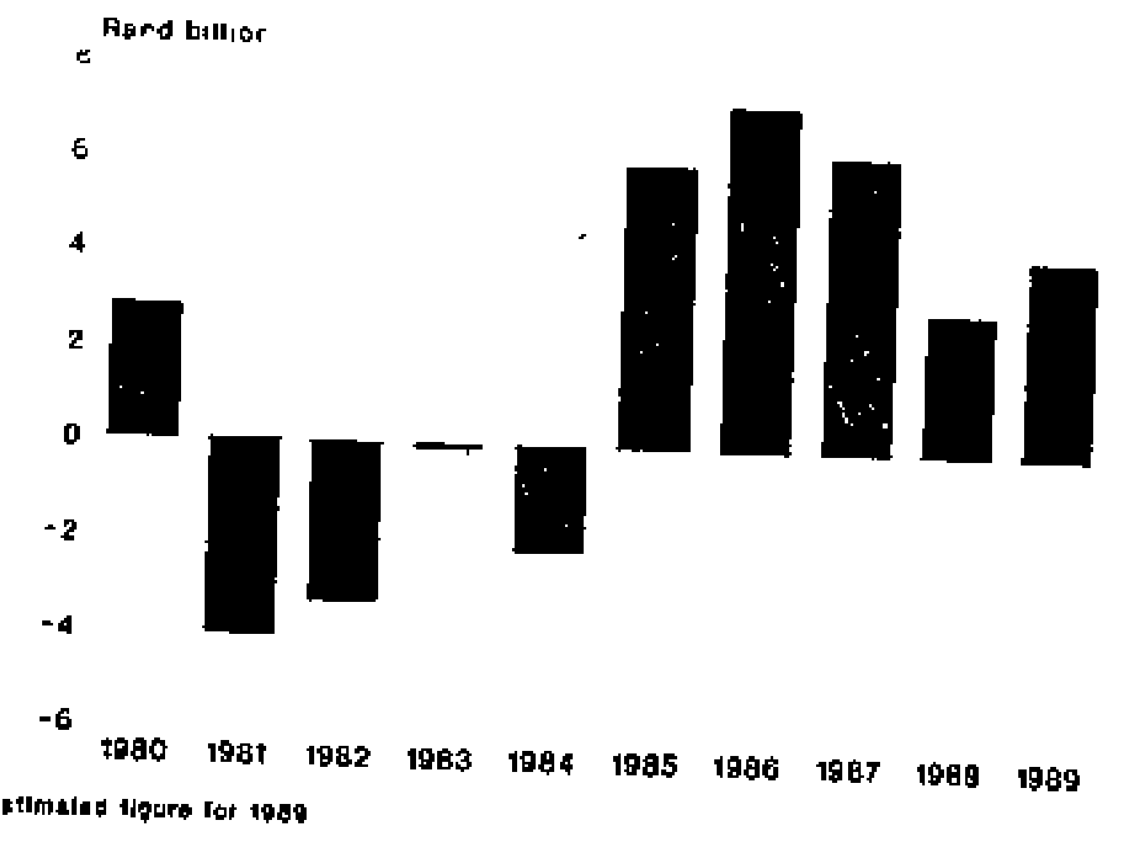
OLD MUTUAL

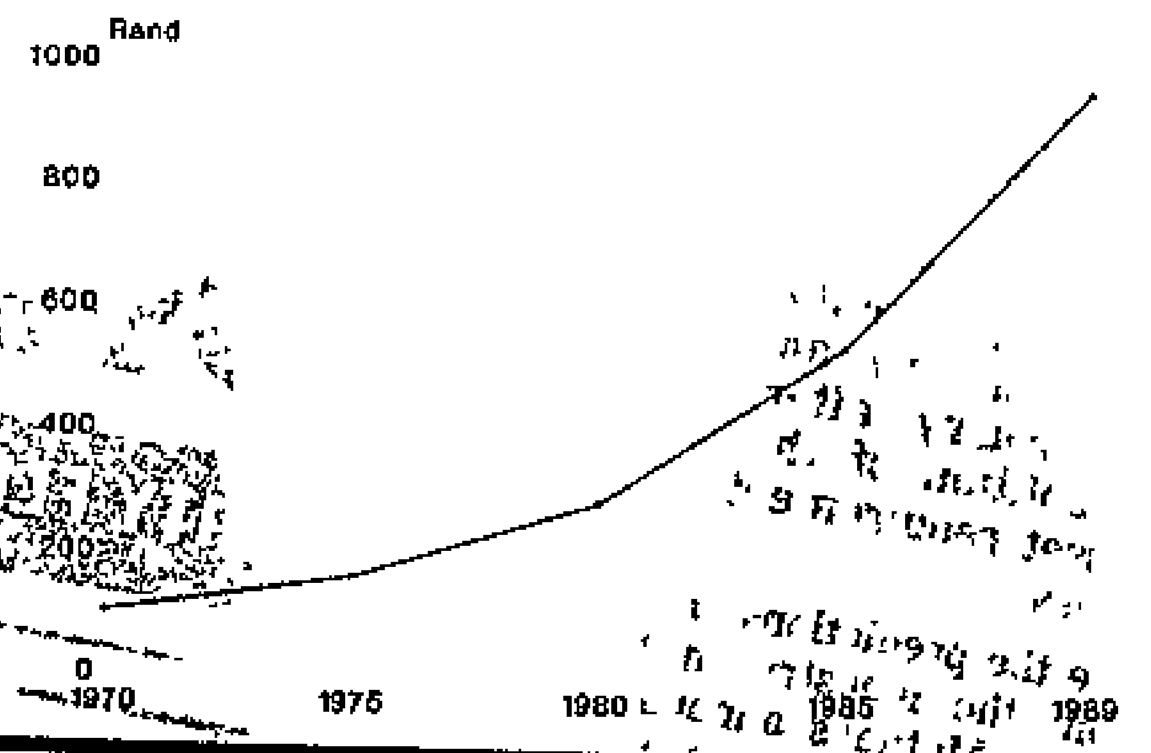
BUDGET '90

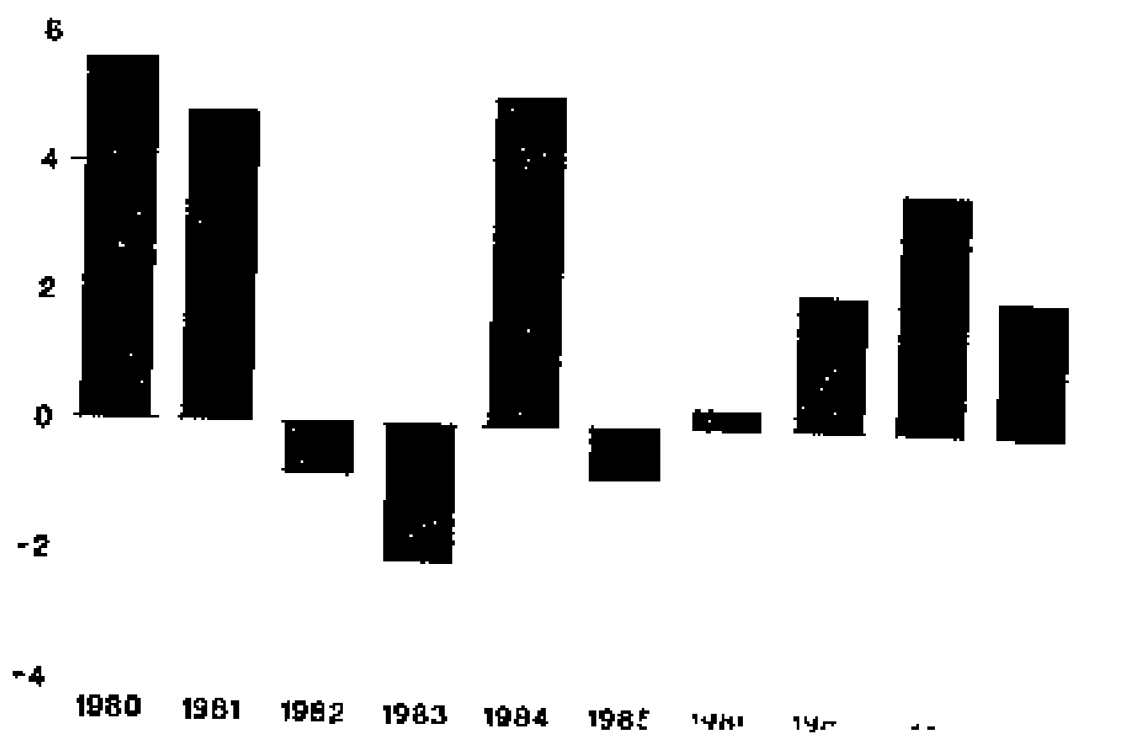


What to look for in the Budget


BLACK UNEMPLOYMENT


CURRENT ACCOUNT BALANCE


COST OF SAME BASKET OF GOODS IN VARIOUS YEARS


REAL ECONOMIC GROWTH
ANNUAL PERCENTAGE CHANGE IN REAL GDP

The four basic issues ... inflation, balance of payments stability, unemployment and economic growth

WITH the Minister of Finance giving his budget speech next Thursday what must we look for?

Economic policy attempts to look at four fundamental issues: inflation, balance of payments stability, unemployment and inadequate economic growth.

On a broad base the Budget addresses these four goals to some extent. However, depending on circumstances, one or more of the goals may be highlighted to the detriment of the others.

For example, if the overall level of domestic economic activity is too low and unemployment too high, the Budget could attempt to stimulate the economy by raising its level of spending significantly, whilst leaving the tax burden unchanged.

In this case the Budget would be labelled "expansionary', and it could very well result in higher inflation and, because of higher spending, a smaller balance of payments surplus.

If, on the other hand, the economy is growing too rapidly with resultant inflationary pressures and low current account surpluses (or even deficits), one would expect a restrictive Budget, i.e. a relatively low increase in government spending and tax rises.

This would probably lead to a slowdown in economic activity, accompanied by growing unemployment

If proposed government spending and tax revenue in a particular Budget is of such a nature that overall spending in the economy is left relatively unchanged, that Budget would be termed "neutral".

But a Budget speech is not only important from a broad policy point of view. The Budget also has implications for virtually every individual and business enterprise in the economy.

There are numerous examples in this regard, including subsidies to specific industries (eg agriculture): capital spending on infra-structure, such as roads and hospitals; spending on education and social pensions.

On the tax side, the Minister may make important announcements such as a change in the GST rate, the separate taxation of married couples, or raising of the individual's amount of income that is not subject to tax.

In his 1989 Budget speech the Minister highlighted the need to curb the domestic demand for goods and services in order to maintain a healthy surplus on the balance of payments (needed to repay foreign debt).

In accordance with this objective the speech contained a number of restrictive elements, the main one being the one percent increase in GST which served to reduce the consumer spending power of all members of the population.

In addition, the phasing in of all benefits taxes continued. On the whole, the tax burden shifted more towards the individual in the Budget, reflecting the stated goal of the Minister to curtail consumption spending in the effort to check import growth.

The total budgeted revenue growth for 1989/90 was 16 percent.

On the spending side the budgeted increase was 15 percent which was more or less equal to the expected inflation rate. This implied unchanged government spending in real terms.

Another measure of the fiscal stance, the borrowing requirement, was projected to decline moderately to 4,1 percent of GDP from 4,4 percent in the 1988/89 fiscal year.

Figures available for the first nine months, supported by official statements, suggest that the outcome of the 1989/90 budget may be even more restrictive than initially anticipated.

Revenue growth is running at over 20 percent, while expenditure growth may turn out to be only marginally higher than budgeted for. Consequently, the borrowing requirement looks set to be below R7bn, as opposed to a budget R9,9bn.

A brief analysis of the performance of the South African economy over the past year leads to the following observations and conclusions.

(a) Growth and Unemployment: The rate of economic growth slowed down to 2,1 percent. in the 1989 (following 3,7% in 1988) as the tight economic policy stance took effect. A further slowdown is expected in 1990. which could lead to rising unemployment.

(b) Balance of payments : There was a marked improvement on the current account, due mainly to a fall in the demand for imported goods. However, the surplus will have to remain very large as foreign debt repayments could be in excess of R6,0bn in 1990.

(c) Inflation: Inflation seems to have peaked (at 15,7% in May 1989) and looks set to moderate over the next few years. However, single-digit inflation seems rather unlikely at this stage. Currently, policymakers see inflation as being "Public Enemy Number One" so policy is expected to remain tight for some time.

Essentially, the economy's short-term need remain unchanged as compared with the last few years. Economic activity must continue to be dampened in order to protect the balance of payments and reduce inflationary pressures. Consequently, the 1990 Budget is expected to be moderately restrictive to neutral as opposed to expansionary.

This implies, on balance, a low increase in government spending and limited tax relief, and consequently a fairly small borrowing requirement.

However, there are a number of areas of a micro-economic nature that require urgent attention.

For example, considerable more funds need to be sent on education (particularly black education), health, housing and the police, while it would be politically inexpedient not to grant civil service pay-hikes.

Although a significant cut in defence spending has already been announced, the amount saved here will hopefully be reallocated to the areas mentioned above.

On the tax side, the tax burden on the middle-income group is paricularly high so that some form of tax relief is indicated here. In addition, the savings rate in our economy is far too low and needs to be raised.

One way of doing this would be to raise the amount of interest on saving that is tax-free.

Finally, the current GST rate of 13 percent is generally considered to be too high as it leads to tax evasion.

To summarise, this year's Budget speech will be the first read in the "New South Africa". The Minister will not only have to address the short-and-medium-term economic problems facing South Africa, but will also have to take note of and accomodate the aspirations, needs and desires of a large section of the population that is attempting to bridge the gap between Third World and First World status.

Finding the real solutions

(49)

Sowetan 8/3/90

TRADITIONALLY, economic policy aims to find satisfactory solutions to the following bottlenecks, which crop up from time to time in any economic system:

* Inflation
* Balance of payments instability
* Unemployment
* Inadequate economic growth.

The fact that the relative importance of these problems changes over time has a very definite bearing on economic policy.

For example, for most of the period following the onset of the foreign debt crisis in 1985 the main thrust of economic policy was aimed at achieving adequate surpluses on the current account. More recently, the emphasis of policy has shifted towards the curtailment of inflation.


Mr Barend du Plessis.

Policy

A point worth bearing in mind is that the pursuance of one economic goal often has short-term negative effects for another. For instance, a restrictive economic policy stance aimed at combating inflation could, in the short-run, place a lid on economic growth and the capacity to create sufficient new job opportunities.

In the longer run, however, the curtailment of inflationary pressures should create the right climate and environment for sound and stable growth.

Policy-makers have various methods at their disposal which can be used towards the achievement of policy goals.

The two major avenues are fiscal policy and monetary policy. Very briefly, monetary policy refers to actions taken by the monetary authorities (i.e. the SA Reserve Bank) to influence the supply of money and the rate of interest (i.e. the price of money).

A restrictive monetary policy aimed at, say, curbing inflationary pressures and dampening the demand for goods and services, would entail official attempts at slowing growth in the money supply by means of, amongst others, high interest rates, preferably in excess of the inflation rate. (This is the current monetary policy stance).

An expansionary monetary policy to promote economic growth would imply lowering interest rates and permitting the money supply to grow at a faster rate.

Fiscal policy refers to deliberate actions of government to influence the economy by changing the level of government expenditure and/or taxes.

In the event of large-scale unemployment and a low level of economic activity an expansionary fiscal policy will be adopted, i.e. government spending increase and/or tax relief is porvided.

If, on the other hand, demand and inflation are very high a restrictive fiscal policy - lower government expenditure and/or higher taxes - will be employed.

YOUR GUIDE TO THE BUDGET

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8/3/90 Sowetan

How Govts manage your money

IN most economies the government fulfils a dual role.

As far back as 1776 Adam Smith (probably the first professional economist) stated that it is the duty of the state to:

* protect its subjects against foreign enemies,

* maintain law and order, and

* provide and maintain essential public works and institutions such as roads and schools.

In time governments expanded their role in the economic community by fulfilling certain welfare functions.

South Africa is no exception in this regard and large amounts of money are spent by the Government on community services (eg. sewerage works), social services (eg. education and health), economic services (eg. SA Bureau of Standards), subsidies (eg. on bread) and pensions.

Broadly speaking, government expenditure can be catergorised in two ways: a functional classification and an economic classification. The economic classification allocates expenditures in accordance with the following guidelines:

(a) **Current Expenditure:** the recurring expenditure by departments on goods and services not intended for the purchase of capital assets or goods. Examples include salaries and wages.

(b) **Capital Expenditure:** includes expenditure by departments on goods and services that results in capital formation or the acquisition of fixed capital assets such as land and building.

(c) **Transfer payments:** refers to amounts that will be paid over to other bodies or persons. This includes transfers to private organisations, households and foreign bodies in the form of grants, subsidies, pensions, etc.

Functionally, government expenditure is divided into six categories (each consisting of a number of sub-categories). These categories, as well as the amount budgeted for each in the 1989 Budget are in Table 1.

The three highest sub/categories in the 1989 Budget were spending on education (R11,8 b or 18,5 percent of total estimated expenditure), defence (R10,3 b or 16,2 percent of total spending) and state debt cost (R9,97 b or 15,6 percent of total spending). The latter category refers to interest payments made on total debt accumulated by the government over time.

Table 1:

Over the ten-year period from 1979/80, Government spending has grown, at an average annual rate of 19 percent. (The estimated increase for the 1989/90 financial year is just over 15 percent).

As regards the composition of Government expenditure over the past 10 years, defence spending as a percentage of total Government expenditure has averaged between 15 and 16 percent, while the figure for interest on public debt has risen sharply from below 12 to above 15,5 percent.

TABLE 1: Functional Classification of Estimated Government Expenditure in 1989/90:

Function	Amount budgeted (Rbn)	Percentage of total
Protection Services (incl. Police and Defence)	14,92	23,5
Public Services (incl. Constitutional and Regional Development)	5,76	9,1
Economic Services (incl. Transport and Agriculture)	8,28	13,5
Social Services (incl. Education and Housing)	24,24	38,1
State Domestic Administration	2,29	3,6
Unallocatable	8,08	12,7
Total	63,57	100,5*

*Total does not equal 100,0 due to rounding.

Taxes

However, the most significant change has taken place in respect of education expenditure. In 1979/80 just over 15,5 percent of total Government expenditure was allocated to education. Ten years later this ratio has risen to an estimated 18,6 percent.

In fact, the average annual increase in spending on education since 1979 is in the region of 19,5 percent.

Naturally, Government has to acquire funds (revenue) in order to finance all the expenditures referred to above. The Government's main source of revenue is tax, which can be divided into two major types, viz. direct taxes (eg. income tax on individuals, companies and mines) and indirect taxes (eg. General Sales Tax).

TABLE 2: Composition of tax revenue:

	1979/80 (% of total tax revenue)		1989/90* (% of total tax revenue)	
Direct Tax on:				
Individuals	19,9		31,6	
Companies (non-mining)	18,7		17,5	
Gold mines	11,9		2,3	
Other mines	2,9		1,7	
A: Total Direct Tax		55,3		53,9
Indirect Tax:				
GST	12,8		28,0	
Customs and Excise	13,2		13,1	
B: Total Indirect Tax		32,9		43,3
Miscellaneous Revenue	11,8		2,7	

Table 2:

It is clear that income tax and GST payments in total tax revenue have changed relatively dramatically over the past decade.

As far as the former is concerned, it should be borne in mind that a major portion of direct taxes on individuals is paid by a relatively small number of taxpayers (less than 20 percent of the total population). Moreover, of those assessed, a mere 30 percent pay approximately 80 percent of the total personal income tax received by Government.

Despite this uneven distribution of the personal income tax burden, individuals are expected to pay almost 32 percent of total tax revenue in 1989/90 as opposed to some 20 percent ten years ago.

This implies a marked increase in the tax burden of the middle- and high-income cross-section of the population.

Regarding GST, this indirect tax was introduced during the second half of the '70s in an attempt to spread the tax burden across a broader spectrum of the total population.

The GST rate has risen from an initial four percent to the current 13 percent, while since 1985 unprocessed foodstuffs have been exempt. Despite this concession the share of GST in total tax revenue has increased from some 13 percent in 1979/80 to an estimated 28 percent in the current financial year. As a result the tax burden of the lower income

ENERGY
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LEAP:
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System

groups in South Africa has increased over time.

From the above thoughts it becomes apparent that over the last decade or so most South Africans - regardless of income level - have been subjected to a steadily rising tax commitment to the Government.

Naturally, this has been detrimental to individuals' standards of living as it has reduced their after-tax income. Government is well aware of this effect and has, for some time, been making serious attempts to introduce tax reforms aimed at alleviating the pressure on individuals.

Privatise

However, it must be borne in mind that South Africa is in the process of developing towards First World status. Moreover, current political developments will increase the need for education, housing and social services. In addition, Government will still have to provide an adequate security system and various economic services.

Thus, in the long term Government's demands on the country's scarce resources will remain high and, indeed, probably rise.

One factor that will potentially provide some relief to the tax burden is Government's programme of privatisation of certain publicly-owned assets (eg. Iskor).

This not only provides Government with a once-off large amount of capital that can be used, for example, to repay Government debt, but it also reduces Government's annual expenditure commitments in respect of the asset involved.

In addition, as a privately-owned asset, the entity becomes liable for tax payments, therby alleviating to some extent the pressure on individual taxpayers.

The final ingredient in the finances of the Government, which is also addressed in the Minister's Budget Speech, is the deficit before borrowing. Invariably, Government spending in any year exceeds tax revenue. This gives rise to a deficit that has to financed. The size of the deficit, as well as the method of financing it, can have a very definite impact on the economy.

Broadly speaking, the deficit can be financed by borrowing capital on the domestic capital market or overseas. As pointed out previously, South Africa's access to foreign capital has been limited in recent years, so that Government has had to rely mainly on domestic borrowing.

As far as domestic loans are concerned, the bulk of the the borrowing takes place via the selling of the long-term Government stock to the Public Investment Commissioners (PIC) and the private sector. The PIC is a non-banking financial institution that receives public sector funds (mainly contributions to pension funds and other social security funds in respect of employees of the Government sector and other Government-related bodies, such as the SA Transport Services) for long-term investments.

Virtually all investments by the PIC are in long-term Government stock (i.e. marketable debt instruments sold by Government entitling the holder to a fixed amount of interest until maturity). In fact, by law, the PIC is obliged to invest at lease 75 percent of its assets in loans of the Government.

As a "rule of thumb", it can be stated that the higher the Government's borrowing requirement (expressed as a percentage of Gross Domestic Product) the more expansionary the effect will tend to be (and vice versa).

Under these circumstances, depending on how the deficit is financed, inflation can also rise. In addition, if the Government's demand for funds on the capital market is large, long-term interest rates tend to rise.

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The build-up to the Budget

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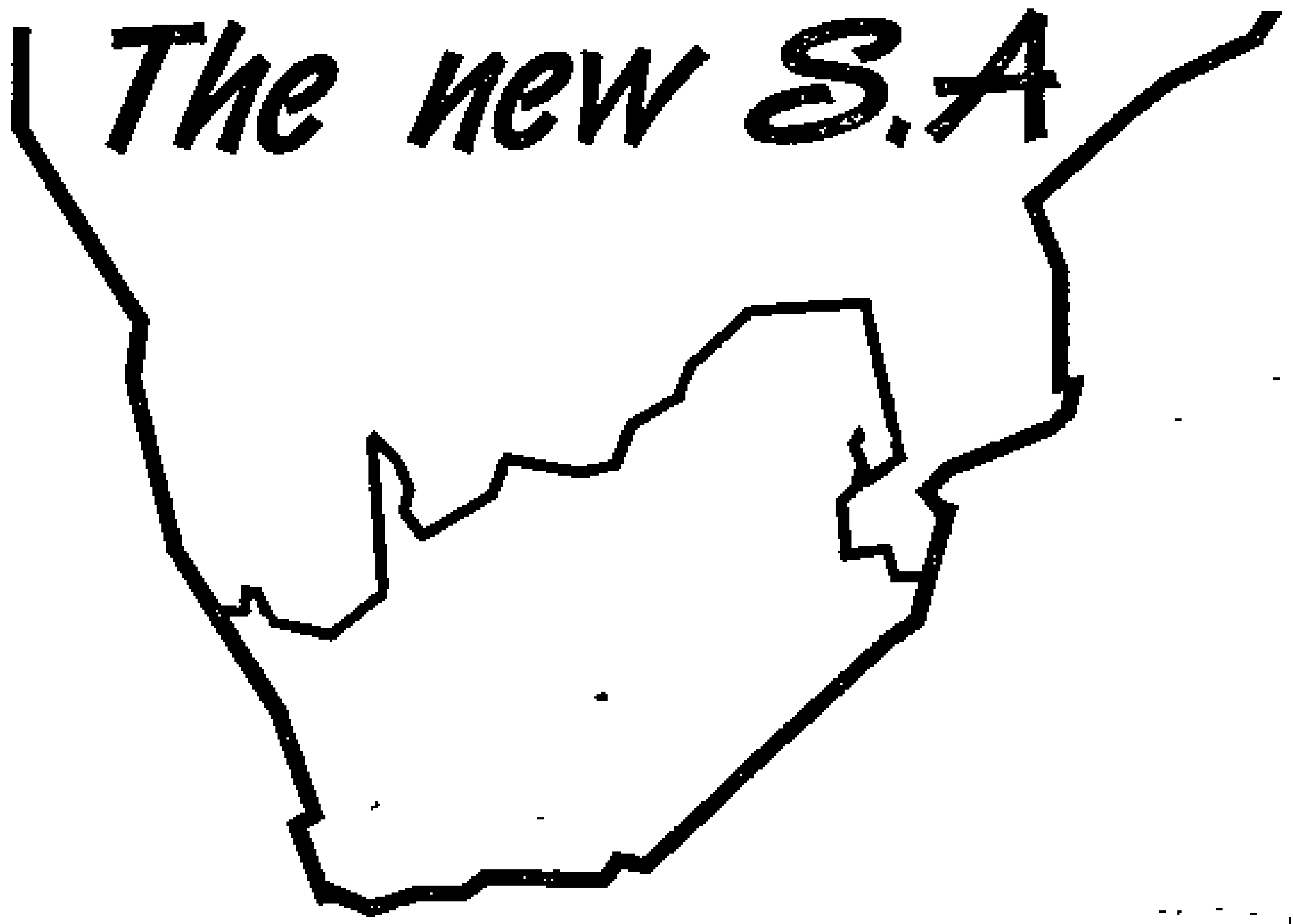
SOWETAN
Building the Nation

OLD MUTUAL

BUDGET '90



THE term "economics" is derived from the two Greek words "oikos" and "nemein", meaning "to manage a household".

In fact economics, in its broadest sense, is the study of how human beings matche up their multiple needs (eg. food, clothing, housing, education) with their scarce resources. When the cost of satisfying needs is greater than the availability of resources, certain sacrifices have to be made.

In order to measure their need against available resources, most households draw up a monthly budget.

They make a list of items that need to be bought in that month as well as bills that have to be paid, compare these outlays with their monthy income and, if the proposed outlays are higher than their income, decide which items can be done without in order to balance their budget. Shops, churches and multi-million rand business do the same. So does the Government.

In essence, the annual Budget laid before Parliament entails the consolidation of the various ingredients of public finance - Government spending (consumption spending, transfer payments and investments) and Government revenue (mainly taxes and loans). The budget cycle is actually an ongoing and thorough process.

Guidelines

For example, planning for the 1990 Budget would have started early in 1989 when each state department had to submit a detailed estimate of its proposed expenditure for the 1990/91 financial year (the Government's financial year stretches from April 1 to March 31). These estimates are checked by the Treasury and discussed with the department involved.

Treasury then lays down certain guidelines according to which state departments draw up their draft budgets. These are submitted to the Treasury (normally in October). After further revision the budgets of most departments are normally approved in principle in December. Revised estimates of state revenue for the coming financial year are usually available by February.

This enables the Minister of Finance to finalise the Budget, whilst taking note of considerations such as expected expenditure and revenue in the coming financial year, the expected surplus or deficit (the amount by which planned spending exceed planned revenue) is to be financed.

Besides being an exercise in fiscal bookkeeping, the Budget is also an instrument of economic politics, in that it provides an indication of Government's intended policy stance during the coming financial year in the light of its policy goals.

Typically, the Minister of Finance's annual Budget Speech is structured along the following lines. He starts off by giving a brief review of the state of the economy at the the time of the speech, as well as short-term prospects for the economy. He also provides details of the actual outcome of the previous year's Budget.

The Minister then sets out, in broad terms, his proposals in terms of Government spending and revenue, and provides details of the impact on different sectors of spending and tax changes.

Before making his concluding remarks, the Minister explains how he intends financing the deficit before borrowing.

SA's real problem: poverty and how to grow out of it

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Cm Tims 8/3/90

Extract from an address by Mr D L van Coller, chief executive officer of the Urban Foundation, to the IPM/SACB conference in Johannesburg on "The challenge of the Nineties".

BECAUSE our historical policies tried to structure South Africa along racial lines and thus exclude blacks from main-stream economic activity, we have today a severe distortion in wealth distribution between the "haves" and "have-nots".

We must, however, be careful not to draw the line between "haves" and "have-nots" along colour lines Increasingly from the mid-'70s', economic forces did not adhere to racial structures so now we have a more complex income distribution pattern.

It has been customary to describe developing countries as having dual economies — formal and informal. There is a third sector in South Africa: those not yet even in the informal sector — the unemployed and unemployable. They could be called the "non-economy".

In the formal sector is a framework within which employers and employees can, through collective bargaining, make choices that will determine the rate of wealth creation in that sector They can·

☐ Embark on joint strategies to increase income

☐ In their annual negotiations, determine how income is to be distributed

☐ Agree the proportion of income not to be consumed and how it is to be turned into wealth which creates further income or benefits.

Survival mode

Regrettably, this framework has been in place on a non-racial basis for less than 10 years:not long enough to demonstrate its potential for generating and distributing wealth.

It will increasingly do this and it is to be greatly welcomed, provided it can be anticipated that the formal sector workers will be major owners of the country's wealth — through the man-in-the-street instruments of housing and pension funds.

By contrast, those in the informal and "non" economies have no such framework. Theirs is a survival mode in which there is no scope for increasing income through deferring consumption and no power base to protect them from inflation. They need access to economic activity as shown by the extent to which they break the law to achieve it.

Thus, while there clearly is a challenge facing the formal sector to create more wealth, the real challenge for the whole country is how to enable a very large proportion of our population to climb out of poverty. Unless we can find the answer to this challenge our society will be bedevilled by instability and conflict — not between white and black but among "have-nots" — and between "haves" and "have-nots".

How to break out of this? Clearly, we need a political resolution. When divisions have reached the point where one of the weapons used to achieve political change is the destruction of economic activity which generates the very livelihood of that side's supporters then it cannot be anticipated that there will be much likelihood of economic growth without a political resolution.

Stifled growth

At the next level is the whole question of appropriate policies for the country's economic needs. The emphasis in economic policy today is on reducing the role of government, promoting the market and free enterprise, privatisation and deregulation. While these policies may be sound in principle they do not appear to recognise that South Africa is experiencing the consequences of wrong policies and that new policies are necessary.

Historically, through a whole range of laws such as influx control, racial zoning, regional and homeland development and racially structured local government, South Africa has sought to stifle economic growth.

Trying to reverse the growth of metropolitan areas has damaged the arenas in which, historically, the country has achieved its most efficient job creation. There remains ambiguity about the future of cities.

The consequences can be seen in the crises in housing, education, health care, local government and services.

While reluctant to single out areas as more significant than others, it is necessary to draw attention to education, housing and health care.

Faulty assessment

The crisis of quality, quantity and legitimacy in black education, combined with the high value placed on an academic education in the white community, means employers have difficulty recruiting and employees have difficulty getting relevant skills.

The housing crisis often means employees do not have a base for a cohesive family which is undoubtedly a cornerstone of economic progress and human development.

In health care, the absence of any meaningful strategy, the racial separation of facilities and the faulty assessment of the appropriate roles for the public and private sectors are generating an increasingly expensive private sector health-care industry and inadequate provision of services for the poor by the state.

The uneven distribution of wealth means there will be a tug of war between those seeking to create wealth and those who wish to extract the maximum surplus out of current levels of income either through taxation or nationalisation because of the urgency of the situation. Hopefully, out of this process, the political economy that emerges will be able to compete internationally, generate a surplus and grow.

Universal model

Within the Urban Foundation some understanding is developing from our practical experience and analysis of the key components of a viable strategy to address poverty. This issue is not peripheral to the country's economic policies but central. Without progress on the issue, conflict and instability will continue to undermine our efforts to move forward.

On strategy, there should not be an attempt to arrive at a universal model in terms of the roles of the public and private sectors. The roles of the different actors will vary from activity to activity.

In some areas the role of the state will be large, in others small, and *vice versa* for the private sector Education, for example, will be different from health care, which in turn will be different from housing, which will be different from transport.

Different actors in the socio-economic arena have different skills and capabilities and this should determine how each sector of our economic activity is structured Markets will have to play the key role to ensure a basic efficiency in using resources.

Careful choices

This does not mean there should be no intervention. No matter how great the energy and determination of the poor, special steps will be necessary to open access to the development process for them Thus, in housing for example, it is essential that subsidies are used to enable the poor to gain access to the housing delivery process on an affordable basis rather than to enable middle income people to overhouse themselves.

Both government and the private sector will need to redirect resources to provide skills and opportunities for those outside the formal economy to gain entry and participate successfully.

Flowing from this is the further point that careful choices will have to be made on allocation of resources After a decade of real decline in incomes the discrepancy between what people want (or think they are entitled to) and what is realistically available is enormous.

No matter which system emerges, the country faces a long, hard road. A guiding principle in making choices must be to avoid creating islands of privilege in a sea of poverty. At the most fundamental level, for example, rural people must have access to an urban future.

The fourth point is that there will need to be an enormous emphasis on development, particularly on development that focuses on those with the lowest incomes There is a will among poor people to address their own problems — their ability to survive is evidence enough. What they need is access to development resources.

Closely linked to this is the need for development-management skills. It is all very well to talk of intervention to facilitate access to opportunities. It is also possible that such intervention, if inappropriately handled, can be very destructive of a community's self-reliance. It is the task of effective development managers not merely to facilitate access but also to ensure the development of real capabilities.

Many failures

The fifth point is the need to ensure community participation in development. This is not said for any other reason than that, without it, successful development will not happen. Difficult choices have to be made, energies have to be released. Without the community's involvement it will not be possible.

There may be a feeling in some quarters that the views I have expressed are excessively gloomy and that, in reality, the needs of those on the outside looking in are not the concern of the formal business sector.

Failure to find the road out of poverty will, without doubt, stand in the way of wealth creation in the society as a whole. Unfortunately there have been many failures in campaigns to eradicate poverty. There have also been successes.

With the right policies and a recognition of the realities, we can start now to address the issue of poverty.

Ban on liquor is nose solution

From J DISNEY (Lansdowne):

ON returning to my car parked close to Maynardville on March 3 I found that the red "nose" I bought for R5 for charity had been ripped off the front of my car, breaking the "nose" and tearing my grille in the process.

While understanding that the Community Chest needs money to support its activities I do not think that the indiscriminate selling of liquor is the answer. The drunkenness and aggressive behaviour, especially by teenagers, was disturbing.

UPDATE...

'Develop skills to increase wealth' 49

By MOKGADI PELA

IT is only through the free enterprise mechanism that there is some guarantee of the welfare of the majority of people in the country, a paper delivered at a labour conference stated yesterday.

Mr Theo Pegel of the Institute of Personnel Management said to achieve this, the impetus to privatisation and deregulation had to be maintained.

He said this would ensure that wealth creation and the redistribution thereof become a national priority.

Pegel stressed, however, that the best environment for the redistribution of wealth would be an expanding economy in which possibilities existed for new opportunities for everyone.

Sowetan 8/3/90

To this effect, Pegel said, the development of skills was crucial.

He said IPM had an important role to play in providing knowledge and skills to their members.

Schwarz expects more credible Budget

GERALD REILLY

PRETORIA — A Budget more credible than those tabled in previous years was likely next Wednesday, DP finance spokesman Harry Schwarz said yesterday.

He said Budget details would reflect a situation closer to the 1989/90 Budget estimates — "and we hope this kind of financial discipline will be carried over into the 1991 financial year".

He expected no increase and perhaps a reduction in real terms in provision for expenditure in the new financial year.

However, there would be critical areas where greater spending would be needed.

For instance, provision would have to be made for special pay increases for police and nurses.

There were indications too that Finance Minister Barend du Plessis would spend more on socially orientated projects which would help create a climate conducive to negotiation.

According to other sources the provincial administrations' government subsidies — one of the biggest Budget items — were likely to be raised by less than the inflation rate.

All four administrations, it was pointed out, were in desperate need of funds, particularly for hospital development and road maintenance.

In the current financial year the provinces received a combined total of R9,2bn.

This year's total is expected to increase to about R10,4bn.

Transvaal's share this financial year was R3,745bn, Free State's R1,011bn, Natal's R1,577bn, and the Cape's R2,935bn.

The bulk of the Transvaal's allocation went to hospitals — R1,967bn. Community development — mainly assistance to local authorities and the payment of black pensions — took R796m and roads R746m.

BDay 9/3/90

(47)

No wealth without workers

W/Mail 9/3-15/3/90 49

By CASSANDRA MOODLEY

WEALTH creation in South Africa can be achieved only through democratic worker participation in planning the economy, a Numsa spokesman told businessmen this week.

National Union of Metalworkers of South Africa representative Bernie Fanaroff put the union's view at an conference on creating wealth through good industrial relations held in Johannesburg this week by the Institute of Personnel Management and the South African Chamber of Business.

Fanaroff concentrated on wealth creation through redistribution, saying a solution to the country's economic crisis should also address the political constraints.

The solution should "change the protected low-wage high-cost economy into a high-wage, low-cost economy" and move towards investment and production which could only be achieved through "a planned economy".

Capitalism had repeatedly been proved wrong and it could not solve the problems of South Africa, he said.

The trade union perspective on wealth creation incorporated the primary principles of socialism — social ownership of the means of production and planning of the economy, said Fanaroff.

He admitted pragmatism would have to be combined with this approach. This involved democracy at all levels of society and a need for economic incentives.

Trade unionists believed that capital had been "comfortable with apartheid and repression for a long time".

This was evident in their support of the tri-cameral system, silence on detentions, and public statements that business confidence had improved as law and order was restored by the State of Emergency. Capital has also taken a stern line on stayaways and has been slow in rectifying racial discrimination in industry, Fanaroff said.

He added that in finding solutions to the economic crisis we should not repeat the mistakes of Eastern European governments.

"Among the lessons we are learning (from Eastern Europe) is that a central command economy does not work."

A more democratic form of nationalisation could mean "leasing back the means of production and resources" and stipulating that employers pay a living wage and give workers participation in management.

EXCHEQUER EXPENDITURE FM 9/3/90 (49)

Believe it or not

In the fourth quarter of this fiscal year — a period when there is invariably an acceleration in State spending — there is about to be a sharp reduction. January-March should see a fall of 5% in total Exchequer issues (including changes in the Paymaster General's account), compared with the fourth quarter of the previous year.

This would be a remarkable achievement.

Annual budgets, in the private as well as the public sector, tend to be based on expenditure in the previous year. So it is natural that recipients of allocations spend as much as possible each year to ensure a steady increase over the years. In government, this traditionally produces an expenditure bulge in March, the end of the fiscal year.

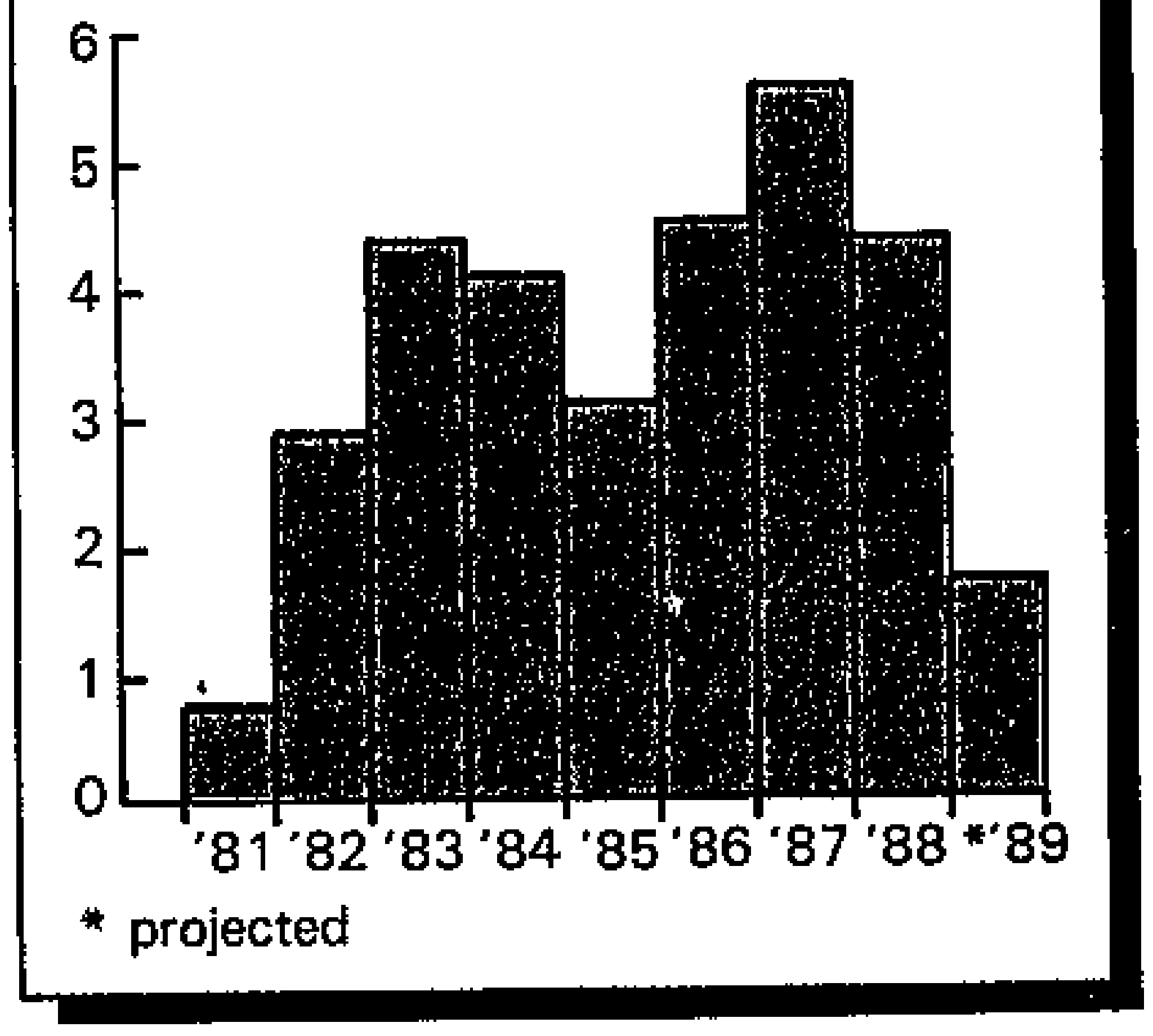
Says Finance DG Gerhard Croeser: "In recent years, we have always had a large additional budget which can't be spent until Additional Appropriations are approved by Parliament at the end of February. Traditionally departments, in any event, made sure they spent their normal allocations by the end of the financial year."

This trend is reflected in Exchequer figures published in the Reserve Bank *Quarterly Bulletin*. Issues (excluding debt redemption and including changes in the Paymaster General's account) totalled almost R8bn in March 1989, R6,5bn in 1988, R5,7bn in 1987. In 1986 and 1985, when the figure did not include movements in the Paymaster General's account, March expenditure was R4bn and R3,1bn, respectively.

Not only did spending (compared with the previous March) generally outstrip the inflation rate, in every case it was well up on the monthly average for the year. This indicates each department was determined to spend every cent allocated — or more.

Knuckling down

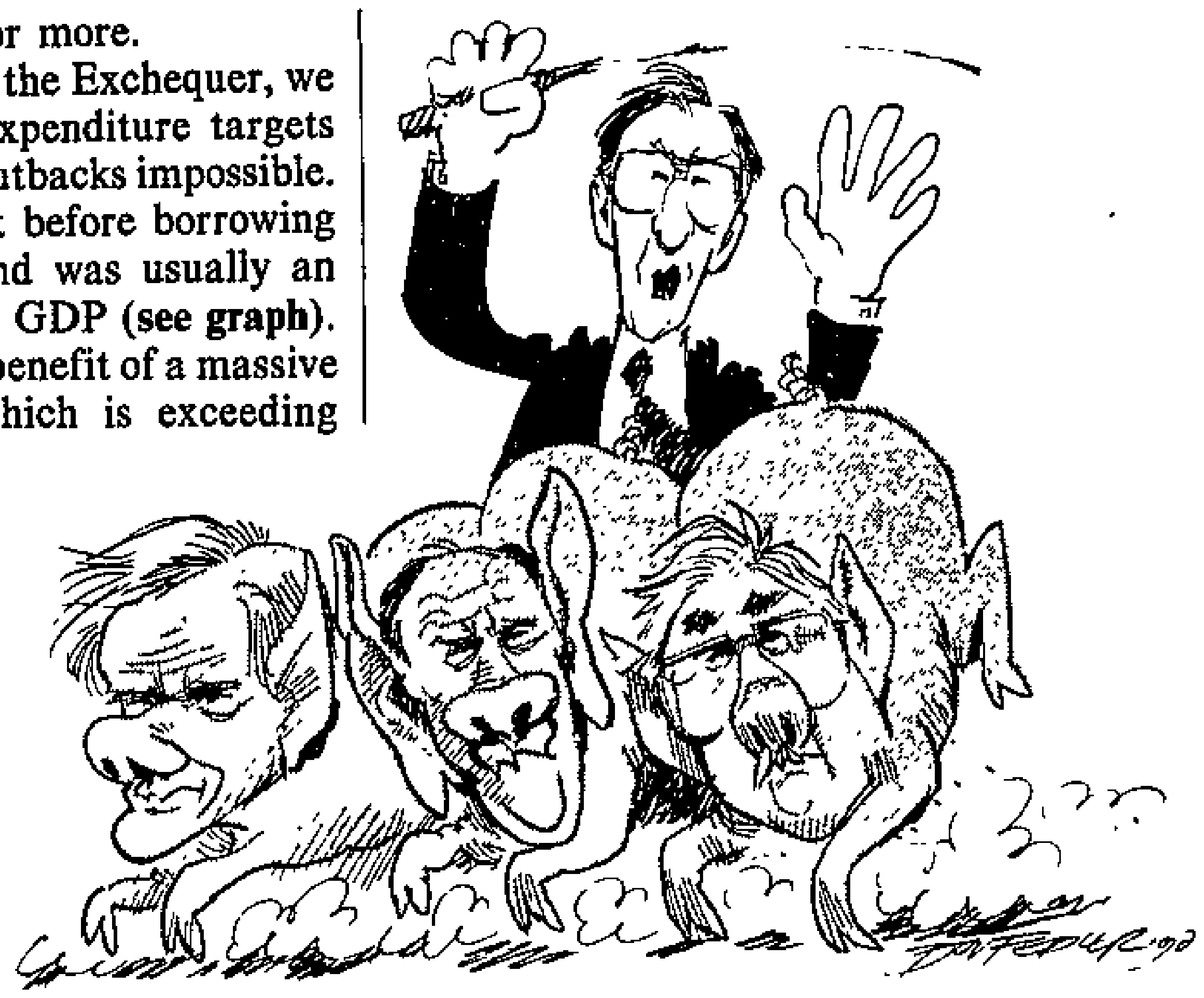
Exchequer deficit before borrowing (and debt repayment) as % of GDP



* projected

As money poured from the Exchequer, we were told overshooting expenditure targets was unavoidable — and cutbacks impossible. So, each year, the deficit before borrowing exceeded expectations and was usually an excessively high ration to GDP (**see graph**).

This year we have the benefit of a massive overshoot in revenue which is exceeding even revised expectations.



Even without the R2,9bn from the sale of Iscor, revenue should top R61bn, nearly 26,5% more than in fiscal 1988-1989.

But expenditure is likely to be only about R1bn higher than the budgeted R64bn.

Why is this fiscal year ending on such a different note? Says Croeser: "Additional Appropriations of only R1bn were allocated, compared with R1,9bn last year. So last-minute spending will be much lower."

Also contributing to the drop in spending is a new approach within the Administration. Though there has been no formal announcement that future Budget allocations will no longer be based on past ones, the minister of finance is known to be considering suggestions by the private sector (**see *Leaders***) that surpluses accumulated within departments, on specific programmes and subprogrammes, be brought forward each year.

Against this backdrop, this fiscal year may end with a much lower deficit before borrowing than expected. Projections are of R4,2bn, less than half the R9,9bn budgeted and only 1,7% of GDP instead of 4,1%.

This dramatic change in pattern of expenditure is a crucial indicator of the direction of fiscal policy. If these estimates are confirmed, it will be an indication that government is indeed committed to economic discipline.

Quarterly figures for this fiscal year, including changes in the Paymaster General's account, which make them a more accurate reflection of cash flows, were:

☐ April-June, expenditure grew 33,8% on the same quarter of the previous year;
☐ July-September, 15,9%; and
☐ September-December, 26,1%.

For January, though figures in the *Government Gazette* show an increase from R4,8bn in 1989 to R5,2bn, adjusted for cash flows passing through the Paymaster General's account, there was a decline of 10,3%.

To achieve a 5% fourth-quarter decline, not more than R12bn must be spent in February-March. This figure is confidently expected and — together with estimated revenue in the two months of R9,5bn (with still a considerable input from import surcharges, which continue to exceed expectations) — will achieve the astonishingly low deficit.

This augurs well for fiscal 1990-1991, for which Barend du Plessis has already spoken of a deficit of 3% or less — "since that more or less equals our capital expenditure component and combats the practice of using loan capital for financing consumption."

Revenue growth, of course, is expected to moderate in the new fiscal year, as the slowing economy cuts into profits and consequently tax payments. Import surcharges, if they are not abolished or reduced in the Budget, may tail off as imports slow.

Nevertheless, the startling success in cutting expenditure this year should produce the desired results next year. The deficit before borrowing, as a percentage of GDP, should not exceed growth in GDP in any year. With growth in the immediate future likely to limp along, it would be advisable to stick to this year's extraordinary precedent. ■

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BUDGET LESSONS

On restoring economic integrity

■ If fiscal policy echoes recent political changes, prosperity will return

In next Wednesday's Budget, government has a lot to prove. After years of grossly exceeding expenditure, it has to restore the credibility of the Budget "as a tool of economic measurement" — in the words of Finance Minister Barend du Plessis. But, more than that, it has to begin proving that it has the broad public interest at heart — and is not biased towards certain whites.

The minister will present the Budget in the light of changed government policies of the past few months; a delicate task. He must persuade blacks that government has their interests at heart by spending appropriately, yet still implement economic policies to provide the growth without which social progress can't be financed.

Retiring Anglo chairman Gavin Relly told the *FM*: "By a proper allocation of resources, government can give a clear indication to the community that there are alternatives to things like nationalisation. The Budget should place considerable emphasis on health, education and housing." There would have to be major cuts in other areas and a tough review of taxation.

There certainly have been indications that government is committed to a reduction in spending in areas where vast sums of taxpayers' funds have been misallocated. The recent announcement that civil servants' salaries will be raised by 10% is encouraging. In effect, the increase will turn out closer to 15% (taking into account automatic seniority increases and other perks), but is still more modest than in previous years.

Then, Defence cuts of up to R2bn are expected. Savings will also follow the independence of Namibia. Government has indicated it's unlikely to give further direct funds to SA's previous "fifth province." Even this fiscal year, it budgeted only R80m for Namibia, against R308,5m in 1988-1989.

Exchequer figures to January show *pro rata* expenditure for Trade & Industry is below budget by R346m and Transport by R126m. Other departments where big savings could be possible are Finance, Administration, Development Aid and Constitutional Development, which alone grew from 19% of total Budget spending in 1975-1976 to 33% in 1987-1988, says SA Chamber of Business economic consultant Roelof Botha.

There are also purely practical economies. Research by the chamber highlights defects in the system which have discouraged savings and even promoted excessive expenditure. Its economist Keith Lockwood describes one example: "There is a process called 'virement' which allows surpluses accumulated on sub-programmes to be reallocated to sub-programmes with deficits. With permission from Treasury, reallocation can also be done between programmes. So people responsible for sub-programmes or programmes are effectively penalised for savings. They should be allowed to carry it forward to the next Budget."


Frame

Says Botha: "It is a question of financial management. Monthly Exchequer payments can be 30%-50% higher from January to March than in the previous nine months."

Cuts in wasteful expenditure and proper financial management will allow government to rechannel funds to areas where even substantial increases in recent years have not overcome past neglect: black education and health. It is in these votes that government can score political points.

For example, out of total budgeted expenditure on education for the 1989-1990 fiscal year of R11,8bn, only R2bn was for black education. DP education spokesman Roger Burrows says per capita expenditure on education (including capital expenditure) was R3 082 for whites and R764,73 for blacks.

DP health spokesman Mike Ellis says per capita health expenditure for blacks was R137,84; for whites, R597,11. "Allocations to provinces have not increased with the rate of inflation and funds for medicine regularly run out long before the financial year-end, forcing rationing of these supplies."

Extra finance for these will have to come from savings, as government can't rely again on the exceptional revenue collected this year — already R5bn above budget, mainly through misjudging the yield of import surcharges, an unbudgeted one-off loan levy on companies of R700m, the removal of allowances and shelters from companies and the impact of fiscal drag on individuals.

In fact, revenue receipts exceeded expectations to such an extent that the deficit before borrowing was only R2,3bn to January compared to a *pro rata* R7,5bn.

The outlook for the final quarter is bright (see ***Economy***). And Du Plessis has already predicted that the 1990-1991 deficit could be 3% or less of GDP.

UBS economist Hans Falkena says this ratio should not exceed the long-term structural growth rate, which he estimates at about 2,5% a year. "If it doesn't keep within these restraints, there will be an increase in debt with inflation following close on."

Another crucial issue is the relatively high level of taxes. The biggest constraint on growth is excessive taxation rates on individuals and companies. Du Plessis has committed himself to a return to supply-side economics — cutting taxes so that savings and investment increase, thus encouraging growth that will ultimately lead to a larger tax base and higher tax revenues.

Concessions are likely to be limited. Individual tax rates will be lowered but this process "will be phased in over time," Du

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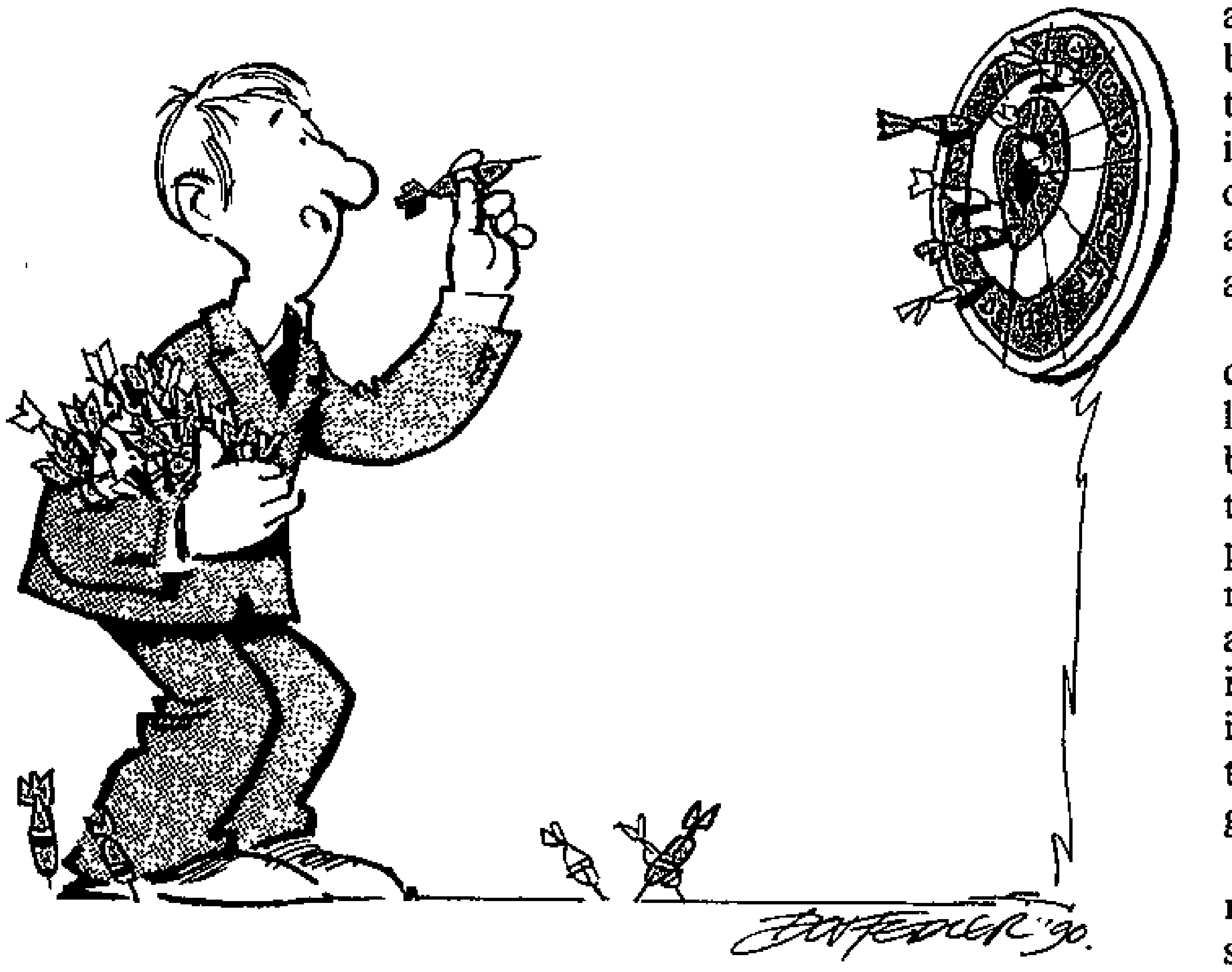
Plessis says. So the chances even of the past year's fiscal drag being eliminated are not particularly good. But some lifting of the level of each tax bracket will be hard for Du Plessis to avoid.

There is also a strong argument for reducing corporate tax to compensate for disadvantageous changes in the tax structure caused by the removal of certain allowances. The year has seen the depreciation allowance from 50:30:20 changed to a straight-line 20% and the hefty import surcharges — all on top of a high basic tax rate. The level of tax paid by companies, despite the short-lived more favourable depreciation formula, has effectively been increased, thus curbing investment and, in turn, growth.

Fisher Hoffman Stride's Charles Stride has an innovative suggestion: companies and institutions should be fully taxed on passive non-job-creating income but rewarded for taking greater risks in the areas of job creation and education. He believes there should be a limit to allowances to taxable income: these are sometimes abused to such an extent that the company tax rate is in effect reduced from the nominal 50% to 25% or less.



"They should stop allowances which lead to abuses, but cut taxes where companies are seen to be investing in growth areas such as factories or education-related facilities. Through the legal misuse of allowances many financial institutions can defer the major portion of the tax payable," he says.

Mining, a focal point in the political debate, is, according to Nedcor chief economist Edward Osborn, taxed at an average 54% of profits after capital expenditure. But in some instances the rate is much higher. "In the case of precious metals and precious stones," says a recent Bank of Lisbon *Economics Focus*, "such mines are subject to royalties payable to the State for the right to mine in the form of mining leases."

It says rates are pushed above 80% for gold mines and 60% for diamond mines. Some mines have become unprofitable because of high taxation and constantly increasing operating costs. Closure is a risk and the incentive to prospect and open new mines is reduced. Mines may not write off capital expenditure on new mines against profits of old ones.

As *Economics Focus* points out: "Mining employed 763 000 people, of whom 672 000 were black." It is a large employer of unskilled black labour, which has limited opportunities in the formal sector.

Price Waterhouse's Chris Frame suggests government should cut taxes on small business: "This is the growth point of the economy and should be allowed to prosper and grow." He says lower tax rates on smaller companies would broaden the tax base by assisting small businesses which at present do not survive because of high rates of tax.

Also expected to broaden the tax base is value-added tax (VAT), scheduled to replace GST in October 1991. The Budget should introduce a timetable for the long-awaited VAT, which taxes production and services at every layer of value added, not only on the end product. But there are administrative problems with cascading taxes such as this, which might outweigh the advantages of higher tax returns deriving from fewer opportunities to cheat. Perhaps a better-policed GST should be reconsidered.

Whatever the final choice, a move towards indirect taxes (like GST and VAT) on consumption and away from direct taxes on incomes and profits would be beneficial.

Another imperative is adequate definitions of capital and revenue. Uncertainty here is a major cause of taxpayer discontent and perceived exploitation by the authorities. Introducing a modest capital gains tax on shares held for less than 12 months could provide some certainty. But it isn't ideal, for — like marketable securities tax — it will ultimately discourage capital accumulation, which is important for economic growth in the absence of new foreign investment.

Similarly, domestic savings are now of increased economic importance. The best way to encourage them is to eliminate inflation. But as this will take time, the ceiling on the tax-free proportion of interest income could be raised. It is not enough to have positive real interest rates. Rand Merchant Bank economist Rudolf Gouws says contractual savings which are not taxed rose from R1,9bn in 1977 to R20bn in 1987 — compound annual growth of 20,4% — while taxed deposits and investments with banks and building societies increased only from R1,9bn to R4,3bn, an 8,7% growth rate.

The level at which retirement annuity (RA) contributions are exempt of tax should be raised for the same reason. Old Mutual legal and tax expert Lizette Labuschagne says the RA deduction allowed a married woman subject to Site should be the same as that of her husband; everybody — including married women not subject to Site — should be entitled to this deduction; and everyone should be entitled to the maximum tax-free amounts when they receive their lump sums.

Unexpectedly large collections from surcharges on imports may comfort an avaricious administration, but are indicative of poor fiscal policy formation. The surcharge was intended to reduce imports, not to raise revenue. Had it been successful, this windfall would not have occurred. It fed directly into inflation. It should be scrapped with as much expedition and grace as possible. Already, to end-January, Customs & Excise collected R2,2bn in import surcharges — above the budgeted R1,3bn for the full year.

Two related matters are of overriding importance if the integrity of the Budget is to be restored. One is the recreation of certainty; its absence encourages discord, creates a feeling among taxpayers of exploitation by the authorities and thus fosters a tax revolt.

As Arthur Andersen's Pierre du Toit puts it: "We expect that, in line with a more open administration, as much as possible will be encompassed within the Budget rather than introducing surprises throughout the year or only revealing major changes as annual legislation becomes available."

The other is for government to convince taxpayers it has an intellectual appreciation of what must be done and won't let implementation be stifled by ideological prejudice or political convenience. If it can, taxpayers will approach the future in a new spirit of optimism. The consequent increase in economic activity, in turn, will progressively deepen government's pockets.

To do so some bold moves are necessary. Tinkering around with small social pension adjustments — which will be wiped out by inflation before the fiscal year is out — makes no sense if substantial measures are not taken to curb inflation itself. Likewise, devices such as a few more excise cents on cigarettes, beer, wines and other "luxuries" that politicians believe will win them Brownie points, will serve nowadays only to erode the confidence of informed taxpayers.

Indeed, that sort of thing would indicate to many blacks that government is not serious about the sound and sustained economic growth which the Nats now themselves argue (reborn capitalists that they are) will raise the general level of prosperity and distribute wealth more equitably.

It would play into the hands of those who are sceptical about free enterprise and have an emotional bias towards nationalisation and central planning.

Indeed, the great opportunity that this Budget offers is that government can begin to demonstrate with practical and telling effect that the fruits of free enterprise can be both material and widespread. ■

The battle is just beginning for the defence of capitalism

B/Day 9/3/90.

(49)

JOE ROGALY in London

THE argument about the limits of communism is over. Communism lost. The argument about the limits of capitalism is just beginning.

Britain is a social democracy governed by a party whose leading ideologists are economic liberals. It might have become a socialist country, if the nationalisations of the postwar period had stuck, but they have not. It is, however, a social democracy because it retains virtually all the elements of the welfare state created by the Labour government of 1945-51 and even some of the enhancements added by subsequent governments of both parties.

Right-wing think-tanks supportive of the post-1979 Conservative government have succeeded in suggesting ways in which Margaret Thatcher might chip away at the welfare state, but there it still remains, as its counterparts do in most of the rest of Western Europe.

Meanwhile, social democracy itself is changing. Its most palatable form for the 1990s will be one that starts with an acceptance of the free market, private property, the price mechanism and the various other accoutrements of capitalism and ends with some redistribution of income through taxation and welfare.

The Austrian and pre-1988 British Labour versions, among others, also include state control over selected industries. This idea is rapidly becoming a dead duck. The Swedish version has relied on an incomes policy, which is a very sick duck. It also grossly inflated the welfare element and allowed for an excess of trade union power.

In the Europe of the 1990s it is the extent of these two latter elements in the mix rather than their existence that is likely to be the subject of serious political discourse. Socialists will be on the outside left, social democrats and the Christian democrats in the middle, and economic liberals on the in-and-out right.

Some left-wing ideologues cannot accept this picture of a future in which the governing parties are separated merely by the degrees to which they say the wealth created by private enterprise should be redistributed.

They propound "market socialism", a concept debated in a book of that title published by Oxford University Press last year. They should forget it. In a forthcoming Institute of Economic Affairs pamphlet A de Jasay, a piercing liberal analyst, tears market socialism to shreds. It is a contradiction of terms, he says. Anyway, you cannot have successful capitalist-style markets without genuine — not simulated — private ownership, price mechanisms and so on.

The argument will presumably be played out a number of times in Berlin, Warsaw, Budapest and Prague over the coming years. Every bit of news reaching us from these capitals indicates that East Germany, Poland, Hungary and Czechoslovakia are likely to end up social democratic, or, if you prefer, capitalist-plus.

New-right ideologies naturally favour hard liberalism — what British Foreign Secretary Douglas Hurd calls "vigorous capitalism" — as a driving force in foreign policy and hope for its firm implantation in the freshly ploughed soil of Eastern Europe. Hurd has seemingly encouraging words for them. "There are some people in this country who believe the East Europeans will stop at some kind of Fabian halfway house, some kind of socialism with a human face," he said.

"These are the same kind of people who until yesterday thought that the Sandinistas were extremely nice people who were really social democrats under the skin. I believe that both these thoughts are illusions. . . ." Sticking the knife in deep, the Foreign Secretary went on: "You have to be pretty wealthy to sustain a welfare state on a Scandinavian scale. After all, the effort nearly broke Britain in the 1970s."

This kind of thinking underpins the arguments about British attitudes towards the EC, not to mention the prospects for Eastern Europe. The EC is championed both in Downing Street and at the Foreign Office whenever it can be seen as a bulwark of economic liberalism, as it will be when the single market becomes a reality after 1992.

It is distrusted when it is seen as an instrument for the advancement of a bureaucracy that would either stifle business by regulation or tax it to death to promote welfare expenditure, as would happen if the evolution of a confederal structure were to be mishandled.

Most of the 11 other present members of the EC are living on a different ideological fault-line. France and Spain have nominally socialist but arguably social democratic governments; the others, whose parliaments are elected by proportional representation, sporadically make room for avowed economic liberals — and sometimes social democrats — in coalitions led by Christian democrats. Social democrat-led coalitions are just as likely to do the reverse.

This is one reason why the 11 are continuing the debate about further integration, while British efforts are devoted to other propositions. Hurd suggests the East European countries should be given associate status at first and full membership when they become full democracies. Thatcher is busy contemplating how to give new life to existing structures other than the EC, such as the 23-nation Council of Europe, or the 35-nation Conference on Security and Co-operation in Europe.

These extra-EC initiatives are partly based on the honourable belief that a non-federal Europe, a Europe of nations bound voluntarily by various differing ties, would best maintain both peace and the free market, while not offending the Russians.

In spite of that, people will not stop talking about the evolution of the EC. Thatcher is committed to British entry to the exchange rate mechanism of the European monetary system but will put it off as long as she can. To her, this matter — like all the others on her plate — is one item in a lifetime of politicking that has been devoted to "overthrowing socialism" or, more aptly today, to extending the frontiers of capitalism.

It is not an ignoble aim. The benefits of capitalism and enterprise are now almost universally acknowledged, outside Beijing, Havana and Tirana.

Where Thatcher has run into conceptual difficulty is in understanding why social democracy — capitalism with a conscience — is so popular. Thus her attempts to emulate the market in the National Health Service, and limit local social spending through the poll tax have diminished Conservative support.

Privatisations are most beneficial where they create genuine competition; monopolies are another matter. Enterprise is at its most attractive when it involves the long-term creation of new wealth, and at its least when lucky individuals scoop up easy millions from a wash of credit-created money, simply by staging a management buyout, a quick flotation, a junk-bond bid here, a piece of green-mail there.

Capitalism is the best form of political economy yet invented, but most voters believe that it is not yet perfect. This simple fact will sum up most political debates of the coming few years. — Financial Times.

☐ IN the article on this page yesterday, De Beers diamond production in 1988 was erroneously stated as 24-billion carats. The correct figure is 24-million carats. The error is regretted.

Personal tax cut is expected next week

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Star 9/3/90

By Peter Fabricius,
Political Correspondent

CAPE TOWN — Finance Minister Mr Barend du Plessis is expected to cut personal income tax and Government spending when he presents the Budget to Parliament on Wednesday.

Great interest will focus on the first Budget under President de Klerk with expectations that for the first time in many years a South African government will actually fulfil some of its economic promises.

An additional budget last month which exceeded estimates by only R164 million or 0,3 percent — and showed zero growth in defence for instance — suggested that the Government is earnest about financial discipline.

However, neither the tax cuts nor the cuts in Government spending are likely to be dramatic. Mr du Plessis has made it clear that the Budget should be seen as a step on the road towards the Governmemt's five-year plan. One reason why overall cuts will not be great is that the Government is committed to greater welfare spending — in such areas as education, pensions and housing.

Will it be the "Budget for negotiations" which Democratic Party finance spokesman Mr Harry Schwarz wants — a budget which shows the Government's good faith by really starting to shift money into black hands?

Certainly, it seems social spending will absorb much of the unexpectedly large increases in tax revenue over the last year, recently calculated by Reserve Bank Governor Dr Chris Stals at about R3 billion above estimates.

Continued payment of SA's huge foreign debt will drain another few billion from the national coffers although much of the R3 billion raised by the flotation of Iscor will go to offset this.

Among the tax goals set out in the five-year planm is a committment to cut personal income tax by reducing marginal rates from the present maximum of 45 percent at the income level of R80 000 to 40 percent at R100 000.

Mr Harry Schwarz expects that Mr du Plessis will merely reduce "fiscal drag", the process by which taxpayers are pushed into higher tax brackets because of inflation.

One of the costs to the man in the street of lower taxes will be increases in user charges for services.

Tax on "luxury" goods such as cigarettes and liquor will probably show the usual annual rise as these are a "soft touch".

A final and complete separation of husbands' and wives' taxation could also on the way.

The R9 billion defence budget will almost certainly be cut now that the Namibian war is over.

Hope yet for tax relief • in next week's Budget

Star 9/3/90 (49)

The South African Chamber of Business gives its assessment of what is needed in this year's Budget, which will be presented to Parliament by Finance Minister Mr Barend du Plessis next Wednesday. It believes that hopes for a sound and constructive Budget for fiscal 1990-91 will be realised, because the latest available figures show expenditure is on target and revenue appears to be running ahead of estimates. This article is contained in the latest issue of the publication, SACB Review.

Each year we hope that the current Budget will bring a change from previous Budgets by producing an outcome which will not differ vastly from the words and numbers presented to Parliament by Ministers of Finance.

But as each fiscal year has unfolded, these hopes have crumbled. The final figures in many instances have been way off the original targets and carefully expounded financial and economic policies were unfulfilled.

We must hasten to add, however, that the responsibility for the wide gaps between ministerial projections and the final definitive facts should not be laid at the feet of either the Ministers concerned or their advisers. Culpability for what, in retrospect, appears to have been the annual hoodwinking of taxpayers must be shared by the Cabinet of the day.

The politics of expediency were allowed to override either financial and monetary policies or the fundamental needs of the economy.

Government overspent when caution was called for to dampen down the fires of inflation. Soaring current expenditure was funded by excessive borrowing instead of from current income.

The public service was allowed to grow like garden weeds in spite of assurances to the contrary, while the pay of public servants was raised after the Budget had promised restraint.

There appeared to have been neither control nor discipline. And the burden of the bottom line was borne by taxpayers whose incomes had already been depleted by inflation caused in part by the demands which Government had made on the economy.

This year we hope again. And this year we have reason to believe that many of our hopes for a sound and constructive Budget for fiscal 1990-91 will be realised, because the outcome for the current year appears to be giving substance to the words spoken last March by the Minister of Finance, Mr Barend du Plessis.

Latest figures show expenditure is on target and revenue appears to be running ahead of estimates.

Confirmation of discipline in State departments came from President de Klerk when he addressed Parliament. He said the fiscal year would close with a surplus "even without taking the income from the privatisation of Iscor into account".

What will Minister du Plessis do with this surplus?

To date, this overflow revenue has been withheld from itchy departmental fingers, an encouraging sign of the fiscal discipline which we trust will permeate the 1990-91 Budget. Part of the surplus could be used to reduce the Treasury's debt to the Reserve Bank.

It could be "frozen" in the stabilisation account or it could be used partly to reduce the borrowing requirement, provided that current expenditure will not be financed from borrowing, which could be controlled if the Budget statement were to differentiate between current (running) expenditure and capital expenditure.

A reduction in the borrowing requirement would inhibit further growth in the costly-to-service and over-large national debt.

The current year's surplus, plus the Iscor profit, should not be used to reduce taxes. Any reduction in taxes for the year ahead — and some tax relief would be both welcome and desirable — should come from the surplus resulting from a reduced level of Government expenditure and the revenue estimated to be collected from taxation.

The fact that there was a surplus last year suggests that there might be a similar margin next year which would enable Mr du Plessis to be a little open-handed.

State spending might be pruned by a cutback in the defence vote and by the ongoing streamlining and re-organisation of the public service.

The South West Africa subsidy will no longer be the South African taxpayers' burden, and suggested re-organisation of subsidies for the homelands might also further reduce that load.

It is difficult to quantify what other savings might accrue from deregulation and privatisation. On the other side of the accounts, money — and a heap of it — must be found for education, health services, including nurses' salaries, housing, and for a larger, better-paid police force.

The expected slowdown in the economy might be reflected in a slight reduction in revenue. While some companies' profits will be lower, others are consistent performers through good years and bad.

Receipts from personal taxes are more likely to increase than diminish because of the effect of fiscal drag. And there should be little change in receipts from indirect taxes. On balance, revenue on current taxes is more likely to be higher than lower if for no reason other than the ratchet effect of inflation.

In the prevailing climate of restraint, the Minister has little room for manoeuvre. He should, however, have sufficient margin to reduce or abolish "temporary" taxes such as the import surcharges, particularly those on capital goods.

To retain these imposts *in the* face of an improving balance of payments position could arouse the displeasure of Gatt, but, more important, the surcharges do have an inflationary thrust on the economy.

To encourage very necessary savings, the ceiling at which the top marginal tax rate is levied should be raised, as well as the limit on retirement annuities. This should not cost much revenue.

And completely outdated is the tax on dividends received by individuals. Mr Justice Margo recommended the abolition of this tax. As a first step, the maximum deduction should be raised to the level of company tax, 50 percent, for top marginal rates incomes, and scaled down to 100 percent for gross taxable incomes of at least R10 000 a year. This would encourage equity investment.

The Minister certainly will not have the resources to scatter largesse like corn to chickens, but he should be able to start removing some tax anomalies to show that cognisance is at last being given to the Margo recommendations. Hopefully we have passed out of the era of "too little too late".

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BUSINESS

Barend's tax poser: He raised too much, but can't cut back

Barend du Plessis should be smiling — he raised more in taxes last year than he needed. But he's far from happy, because he can't cut back, reports HILARY JOFFE

THE revenue side of the budget to be presented in parliament on Wednesday must pose some problems for the government.

It has collected far more revenue than it was supposed to in the 1989/90 fiscal year and is coming under pressure to reduce taxes and cut import surcharges. At the same time the government wants a budget which will not act as an incentive for higher spending this year.

The balance of payments situation will still impose constraints on economic growth even if there is an easing in foreign bankers' attitudes to the country and therefore to the foreign debt situation. The government has also vowed to keep up its anti-inflationary drive this year.

Economic growth this year will be slower than last year — around one percent, down from 2,7 percent — and that will reduce the growth in revenue from taxes and customs duties to some extent. But the government will still have scope to cut back on revenue raising measures such as import surcharges and taxes.

The problem is that cutting the import surcharge might lead to an increase in imports, which the government wants to avoid. A surplus of up to R7-billion on the current account of the balance of payments may be needed to cover capital outflows and build up South Africa's foreign exchange reserves. Imports cannot be allowed to rise if this is to be achieved. But the import surcharge — which since August 1988 has been up to 60 percent on some goods — has helped to bring the government revenue it doesn't need. It also has negative effects on investment and distorts companies' balance sheets, because a 15 percent surcharge is levied on capital goods (plant and machinery). What the government might do in the budget is to end this capital goods surcharge without changing the charges levied on imports of consumer goods and raw materials.

The tax issue also poses a dilemma. The amount of revenue the government has collected from personal income tax in the 1989/90 fiscal year may turn out to be 35 percent higher than in 1988/89, much higher than the 22,5 percent increase planned in last year's budget. This is a result of fiscal drag: as salaries rise in line with inflation, people move into higher tax brackets so the government gains without any change in tax rates.

According to one estimate this week, for every 10 percent increase in the personal income tax base the government's revenue rose by 18 percent. The government may have gained an extra R2-billion from the fiscal drag factor.

The government has in any event been coming under pressure to reduce personal income tax rates. While South Africa's 45 percent top marginal tax rate is not exceptionally high by world standards, it does take effect at a relatively low salary (R54 001 a year for a single person). Middle income households are seen by some analysts as being particularly overtaxed. Last year individuals were budgeted to carry up to 60 percent of the total tax burden, if sales tax is included.

Finance Minister Barend du Plessis has recently stressed government aims to reduce the marginal tax rate to a maximum 40 percent taking effect at an income level of R100 000. But he added this would not take effect before next year. He said while government was cutting spending, this would take time and it could not afford to cut taxes yet.

But real cuts in taxes also increase people's disposable income and therefore their spending power. If the government is trying to limit economic growth this year, cutting personal taxes would presumably not be on the cards.

It is, however, likely that there will be concessions on personal income taxes in next week's budget but these will do no more than neutralise the fiscal drag factor. Budgeted revenue figures are likely to show the total tax burden on individuals up in real terms despite concessions implemented.

There may be concessions regarding tax payments on interest and dividend income. There has also been some speculation that complete separate taxation for married couples will be introduced. Site tax now applies to all married women who receive "remuneration" (salaries or wages from employers), providing some relief particularly for high-earning women. But this doesn't help self-employed women and married women's interest as dividend income is still taxed with their husbands'.

This budget is likely to be more significant for the tax changes it points to for the future, than for any it implements in this coming 1990/91 fiscal year.

It is expected the government will announce the introduction of the long-overdue Value Added Tax to replace General Sales Tax, but VAT will only be implemented as of April 1 next year. VAT would bring the government more revenue, because it would be levied on a broader base, so its implementation in next year's budget could go with real tax cuts.

It's on the spending side that the government has made its commitment most clear: Du Plessis has said there will be real cuts in government expenditure in this budget.

With the inflation rate expected to be 13-14 percent this year, economists' forecasts of the rise in government spending vary from 10 percent up to a more likely 12-13 percent.

Taxi Association, was treated for wounds at the Natalspruit Hospital yesterday as widespread violence and arson continued in the East Rand township of Katlehong. ● Photograph: Alf Kumalo

Govt's Budget sweetener: easier HP

Star 10/3/90 (49)

ANN CROTTY

CONSUMERS have been given a pre-budget present in the form of a relaxation of hire-purchase legislation.

From today, anyone buying household goods such as stoves, fridges and televisions on HP will only have to make a 12 percent deposit and will have 24 months to pay for the purchase.

The HP legislation on video cassette recorders remains unchanged at 30 percent for the deposit and a repayment period of 12 months.

In August 1988 the HP deposit on household goods was raised to 20 percent and the repayment period cut to 18 months in an attempt by the Government to reduce consumer spending.

The high level of consumer spending was believed to be a major factor in the increasing rate of inflation.

The most important considerations for consumers who purchase on HP are the size of the initial deposit and the size of the subsequent monthly repayments.

Reducing the deposit and reducing the size of the monthly repayments — by extending the period in which the repayment has to be effected — means that funding the purchase will be significantly easier.

Sources in the household and furniture industry welcomed the move as long overdue. They believe the furniture industry has taken the brunt of the Government's efforts to curb consumer spending, adding that the consequent knock to the industry has resulted in considerable loss of job opportunities.

Relief had been expected in Wednesday's Budget and there is still some hope that the Minister of Finance will announce some reduction of import surcharges on Wednesday.

There are mixed feelings on the extent to which the move will boost spending on household goods, which has remained at relatively high levels because of the increasing spending power of black consumers.

In addition many manufacturers have introduced their own in-house credit schemes in an attempt to counter the effects of the stricter HP legislation.

Nationalisation hedges to fore

Star
10/3/90
(49)

Inside Out

ANNE CROTTY

LAST year it was all about rand hedge stocks. This year it looks as though it's going to be the nationalisation hedge shares that steal the limelight and investor enthusiasm.

In most cases the rand hedge share has the same characteristics as the nationalisation hedge share.

But while in the case of the former, shareholder attention focused on the damage that Nationalist Party politics and sanctions was doing to the economy, the attraction of the nationalisation hedge share reflects investor obsession with what the ANC (or related parties) might try to do to parts of the economy.

De Beers' restructuring delighted the market. The news lifted the share price R22 in the week (the previous week had also seen strong advance on the back of speculation about a deal).

There'd been talk of just this sort of move for over a year — obviously not too many people believed it or they'd have piled in when the share was around R40 12 months ago.

So far the share price seems to be having trouble staying above R90, despite analyst belief that it could now easily top R100.

Presumably lots of accountants in lots of companies are drawing up sort-of contingency plans for the same sort of restructuring — for purely economic/financial reasons and without any hint of political expediency, of course.

The market seemed much livelier this week, not just in terms of activity, but also in terms of rumour.

Myles tells me Saficon is definitely not involved in any deal (or even talks) with Barlows. Apparently executive chairman Sidney Borsook was concerned that investors might only be buying on the strength of this rumour and took the trouble to inform the JSE there was no truth in it.

This is entirely consistent with the man's commitment to keeping his shareholders informed.

In the absence of any deal, it seems some players have decided the group deserves rerating.

Also no substance to reports FSI is taking over Boltons. This story has been making erratic appearances on the JSE over the past six months or so.

Lonrho has been actively traded in the last few weeks, giving rise to speculation that the group is involved in a deal.

Something is on the go at Fedvolks. Myles doesn't think it is another MBO or that it is related to the bad news expected on the Tek front.

This means he's reduced the list of possibilities to a restructuring of part of the group, the sale of part of the group or the listing of part of the group. Hardly informative at all.

No news yet from Furntech — shareholders are still waiting to hear what valuation has been placed on the operating assets that have been sold to MacSteele.

It seems like an amazingly long delay, given that the deal was done so many months ago. Year-end was December, so some figures will have to be released by end-March.

Ahead of Landlock's results — due out next week — is the old rumour of a change of control from British parent BBA. Local management says it hasn't been informed of any such move.

Should workers fear the ANC?

SI Times 11/3/90

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N TELEVISION and in a great nany photographs you can see im standing just behind Nelson Mandela — Cyril Ramaphosa of he National Union of Mineworkers.

And he is listening to what Mr Mandela is saying: We are going o nationalise the mines and banks nd break up the monopolies.

I wonder what he is thinking as e stands there, listening?

Perhaps: striking against the apitalist mine bosses was the ight thing to do. Striking against nine bosses who are the ANC: will hat be right? Will it be possible?

Won't I lose my power base? fter all, I am an important man the country, working for my nion members against the Great xploiters.

Look at Zimbabwe: a liberated ountry where the unions have ttle say and are of less conseuence. In fact, where on our connent are the unions in the same owerful position as they are ere?

Perhaps, Mr Ramaphosa might

Harald Pakendorf

says trade unions should pause to think about nationalisation and how it will affect them

be ruminating, nationalisation is something we can think about again. After all, why not let an ANC government hit big business really hard with tax while we go on strike for higher wages? That might be a better way of redistributing wealth.

On the other hand, in any period after liberation will we still be free to strike at all? There is very little historical evidence of freedom to strike to put pressure on a new government anywhere in the world.

It might just be expected that we all pull together, that we be united for the greater good of all, that we should suffer a little — only in the beginning, the new government will say, but who knows how long the beginning is going to be?

Is that what Cyril Ramaphosa is thinking as he stands behind Mr Mandela? If not, he ought to be considering some of the possibilities which liberation may bring with it.

After all, it is not as if all the unions — even in his federation, Cosatu — are as one on all issues, either politically, in the way they see their own roles, or on how the economy should be run.

Because what has happened since February 2 is that the political playing grounds are now open to all — not quite level, though, as some still have to play uphill while the powers-that-be have several advantages.

We are all South Africans now, competing with each other for political power and influence among all the people of the country. And that makes a difference.

Cosatu already knows this. It is competing with Nactu. And if our own Communist Party is anything like communist parties elsewhere in the world, it is also looking to the workers as its real power base — to Cosatu members, to Cyril Ramaphosa's supporters.

Is the ANC not also going to look to the same people for votes in future — competing with the SACP, the PAC, Inkatha and possibly a number of smaller groupings — politely knocking on your door, and asking: "Excuse me, sir, I represent the ANC and I wondered if you would care to join?"

And if you decline, the kindly canvasser will shake your hand and say: "It's a free country and you can join any political party you wish, sir. Thank you for your time, sir."

Is that how it is going to be? Somehow, I doubt it. Initially the competition for support might just be more direct.

However it happens, the fact is that just being against apartheid and white minority rule is not enough any more. We all need to consider what it is we want when the New South Africa comes about — and it is something we have to begin to spell out now and to live now.

Just mouthing the words of long ago might be safe and make you feel good, but South Africa today is not anywhere near the South Africa of the Fifties.

The New South Africa will be even more different, with this nice exception to the past: we can all help shape it. It is conceivable that the mineworkers and other union members do not see their new-found freedoms *as workers* just disappearing in the name of liberation.

Perhaps then we should not be all that concerned about some of the slogans some of the politicians are mouthing some of the time — because all of the voters are not going to fall for all of the slogans.

Because it *is* a new ball game and nationalisation might not be bad only for Anglo but also for the mineworkers. And the union bosses.

Barend to fight fiscal drag

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MIKE ROBERTSON

CAPE TOWN — Finance Minister Barend du Plessis is expected to table a Budget of not more than R73bn this week and its highlights are likely to be a concerted effort to eliminate fiscal drag, and possibly small decreases in actual rates of taxation.

Du Plessis has promised real cuts in government expenditure but cautioned against expecting too much in the way of tax cuts as "there will be a lag in the time it will take some of the expenditure cuts to materialise to their full extent".

Although Reserve Bank Governor Chris Stals and Finance director-general Gerhard Croeser have called for the deficit before borrowing to be matched against capital expenditure, rather than the internationally accepted guideline of 3% of GDP, this is unlikely to be achieved.

BDay 12/3/90

The actual deficit can be expected to be in the region of 3% of GDP, higher than the R7bn being predicted by most economists.

On the spending side, defence and public works budgets can be expected to be kept in check at current levels of R9,9bn and R1,7bn respectively. The defence budget is likely to be reduced.

Du Plessis has listed government's spending priorities as: education geared towards SA's manpower needs; primary health care — preventative medicine; and shelter (housing).

Departments dealing with these areas, particularly Stoffel van der Merwe's Department of Education and Training, are expected be be the only ones to record real

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Fiscal drag

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☐ From Page 1

increases in budgetary allocations.

The net effect will be to increase the amount allocated to education (at present about 19% of the total Budget) and health (9%), while reducing the amount allocated to protection services (23%).

The percentage of total Budget funds currently allocated to housing is just over 1% and, although a substantial increase can be expected, the percentage figure will not change much.

Croeser has said only a small decrease can be expected in the amount government spends on servicing its debt (R9,8bn was allocated last year).

He said although government used the receipts of the Iscor privatisation to reduce its debt burden, for monetary policy purposes it also borrowed extensively to reduce liquidity in the market.

Had government not borrowed, a decrease of R500m in the cost of servicing its debt could have been anticipated, he said.

Although government is committed to reducing marginal tax rates to a maximum of 40% at the income level of R100 000, as opposed to the present 45% at R80 000, any dramatic move in this direction can be discounted.

This is because government is committed to reviewing import surcharges. While the total abolition of the surcharge is unlikely, a sharp reduction, followed by a gradual phasing out, is likely.

Government is also finding the elimination of fiscal drag a costly exercise, especially as it attempts to alleviate problems at the bottom end of the tax scale.

Although Du Plessis has said in Parliament that existing GST exemptions are a blunt instrument when trying to provide relief for the poor, he is unlikely to tamper with them until the introduction of VAT.

☐ GERALD REILLY reports from Pretoria that economists expect real tax relief.

Volkskas economist Adam Jacobs estimated Du Plessis would be in a position to grant relief of up to R3bn and calculated it would cost R2bn merely to eliminate the impact of fiscal drag. If goverment continued its fiscal discipline Du Plessis would be able to make substantial concessions in the 1991/92 Budget.

Stellenbosch Bureau for Economic Research chief Ockie Stuart said compensation of fiscal drag should be a priority.

Waiting for Budget boost

Star 12/3/90 (49)

While the civil service is preparing to take severe financial cutbacks when the Budget is announced on Wednesday, three Government departments, in dire economic straits, are hoping for large cash boosts.

VIVIEN HORLER and STEPHEN WROTTESLEY report.

As the civil service braces itself for massive financial cutbacks in the Budget to be announced by Finance Minister Barend du Plessis this week, three Government departments are hoping for major cash boosts.

The police, health and education services are in crisis. Further economic squeezing could bring them close to their knees.

Democratic Party finance spokesman Mr Harry Schwarz believes that while Mr du Plessis will present a tight Budget with no increase in real expenditure, the socially oriented departments and the police are likely to be exceptions.

Money won't solve every problem facing the three departments, but spokesmen for all three concede it would help.

The need is staggering:

Dr J B Z Louw, Director-General of the Department of Education and Training, said almost R2 billion was needed if every black child — including those in the "self-governing" territories — was to be assured a place in a classroom.

More than 18 hospitals are reeling under a strike called by non-medical workers who work a fulltime day for as little as R500 a month.

Policemen are expected to work long hours without overtime — 80 hours a month overtime for detectives is routine — and to risk their lives for less, in some cases, than the minimum wage negotiated by unskilled workers in the recent South African Breweries strike.

The Government has closed 203 white schools, including seven high schools, in 10 years because of a drop in pupil numbers. At the same time there is a backlog of 6 000 black classrooms which will cost R700 million to clear.

According to the latest figures, in 1987-1988 the Government spent R2 538 on the education of each white child, R1 857 on each Indian child, R1 286 on each coloured child and R503 on each black child.

At present in South Africa people cannot talk about education without adding the word "crisis".

There is concern across the board about the major problems facing education, from falling white pupil numbers to militancy among black pupils, appalling teacher-pupil ratios, chronic shortage of facilities and books, poor teaching, low salaries, claims of improper practices in exam-setting and marking, and the low rate of black matric passes.

Dr Louw said the biggest problem his department faced was the increase in the number of black pupils.

It would cost about R900 million to eradicate the backlog and create enough classrooms for all the black children falling under his department, Dr Louw said. To cope with the children in the self-governing states such as kwaZulu, Lebowa and QwaQwa, his figures should be doubled.

In the police force, a matriculant can expect a starting salary of R485 a month.

According to Minister of Law and Order Mr Adriaan Vlok, the police need an extra 11 000 men. This is at a time when resignations for January were, according to informed sources, in excess of 700.

A lieutenant who recently resigned said that while working as a detective, he worked 76 hours instead of a 40-hour week. "On weekends, public holidays and days off we did not hesitate to report for special duties when ordered."

An informed source said:"What money the police are given will probably only be enough to address the problem of overtime. I think it highly unlikely that there will enough for anything else."

Incorrect drug

As Cape hospitals tried to cope in spite of a strike by thousands of non-medical staff last week, it became clear that the crisis in South Africa's health services had reached frightening proportions.

Angry nurses, trained by the State at great expense, are leaving the profession in their hundreds; specialist units are being suspended or closed; and patients are being turned away.

Interns work numbingly long hours — late last year a city woman died after a doctor who had not slept for more than 25 hours gave her the wrong drug.

The strike, which is threatening to spread countrywide, has been backed by Groote Schuur superintendent Dr Jocelyn Kane-Berman, who said: "The minimum wage is completely inadequate and the other demands are justified.

The workers, who include cleaners, porters, kitchen and laundry staff and some security personnel, want a minimum wage of R1 140 a month, a 40-hour week, permanent status, maternity benefits and recognition of the Health Workers Union.

Speaking after being chosen as the new chairman of the South African College of Surgeons, Professor John Terblanche said recently that the crisis in academic medicine and the nursing profession was so serious that unless something was done urgently, South Africa's health services would implode.

Ciskei counts riot costs

Star 12/3/90

While President Lennox Sebe's downfall was greeted with almost universal jubilation in Ciskei, the damage done in the looting and arson that followed will take years to repair, reports **YOGIN DEVAN.**

The Ciskei People's Development Bank, owner of most of the commercial properties razed in the aftermath of the coup in Ciskei, is to request Pretoria and the new government in Ciskei to provide funds for rebuilding.

Insurance will not cover the massive losses, estimated at more than R110 million, incurred by the bank when factories and shops were looted and torched last Sunday and Monday after Chief Lennox Sebe was toppled from power.

In terms of political riot cover carried by the bank, the South African Special Risks Insurance Association (Sasria), which offers the cover, will pay only a maximum of R5 million for the bank's losses. This means the bank will have to find scores of millions of rands from other sources to make good its losses.

Mr Graham Wright, senior manager in charge of technical services for the bank, said preliminary estimates showed that damage to buildings in the Fort Jackson industrial area totalled R10 million and loss of contents amounted to

Mr Don Gallimore, MD of Price Forbes group broking services and widely regarded as South Africa's pundit on political riot cover, said companies owning property in the homelands would probably have been offered additional cover with Lloyd's of London.

He said the limit of R5 million cover in Ciskei was determined by the size of the country's economy.

Mr Wright said the bank had not bought additional cover from Lloyd's.

He did not believe any industrialists had bought additional cover of their own accord.

The bank is busy with a concerted drive to encourage businessmen to re-establish them-

End of downturn in sight

B\Day 13\3\90

(49)

SYLVIA DU PLESSIS

THE current economic downswing should reach its bottom in the fourth quarter of 1990, after which economic growth would accelerate again, SA Chamber of Business (Sacob) economist Keith Lockwood said in the chamber's latest survey of confidence levels in the manufacturing sector.

While this was bound to be reflected in any survey of business confidence regarding prospects for next year — particularly if the slowdown was perceived to be stable — there were worrying aspects, he warned in the survey released yesterday.

One was the recent signs of strain on the socio-political environment — on which much of the resurgence in business confidence was based — which had introduced the possibility of further restrictions.

Sacob's latest survey reflected a slim rise in industrial confidence last month, with the index of expected sales volumes for the next 12 months rising to 132 from January's 128.

Regional forecasts for sales, production and stock volumes for the coming year showed Maritzburg remained most optimistic despite the conflict in the area which was unlikely to be resolved in the near future, Lockwood said.

The manufacturing activity index, which reflects expected orders, climbed to 132 from 100 on seasonal factors and a more favourable political climate, which had prompted some businesses to initiate new projects and place orders for manufactured goods.

But Lockwood said there were still clear indications the real economy was slowing down "albeit somewhat hesitantly".

The Seifsa index — to which Sacob's survey on manufacturing activity is linked — rose "significantly", but remained below 100 due to relatively unfavourable con-

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Downturn

B\Day 13\3\90

(49)

☐ From Page 1

ditions persisting in the steel and engineering fields.

Lockwood said attempts to put fundamental economic changes "on hold" while the political process resolved itself would lead to further socio-political upheaval and impoverishment.

He said SA's international acceptance could resolve one of the major constraints on the economy — the need to repay large debts in a relatively short space of time.

However, there was no guarantee this would happen if the economic system in operation failed to yield an economy with the ability to grow rapidly.

Other "pressing" needs which had to be addressed included the skilled labour shortage, the education structure and the housing shortage, Lockwood said.

☐ In its Budget preview yesterday, Sacob said a significant shift in emphasis from defence to maintaining domestic law and order was a matter of urgency.

The chamber said it was essential for business confidence that law and order be preserved, as reform and change could take place successfully only within a framework of stability.

Sacob said government should adopt a programme of fiscal management which did not allow state debt to reach "embarrassing proportions" and thereby place an "unusually high" interest burden on the taxation base.

The chamber said it believed scope existed for a degree of tax reform, particularly in regard to raising the ceiling of all personal income tax brackets by 15%-20% "in the interests of equity". Consideration should also be given to reducing the number of tax brackets.

The corporate income tax rate should be cut to equate the maximum marginal individual rate and the import surcharge — which had failed to curb imports and was not intended as an additional source of revenue — should be abolished.

Government's assurance that it would be more efficient in spending public funds and its declared intention to reduce overall taxation of individuals to promote saving, investment and economic growth were the criteria against which the business community would test tomorrow's Budget.

'Dissaving' spree might be halted

(49)

BDay 13|3|90

GRETA STEYN

GOVERNMENT looks set to announce in the Budget speech tomorrow that it practically avoided using long-term loans to finance consumption expenditure during the fiscal year ending this month.

Latest indications are the deficit before borrowing in 1989/90 will virtually equal government's capital spending of about R5bn, or 2,2% of GDP. Consumption spending of about R60bn was financed with current revenue.

The use of capital market loans to finance consumption spending — known as "dissaving" — was a criticism often levelled at government during the past four years.

Economists say long-term loans should be used to finance long-term assets. Government dissaved to the tune of billions of rands in previous years.

The shrinkage of the deficit is the result of an explosion in revenues. Budgeted to rise by only 16%, projections are for a final increase in revenue of about 26%-27%. Thus total revenue collected during the 1989/90 fiscal year will be about R60bn.

With total spending of R65,18bn, this leaves a deficit of about R5,18bn — close to budgeted capital spending of about R5,08bn.

A deficit of that size is almost R5bn lower than the budgeted deficit of R9,9bn.

However, the virtual matching of current revenues with current expenditures during 1989/90 is likely to be a one-off for the time being.

The surge in revenue will not be repeated in the next fiscal year, as government is committed to start reducing the tax burden. In addition, the economic downswing also puts a dampener on revenue. Expectations are that the budgeted increase in revenue will be only 10%.

Room for manoeuvre on the spending side is also limited, with the general expectation being a 12% rise. This will yield a deficit of about R7,5bn for the coming fiscal year.

B/Day 13/3/90

Likelihood of a good Budget seen in finance markets

ROBERT GENTLE (49)

FINANCIAL markets — bond, futures and equity — were cautiously optimistic about tomorrow's Budget, participants said, citing expected good news on tax, expenditure and inflation as the main reason.

This meant a relative absence of speculators and punters from the futures market, traditionally the haven for anyone wanting to hedge against — or profit from — huge market swings.

"There shouldn't be any major runs one way or the other," said a gilt trader from stockbroking firm Simpson McKie. "The market is fairly balanced and appears to have already discounted a good Budget."

Greenwich Futures and Holcom Futures traders acknowledged the absence of serious position-taking ahead of the Budget, but they did not rule out the possibility of some last-minute activity today.

They said if — as expectations suggested — the 1,5% marketable securities tax (MST) applying to all share transactions was scrapped, the futures market would reap the benefits.

No MST would mean a greater number of shares changing hands on a more liquid JSE, greatly facilitating arbitrage between futures and equities.

JSE chairman Peter Redman said the abolition of MST would help all derivative markets.

"It would be a mistake if MST was increased," Redman said, citing speculation that a doubling of the tax could be on the cards.

On interest rates, the view was equally bullish. Expected lower inflation combined with less government paper in the market meant positive news for long-term interest rates, said a trader from Cape Investment Bank.

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ANC 'will not do it'

Sowetan 13/3/90

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SOUTH Africa's longest-banned person, Mr Rowley Arenstein, a committed communist since he joined the SA Communist Party, says he does not believe the ANC will seriously consider nationalisation.

Interviewed in the March issue of Southern Africa Special Dispatch, Arenstein said: "You can't build socialism on a backward economy. Marx said that, and Soviet experts now say it could take a century before a socialist state can be reached in SA." - Sapa.

No Budget fireworks seen

Star 13/3/90 (49)

Finance Staff

Economists and businessmen expect tomorrow's Budget will yield little to stimulate growth, but will rather focus on the Government's current major prerogatives: reducing inflation and protecting the balance of payments.

The economists say the bias will be towards fiscal discipline and that although it has suffered from a lack of credibility in the past, the Government will probably emphasise its commitment to lower spending.

Adam Jacobs, Volkskas economist: As economic growth is already slowing down, the Budget will not dampen growth further. However, as the emphasis is on protecting reserves and lowering inflation, we expect a neutral Budget with expenditure growth below the inflation rate.

As a result of last year's surge in revenue, the Government can alleviate the tax burden by about R2 billion to R2,5 billion. This could involve a combination of alleviating fiscal drag on personal tax, reducing import surcharges and tax relief for gold mines.

Edward Osborn, Nedbank economist: A tight and restrictive Budget should be expected, with a minimal 13 percent increase in expenditure forecast.

The forecast for revenue rises could range from 15 to 15,5 percent, while the deficit before borrowing should be held at R5 billion to R7 billion.

We could, however, see some relief as far as fiscal drag is concerned, with the top marginal rate being raised to R100 000 and the lower threshold being lifted.

Some improvement in the tax-free amount on savings interest received is also possible.

David Meades of brokers Meades De Klerk: I hope the Government will present us with a well-balanced Budget, which will reflct the same sort of imaginative thinking prevailing in the political field of late.

Trading on the JSE should be boosted as it rewards those who take risks and create wealth.

We would therefore hope that Marketable Securities Tax (MST) will be abolished completely, tax on dividend income scrapped altogether and tax on interest income only applied if it exceeds R50 000.

Brian Bechet, GM client services at the Board of Executors: The Minister must maintain a tight reign on state spending and seek to reduce levels of tax if there is to be a "soft landing" for the economy.

However, he will be pressured to increase spending in areas of education, housing and health, for which the cuts in the defence Budget and a reduction in financial commitments to Namibia will not be sufficient.

This will make extensive reductions in personal tax unlikely, although they are long overdue, as is the abolition of MST and a lower GST.

Producer price rises slow slightly

Star 13/3/90 **Finance Staff** (49)

Increases in producer prices as measured by the producer price index (PPI) slowed down slightly in January to a year-on-year 14,1 percent, compared with 14,6 percent in December.

However, the index rose 0,9 percent in January from the December level, the Central Statistical Services reported yesterday.

Producer prices for locally made commodities rose 14, percent in January, against 14,5 percent in December, while imported commodities increased by 14,4 percent in January, against 14,7 percent in December.

Hopes that the Budget will focus on consumer issues

Star 13/3/90 (49)

By Marguerite Moody

Consumer bodies and chainstores are hoping that tomorrow's Budget will make provision for the consumer and will focus on issues that affect the life of the consumer.

Checkers group managing director Mr Sergio Martinengo said health, education and housing were issues that needed considerable attention, as did positive action against the rate of inflation.

He said he believed that surcharges on imports needed to be reviewed and phased out, as these boosted inflation.

"Another aspect which affects the average consumer is the expected decision to replace GST with the VAT system. This needs to be clarified and justified as soon as possible," Mr Martinengo said.

Housewives League vice-president Mrs Sheila Lord told The Star that if the VAT system were introduced, all foods and all prescribed medicines had to be exempt from this form of taxation.

"Millions of people live off items at present exempted from GST, such as fresh foods. However, the VAT system is expected to be introduced across the board and this will mean more hardship for a great number of people."

Mrs Lord said the Government had to cut down on expenditure and she urged Government departments to be "better housekeepers".

Pick 'n Pay chairman and MD Raymond Ackerman said many companies wanted to see a change in the way surpluses on the sale of shares were taxed in the sellers' hands.

"Companies should be able to issue shares to staff without being taxed."

This was one way to confront the nationalisation argument, Mr Ackerman said.

Consumer Council chairman Mr Jan Cronje told The Star that although he did not want to speculate on the Budget before it was tabled, he hoped the man in the street would benefit as far as personal tax was concerned.

Spendthrift PW no longer a hurdle

Now Barend has a freer hand

49

Star 13/3/90

By PETER FABRICIUS,
Political Correspondent

CAPE TOWN — Finance Minister Barend du Plessis will deliver the national Budget tomorrow confident he has at last achieved what he has struggled for since he began the job: real command of economic policy.

This will be the sixth Budget he will deliver, but only the first free of the inhibiting influence and profligate spending habits of Mr P W Botha.

Mr du Plessis has always been committed to restraint in Government spending. But every year since he took over as Minister of Finance in August 1984, aged 44, he has been thwarted by Mr Botha, to whom the Treasury often seemed little more than a pork barrel to be dipped into at will for buying political advantage.

Mr du Plessis dismayed businessmen, economists and consumers when he admitted at the start of his career that he frankly did not have the political clout to demand more fiscal discipline from his more senior Cabinet colleagues.

And even though he has grown in stature and confidence since then, it has been quite clear all along that neither he nor anyone else in the Cabinet ever summoned the courage to tug Die Groot Krokodil's purse strings.

Destroyed credibility

Mr du Plessis conceded this a few weeks ago in a magazine interview when he criticised Mr Botha for inconsistency in his economic policy.

The Minister cited the example of the R2 billion pay rise which Mr Botha insisted that he give to teachers late in 1988 — after Mr Botha had called for wage restraint at the opening of Parliament and promised that public servants would get no salary increase that year.

"Changing priorities in this way consequently destroyed our financial credibility, severely damaged business confidence and demotivated out advisers," Mr du Plessis candidly admitted.

Mr Botha's profligacy was especially evident in the defence budget, which last year soaked up about R10 billion from the national coffers.

As former Minister of Defence with an obvious love of matters military, Mr Botha seldom resisted pleas for more money from the generals.

Even after the settlement to end the Namibian war was signed in December 1988, the military's voracious appetite for money was not stilled.

In the additional budget early in 1989, the Defence Force asked for another R460 million, or 26 percent more than budgeted for, and made the astonishing pronouncement that the peace was going to cost more than the war — mainly because of the need to develop conventional weaponry neglected because of the protracted guerilla fight in Namibia.

That was the sort of argument which would probably have convinced Mr Botha. It did not, however, cut much ice with his successor.

At a Bushveld indaba with the generals last November (probably the same one at which he was briefed about Military Intelligence but not informed of the Civil Co-operation Bureau) Mr de Klerk rudely dispelled their daydreams of more deadly toys in the SADF's Christmas stocking. He told them the defence budget would be slashed, and early this year the SADF announced that several units would be shut down and weapons projects shelved.

This year the SADF produced no additional budget at all — surely something of a record. And it is widely expected that the main defence budget will also be cut, at least in real terms.

There have been other signs of real determination to cut costs. A rather remarkable one was the announcement by the Prisons Department late last year that many convicts would be released early to keep the budget within targets.

It was no surprise when the additional budget this year showed that the Government had overspent by only R163 million, or 0,25 percent.

All of this must be music to Mr du Plessis' ears, since it means the primacy of his influence on economic policy has at last been restored.

He has been the first to admit he owes some of his new clout to the new Minister of Administration and Privatisation, Dr Wim de Villiers.

This former chairman of Gencor has brought his blunt management style from the private sector into Government and has added considerable weight to Mr du Plessis' cost-cutting arm.

He is believed to have had a big hand in delivering the bad news to the generals, for instance.

Mr du Plessis also owes much of his new influence to his recently enhanced political stature.

Although always an outspoken verligte champion, the extent of Mr du Plessis' influence was not fully apparent until February 2 last year when he broke out of the pack to run a very close second to Mr de Klerk in the caucus election for the NP leadership.

This suprisingly good performance ensured his election as NP Transvaal leader last year over the heads of several senior Cabinet colleagues — and confirmed his status as NP crown prince.

No longer does he need to touch his forelock and beg his colleagues for financial restraint.

Local authorities: remuneration

*2. Mr R M BURROWS asked the Minister of Planning and Provincial Affairs:

(1) Whether he has received a report from the Commission for Administration on the remuneration of local authority councillors and committee members; if so, (a) when did he receive the report, (b) what were the main recommendations made in it and (c) what is the likely annual additional cost which would be incurred by local authorities in implementing the recommendations contained in the report;

(2) whether the Council for the Co-ordination of Local Government Affairs has considered the above report; if not, why not; if so, (a) to what effect and (b) what alternatives have been recommended? B352E

The MINISTER OF PLANNING AND PROVINCIAL AFFAIRS:

(1) Yes.

(a) 18 June 1989.

(b) That a comprehensive remuneration system of which the detail has not yet been formulated, be determined.

(c) As detail has not yet been formulated in the report, the likely costs that it holds in for local governments cannot be determined.

(2) Yes, before the Action Committee of the Council for the Co-ordination of Local Government Affairs.

(a) It has been decided that the recommendations, contained in the report of the Commission for Administration, be accepted, provided that:

(i) the rand value as mentioned in the report be determined by the Office of the Commission for Administration;

(ii) any discrepancies and other deficiencies which may occur be addressed by the Office of the Commission for Administration;

(iii) special attention be afforded to the position of the deputy mayor of Cape Town and the deputy chairman of the management committee of a local authority, as well as to the positions of persons in other relevant posts; and

(iv) the Office of the Commission for Administration (convener) and the four provincial governments determine a formula, as well as finalise the objections raised.

It was also decided that after the conditions have been reconsidered and discussed, the Office of the Commission for Administration again submits the report as adapted to the Action Committee of the Co-ordinating Council for discussion.

In the meanwhile the Office of the Commission for Administration withdrew itself from the investigation. The Co-ordinating Council for Local Government Affairs convened a special meeting on 8 December to consider the matter. During the meeting it was decided—

that the four administrators, with Administrator D J Hough as convener, will consider the matter further and finally decide on the percentage of the proposed increase in the remuneration of councillors as well as the date of commencement; and

that the Minister of Planning and Provincial Affairs will clear the matter of parity in the compensation of councillors of local governments with the Own Affairs Ministers.

The matter has thus not been finalised.

(b) None.

The state v W H Rabe

*3. Mr L FUCHS asked the Minister of Justice:

(1) With reference to the case of *The State v W H Rabe*, concluded in the Piet Retief Regional Court on 12 February 1990, (a) for what offences was the accused (i) charged, (ii) prosecuted and (iii) convicted and (b) what sentence was handed down; Hansard 13|3|90

(2) whether any witnesses present at the time of the alleged offences were committed were not summoned to appear in court; if so, (a) which such witnesses and (b) why? B357E

Hansard 13|3|90

The MINISTER OF JUSTICE:

(1) (a) (i) Murder

(ii) Culpable Homicide

(iii) Assault

(b) R100,00 or 50 days' imprisonment.

(2) Yes.

(a) M S Nkosi, L N Xaba, J Q Sithole and M S Ndlangamandla. The latter two did in fact turn up at court.

(b) I had enquiries made and it seems that the main state witness's evidence was in no way contradicted and that there were no challenged facts concerning the assault between the State and the defence. The District surgeon further testified that the cause of death had absolutely no connection with the assault. In the light of these facts the prosecutor concerned decided not to call any further witness.

I would like to add that I do not agree with the sentence that was imposed and cannot defend it. This is an excellent example where the State would possibly have liked to appeal against the sentence. A proposal in this regard will be laid upon the table soon and I am of the opinion that I shall get support of Parliament.

My opinion, which I have repeatedly stated, is that the lower courts are under the control of the Supreme Court and that the Supreme Court should give the necessary guidance to the lower courts. It would be inappropriate for politicians to try and play this role.

Development Boards: taking over of staff

*4. Mr H D K VAN DER MERWE asked the Minister for Administration and Privatisation:†

Whether all phases of the taking-over of staff of the former Development Boards have been completed; if not, why not? (250) B361E

Hansard 13|3|90

The MINISTER FOR ADMINISTRATION AND PRIVATISATION: Hansard 13/3/90

Yes. However, requests for the adjustment of the dispensation of individual staff members, which were later received, are at present being attended to.

Inflation

*5. Mr H H SCHWARZ asked the Minister of Finance: Hansard 13/3/90

What action is being taken in order to reduce the level of inflation in South Africa? B363E

The MINISTER OF FINANCE:

The thrust of the Action Plan for the Combating of Inflation is fiscal and monetary discipline. Both of these have been exercised during the past year, and this will certainly continue.

(49)

Government spending is under control. The overrun in the 1989/90 Budget is estimated at a mere 0,3 per cent. Fiscal discipline will be maintained in the coming year. Details will be forthcoming tomorrow.

The promotion of saving must clearly be a component of a counter-inflationary strategy, and the Government sets a high premium on both personal saving and the avoidance of dissaving on its own part. But here too it would be better to wait until tomorrow for the fine print.

In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy, which was achieved inter alia by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in Bank rate. Positive real interest rates, together with disciplined public expenditure, have contributed to curtailing gross domestic expenditure growth successfully. Gross domestic expenditure actually declined by 1 per cent in real terms during 1989. These are important factors in the lowering of inflationary expectations. The more stable and even slight appreciation of the rand in recent months, was a further positive factor.

More generally and within a longer-term framework, the Government seeks to strengthen the supply side of the economy, and not least by tax reform that will reduce disincentives to labour and production: the taxation of married women is an example. At a wider remove are the substantial budget allocations to education and to the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale. Various steps have also been taken to improve efficiency in the public sector, eg the introduction of value-for-money auditing. Hansard 13/3/90

As far as the actual process of price formation is concerned, the government is committed to the free play of competitive market forces—hence the Competition Board, reinforced by the Consumer Council and the Harmful Business Practices Committee. Moreover, the Committee on Economic Affairs of the President's Council recently initiated an investigation into what it termed "price exploitation".

Inflation in South Africa over the past few years can however not be regarded as a problerm in isolation and with a solution of its own. It was and is an integral part of the whole adjustment problem with which the South African economy has grappled since 1984. In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential. The various elements of economic restructuring announced by the State President in his parliamentary opening address on 2 February 1990, which will be referred to during tomorrow's Budget Speech, are therefore very important in combating inflation.

Walvis Bay: representations

*6. Mr J H HOON asked the Minister of Foreign Affairs:† Hansard 13/3/90 [redacted]

(1) Whether the Government has received any representations for Walvis Bay to be handed over to the new government of an independent Namibia; if so, from whom;

(2) whether the Government has taken any decision in this regard; if not, why not; if so, what decision;

(3) whether he will make a statement on the matter?

B404E

The MINISTER OF FOREIGN AFFAIRS:

(1) During informal talks with designated members of the independence government of Namibia, they indicated that the people of Namibia would welcome it as a deed of great goodwill if Walvis Bay could be handed over to Namibia. Hansard 13/3/90

(2) The South African Government's position is that Walvis Bay forms part of South African territory. However, it is also realised that Walvis Bay is presently the only deep sea harbour available to Namibia. It is expected that discussions will be conducted between the South African Government and the future Government of Namibia about the use of Walvis Bay. [redacted]

(3) Falls away.

Komatipoort/Maputo road: assistance

*7. Mr A GERBER asked the Minister of Foreign Affairs:† Hansard 13/3/90

(1) Whether the Government (a) has decided to make available or (b) is considering making available financial and/or other assistance to Mozambique for the building of a road from Komatipoort to Maputo; if so, what amount has the Government contributed or does it envisage contributing; [redacted]

(2) whether the Government intends contributing financially on an annual or any other basis, towards the maintenance of this road; if so, (a) on what basis and (b) what amount is involved;

(3) whether he will make a statement on the matter?

B410E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes, but for the present only an amount of R300 000 has been made available for a feasability study. Afterwards attention will be given to the financing of the road. It may be that only part of the road needs to be rebuilt and that the remaining parts of the road will have to be renovated. The possibility of trying to procure overseas funding is also being considered.

(2) It will depend on the terms of any loan agreement which may be concluded between the two countries for the financing of the road. This does, however, not mean that a loan agreement will be concluded. Hansard 13/3/90

(3) Yes, when greater clarity with regard to all the facets of this matter has been obtained.

Zaïre: road building programme

*8. Mr A GERBER asked the Minister of Foreign Affairs:† Hansard 13/3/90

(1) Whether the Government (a) is supporting or (b) intends supporting a road building programme in Zaïre: if so, what amount has the Government contributed or does it intended to contribute towards it;

(2) whether he will make a statement on the matter? [redacted]

B411E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) No.

(b) No.

(2) Falls away.

Reserve Police Force: political activities

*9. Mr A P OOSTHUIZEN asked the Minister of Law and Order:† Hansard 13/3/90

Whether any instructions to refrain from political activities were issued to members of the Reserve Police Force during the latest specified period of three years for which information is available; if so, (a) on how many occasions, (b) for what reasons and (c) who issued these instructions? [redacted]

B413E

The MINISTER OF LAW AND ORDER:

I refer the honourable member to interpellation number 1 of 18 April 1989 (Hansard Column 677) during which this matter was debated. I regard the information which was furnished during this interpellation to also be an adequate reply to this question.

RSA/Lesotho: inter-state border fence

*10. Mr A P OOSTHUIZEN asked the Minister of Foreign Affairs:† [redacted] [redacted]

(1) Whether there is any dispute between the Republic of South Africa and Lesotho over the inter-state border fence erected Hansard 13/3/90 or to be erected between Wepener and Zastron; if so, (a) what are the points in dispute, (b) when is it expected that the dispute will be settled and (c) what steps have been taken or are proposed to be taken in this regard; if not, [redacted]

(2) whether there is any delay in erecting the border fence concerned; if so, what is the reason for the delay?

Hansard 13/3/90 [redacted] B415E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes.

(a) There is a difference of opinion between the Republic of South Africa and the Kingdom of Lesotho in connection with the location of the international boundary between Wepener and Zastron.

Two portions of the border are being questioned by the Kingdom of Lesotho, namely the Cornetspruit/Liphiring area and the Langeberg area.

(i) The Cornetspruit/Liphiring area lies north east of Zastron to the west of Mohales Hoek. The original border was indicated by beacons according to the coordinates and stipulations of the Second Treaty of Aliwal North (1869). In this area the border fence partially does not follow the border beacons and the fence is situated within the RSA. The fence was erected within the RSA for practical reasons because the beacons are on a mountain ridge which is extremely inaccessible. The positioning of the fence was a unilateral decision of the RSA for the practical reasons mentioned.

(ii) The Langeberg area east of Vanstadensrus. Here also the border is determined according to the stipulations and coordinates of the Second Treaty of Aliwal North (1869). The thus determined border results, however, in a triangle of about 80 hectares RSA territory "projecting" into Lesotho which

Opinion

SA urgently needs a new constitution to save economy

49

Cape Times 13/3/90

By HANS MIDDELMANN
former President of Assocom and a leading businessman

BOUNDLESS opportunities opened for South Africa with F W de Klerk's speech on February 2.

He promised to "our country and all its people ... universal franchise; no domination; equality before an independent judiciary; the protection of minorities as well as of individual rights...", and, in more detail, "... a totally new and just constitutional dispensation in which every inhabitant will enjoy equal rights, treatment and opportunity in every sphere of endeavour — constitutional, social and economic."

It was a startling unilateral statement of intent of immense merit and was made firmly and sincerely. The world at large and most South Africans had waited for it a long time. In making it, the State President, in less than an hour, discarded four decades of ideological baggage which had brought the country to its present sad state of affairs.

Visible proof

Clearly, the aim now is to build one nation in a single South Africa. For this to succeed and for the nation to be at peace with itself and to prosper, it requires further great statesmanship by President De Klerk and his colleagues. It requires also that the currently voteless majority of the population can recognise the proposed new dispensation to be to their advantage. They must also experience soon, in practical and specific terms, the equality of opportunities in all spheres that should flow from making South Africa an open society.

Unbanning the ANC and the lifting of press and other restrictions provided some immediate visible proof of the changing climate. Nelson Mandela's release strongly reinforced this impression as no other move could have done. And the amazing vitality with which he, a free man again after years of incarceration, responded positively and without malice to the challenges, augurs well for our future.

However, the events of the last few weeks have dealt with symptoms rather than with the substance of what is needed. By and large, what South Africans have experienced has come to them on the TV screen. It is still like watching chapter after chapter of an exciting television serial while wondering what comes next. The viewers can even identify with some of the events, particularly as they do not seem to affect their daily lives.

Chicken and egg?

Right now, South Africans continue to battle with many acute problems Lawlessness remains widespread, not only in Natal. The economy is in an almost no-growth situation and unemployment is growing.

Inflationary price rises are not matched by wage increases. (Only the parliamentarians easily overcame this handicap because, to their shame, even the gutless oppositions in the continuing tricameral system could not resist the temptation.)

Outside assistance can hardly be expected until the structure of the new South Africa is clarified and has the support of the population at large. But, says the State President, "The new South Africa is possible/only if it is bolstered by a sound and growing economy, with particular emphasis on the creation of employment."

So, if a new constitution is dependent on the economy, are we then in a true chicken and egg situation? Is it not that prosperity can only come to South Africa after we make the long overdue incisive political changes? It seems clear that any further delays in grappling with the fundamental details of the new constitution become increasingly costly in terms of political and economic frustrations.

Nationalisation

This is all the more so while many of the voteless majority in South Africa still believe that "taking over power", followed by the installation of a different "economic system", can resolve our problems. It is the result of years of rhetoric by those organisations that tried to act for the black masses who have neither political representation nor equal opportunities in their own country.

But, in the light of the history now being enacted elsewhere, the rhetoric of the ANC, MDM, UDF and others is changing. The lessons of the recent bloodless revolutions in Eastern Europe are not lost. After all, these came about because the ordinary people had realised that political structures, more than anything else, determine the level of prosperity in any country. The pseudo "democracies" of Eastern Europe and throughout Africa have paid a heavy price for having had one-party ideological self-perpetuating regimes in power for decades.

It is a pity, therefore, that the State President, in his famous speech containing his unilateral statement of intent, still hung on to the concept of protection of group rights and went no further than asking the Law Commission to identify "the main types and models of democratic constitutions which deserve consideration in the aforementioned context". No wonder Nelson Mandela and his colleagues also hang on to "nationalisation". Both believe that these are bargaining points in "negotiations".

Namibia

There is, in fact, not much to "negotiate" about the essential terms of a truly democratic constitution. Namibia went through the whole process in a matter of months. Their constitution, which comes into force this month, could well serve as a model for us. It has real legitimacy because it followed free and fair elections in which all citizens took part as equals. Its crucial terms cannot easily be abused by one or the other group. They follow the lines of those democratic constitutions that have proved themselves in all the successful countries.

What South Africa needs now is a second "Rubicon speech", in which the government sets itself a "Resolution 435". This resolution would contain the proposed procedure and timetable to achieve what the State President set out as the aim on February 2. It would be another unilateral declaration of intent. The urgency is great if we are not to have a prolonged period of uncertainty with disastrous effects on the economy. The time is now.

Local authorities: remuneration

*2. Mr R M BURROWS asked the Minister of Planning and Provincial Affairs:

(1) Whether he has received a report from the Commission for Administration on the remuneration of local authority councillors and committee members; if so, (a) when did he receive the report, (b) what were the main recommendations made in it and (c) what is the likely annual additional cost which would be incurred by local authorities in implementing the recommendations contained in the report;

(2) whether the Council for the Co-ordination of Local Government Affairs has considered the above report; if not, why not; if so, (a) to what effect and (b) what alternatives have been recommended?

B352E

The MINISTER OF PLANNING AND PROVINCIAL AFFAIRS:

(1) Yes.

(a) 18 June 1989.

(b) That a comprehensive remuneration system of which the detail has not yet been formulated, be determined.

(c) As detail has not yet been formulated in the report, the likely costs that it holds in for local governments cannot be determined.

(2) Yes, before the Action Committee of the Council for the Co-ordination of Local Government Affairs.

(a) It has been decided that the recommendations, contained in the report of the Commission for Administration, be accepted, provided that:

(i) the rand value as mentioned in the report be determined by the Office of the Commission for Administration:

(ii) any discrepancies and other deficiencies which may occur be addressed by the Office of the Commission for Administration;

(iii) special attention be afforded to the position of the deputy mayor of Cape Town and the deputy chairman of the management committee of a local authority, as well as to the positions of persons in other relevant posts; and

(iv) the Office of the Commission for Administration (convener) and the four provincial governments determine a formula, as well as finalise the objections raised.

It was also decided that after the conditions have been reconsidered and discussed, the Office of the Commission for Administration again submits the report as adapted to the Action Committee of the Co-ordinating Council for discussion.

In the meanwhile the Office of the Commission for Administration withdrew itself from the investigation. The Co-ordinating Council for Local Government Affairs convened a special meeting on 8 December to consider the matter. During the meeting it was decided—

that the four administrators, with Administrator D J Hough as convener, will consider the matter further and finally decide on the percentage of the proposed increase in the remuneration of councillors as well as the date of commencement; and

that the Minister of Planning and Provincial Affairs will clear the matter of parity in the compensation of councillors of local governments with the Own Affairs Ministers.

The matter has thus not been finalised.

(b) None.

The state v W H Rabe [redacted]

*3. Mr L FUCHS asked the Minister of Justice:

(1) With reference to the case of *The State v W H Rabe*, concluded in the Piet Retief Regional Court on 12 February 1990, (a) for what offences was the accused (i) charged, (ii) prosecuted and (iii) convicted and (b) what sentence was handed down; Hansard 13/3/90

(2) whether any witnesses present at the time of the alleged offences were committed were not summoned to appear in court; if so, (a) which such witnesses and (b) why?

Hansard 13/3/90 [redacted] B357E

The MINISTER OF JUSTICE:

(1) (a) (i) Murder

(ii) Culpable Homicide

(iii) Assault

(b) R100,00 or 50 days' imprisonment.

(2) Yes.

(a) M S Nkosi, L N Xaba, J Q Sithole and M S Ndlangamandla. The latter two did in fact turn up at court.

(b) I had enquiries made and it seems that the main state witness's evidence was in no way contradicted and that there were no challenged facts concerning the assault between the State and the defence. The District surgeon further testified that the cause of death had absolutely no connection with the assault. In the light of these facts the prosecutor concerned decided not to call any further witness.

I would like to add that I do not agree with the sentence that was imposed and cannot defend it. This is an excellent example where the State would possibly have liked to appeal against the sentence. A proposal in this regard will be laid upon the table soon and I am of the opinion that I shall get support of Parliament.

My opinion, which I have repeatedly stated, is that the lower courts are under the control of the Supreme Court and that the Supreme Court should give the necessary guidance to the lower courts. It would be inappropriate for politicians to try and play this role.

Development Boards: taking over of staff

*4. Mr H D K VAN DER MERWE asked the Minister for Administration and Privatisation:†

Whether all phases of the taking-over of staff of the former Development Boards have been completed; if not, why not?

Hansard 13/3/90 [redacted] B361E

The MINISTER FOR ADMINISTRATION AND PRIVATISATION: Hansard 13/3/90 [redacted]

Yes. However, requests for the adjustment of the dispensation of individual staff members, which were later received, are at present being attended to.

Inflation

*5. Mr H H SCHWARZ asked the Minister of Finance: Hansard 13/3/90

What action is being taken in order to reduce the level of inflation in South Africa?

B363E

The MINISTER OF FINANCE: [redacted]

The thrust of the Action Plan for the Combating of Inflation is fiscal and monetary discipline. Both of these have been exercised during the past year, and this will certainly continue. (49)

Government spending is under control. The overrun in the 1989/90 Budget is estimated at a mere 0,3 per cent. Fiscal discipline will be maintained in the coming year. Details will be forthcoming tomorrow. [redacted]

The promotion of saving must clearly be a component of a counter-inflationary strategy, and the Government sets a high premium on both personal saving and the avoidance of dissaving on its own part. But here too it would be better to wait until tomorrow for the fine print.

In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy, which was achieved inter alia by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in Bank rate. Positive real interest rates, together with disciplined public expenditure, have contributed to curtailing gross domestic expenditure growth successfully. Gross domestic expenditure actually declined by 1 per cent in real terms during 1989. These are important factors in the lowering of inflationary expectations. The more stable and even slight appreciation of the rand in recent months, was a further positive factor.

More generally and within a longer-term framework, the Government seeks to strengthen the supply side of the economy, and not least by tax reform that will reduce disincentives to labour and production: the taxation of married women is an example. At a wider remove are the substantial budget allocations to education and to the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale. Various steps have also been taken to improve efficiency in the public sector, eg the introduction of value-for-money auditing. Hansard 13/3/90

As far as the actual process of price formation is concerned, the government is committed to the free play of competitive market forces—hence the Competition Board, reinforced by the Consumer Council and the Harmful Business Practices Committee. Moreover, the Committee on Economic Affairs of the President's Council recently initiated an investigation into what it termed "price exploitation".

Inflation in South Africa over the past few years can however not be regarded as a problerm in isolation and with a solution of its own. It was and is an integral part of the whole adjustment problem with which the South African economy has grappled since 1984. In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential. The various elements of economic restructuring announced by the State President in his parliamentary opening address on 2 February 1990, which will be referred to during tomorrow's Budget Speech, are therefore very important in combating inflation.

Walvis Bay: representations

*6. Mr J H HOON asked the Minister of Foreign Affairs:† Hansard 13/3/90 [redacted]

(1) Whether the Government has received any representations for Walvis Bay to be handed over to the new government of an independent Namibia; if so, from whom;

(2) whether the Government has taken any decision in this regard; if not, why not; if so, what decision;

(3) whether he will make a statement on the matter?

B404E

The MINISTER OF FOREIGN AFFAIRS:

(1) During informal talks with designated members of the independence government of Namibia, they indicated that the people of Namibia would welcome it as a deed of great goodwill if Walvis Bay could be handed over to Namibia. Hansard 13/3/90

(2) The South African Government's position is that Walvis Bay forms part of South African territory. However, it is also realised that Walvis Bay is presently the only deep sea harbour available to Namibia. It is expected that discussions will be conducted between the South African Government and the future Government of Namibia about the use of Walvis Bay. [redacted]

(3) Falls away.

Komatipoort/Maputo road: assistance

*7. Mr A GERBER asked the Minister of Foreign Affairs:† Hansard 13/3/90

(1) Whether the Government (a) has decided to make available or (b) is considering making available financial and/or other assistance to Mozambique for the building of a road from Komatipoort to Maputo; if so, what amount has the Government contributed or does it envisage contributing; [redacted]

(2) whether the Government intends contributing financially on an annual or any other basis, towards the maintenance of this road; if so, (a) on what basis and (b) what amount is involved;

(3) whether he will make a statement on the matter?

B410E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes, but for the present only an amount of R300 000 has been made available for a feasability study. Afterwards attention will be given to the financing of the road. It may be that only part of the road needs to be rebuilt and that the remaining parts of the road will have to be renovated. The possibility of trying to procure overseas funding is also being considered.

(2) It will depend on the terms of any loan agreement which may be concluded between the two countries for the financing of the road. This does, however, not mean that a loan agreement will be concluded. Hansard 13/3/90

(3) Yes, when greater clarity with regard to all the facets of this matter has been obtained.

Zaïre: road building programme

*8. Mr A GERBER asked the Minister of Foreign Affairs:† Hansard 13/3/90

(1) Whether the Government (a) is supporting or (b) intends supporting a road building programme in Zaïre; if so, what amount has the Government contributed or does it intended to contribute towards it;

(2) whether he will make a statement on the matter? [redacted]

B411E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) No.

(b) No.

(2) Falls away.

Reserve Police Force: political activities

*9. Mr A P OOSTHUIZEN asked the Minister of Law and Order:† Hansard 13/3/90

Whether any instructions to refrain from political activities were issued to members of the Reserve Police Force during the latest specified period of three years for which information is available; if so, (a) on how many occasions, (b) for what reasons and (c) who issued these instructions? [redacted]

B413E

The MINISTER OF LAW AND ORDER:

I refer the honourable member to interpellation number 1 of 18 April 1989 (Hansard Column 677) during which this matter was debated. I regard the information which was furnished during this interpellation to also be an adequate reply to this question.

RSA/Lesotho: inter-state border fence

*10. Mr A P OOSTHUIZEN asked the Minister of Foreign Affairs: [redacted]

(1) Whether there is any dispute between the Republic of South Africa and Lesotho over the inter-state border fence erected Hansard 13/3/90 or to be erected between Wepener and Zastron; if so, (a) what are the points in dispute, (b) when is it expected that the dispute will be settled and (c) what steps have been taken or are proposed to be taken in this regard; if not, [redacted]

(2) whether there is any delay in erecting the border fence concerned; if so, what is the reason for the delay? Hansard 13/3/90 [redacted]

B415E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes.

(a) There is a difference of opinion between the Republic of South Africa and the Kingdom of Lesotho in connection with the location of the international boundary between Wepener and Zastron.

Two portions of the border are being questioned by the Kingdom of Lesotho, namely the Cornetspruit/Liphiring area and the Langeberg area.

(i) The Cornetspruit/Liphiring area lies north east of Zastron to the west of Mohales Hoek. The original border was indicated by beacons according to the coordinates and stipulations of the Second Treaty of Aliwal North (1869). In this area the border fence partially does not follow the border beacons and the fence is situated within the RSA. The fence was erected within the RSA for practical reasons because the beacons are on a mountain ridge which is extremely inaccessible. The positioning of the fence was a unilateral decision of the RSA for the practical reasons mentioned.

(ii) The Langeberg area east of Vanstadensrus. Here also the border is determined according to the stipulations and coordinates of the Second Treaty of Aliwal North (1869). The thus determined border results, however, in a triangle of about 80 hectares RSA territory "projecting" into Lesotho which

Barend promises today's Budget will encourage savings

MIKE ROBERTSON

B/Day 14/3/90

(49)

CAPE TOWN — On the eve of his Budget, Finance Minister Barend du Plessis yesterday promised to unveil details of a counter-inflationary strategy that encouraged both personal saving and the avoidance of "dissaving" on the part of government.

Replying to a question from Harry Schwarz (DP Yeoville) on what was being done to combat inflation, Du Plessis said the thrust of government's action plan for tackling inflation was fiscal and monetary discipline.

Government spending was under control and fiscal discipline would be maintained in the coming year as would be seen when he tabled his Budget.

"In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy, which was achieved inter alia by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in the Bank rate.

"Positive real interest rates, together with disciplined public expenditure, have contributed to curtailing gross domestic expenditure growth successfully.

"These are important factors in the lowering of inflationary expectations. The more stable and even slight appreciation of the rand in recent months, was a further positive factor," Du Plessis said.

In the longer term government sought to strengthen the supply side of the economy, not least by tax reform that would reduce disincentives to labour and production.

"At a wider remove are the substantial Budget allocations to education and the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale," he said.

As far as the process of price formation was concerned, government was committed to the free play of competitive forces.

He added that inflation in SA could not be seen in isolation.

"It was and still is an integral part of the whole adjustment problem with which the SA economy has grappled since 1984.

"In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential. The various elements of economic restructuring announced by the State President in his Parliamentary opening address on February 2, which will be referred to during tomorrow's Budget speech, are therefore very important in combating inflation."

Business Day will publish all the Budget details in a special edition tomorrow. Finance Minister Barend du Plessis' speech will be published in full in a 12-page supplement and there will be extensive news coverage, analysis and reaction from commerce and industry.

Getting down to the business of serving up the Budget

ANDREW GILL

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SCORES of analysts are on hand to give their impressions and interpretations of today's Budget speech.

Budget hotlines, Budget breakfasts, Budget seminars and Budget brochures are just some of the services available to people trying to find out what the announcements hold for them.

Accounting firms' annual flurry to produce advisory booklets for clients will start soon after the Budget speech and continue into the night.

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Deloitte, Haskins & Sells partner Mark Crisp said yesterday at least 15 members of the firm would be working on the Budget, and tomorrow it would hold two "Budget breakfasts" for its clients.

The intention was to simplify the Budget's intricacies and to cut through any initial confusion.

"An enormous amount of manpower will be employed in the industry to handle reaction, especially in the larger firms."

Aiken & Peat partner Alister Mackenzie said a five-man panel would work through the night to produce a Budget brochure to be distributed by airfreight. About 10 people would be working on specific aspects of the Budget.

The speech will be taped for closer attention later.

Several firms, including Price Waterhouse, will have a Budget hotline for clients and the media, open late into the night.

Arthur Andersen & Associates tax manager Alan Field said the firm's team was geared up to prepare commentary on the speech.

Barend hints at tax cuts

Star 14/3/90

(49)

By Peter Fabricius, Political Correspondent

CAPE TOWN — Minister of Finance Mr Barend du Plessis has hinted that the Budget today will contain tax cuts — especially for married women — saving incentives, and big increases in education and social spending.

He did so during question time in Parliament yesterday when he set out the steps the Goverment was taking to combat inflation.

He was replying to questions from Democratic Party finance spokesman Mr Harry Schwarz.

Mr du Plessis also announced a new action plan for combating inflation, based on fiscal and monetary discipline.

The Star will carry detailed coverage of the Budget tomorrow, including the text of the speech which Finance Minister Mr Barend du Plessis will deliver to Parliament this afternoon.

He said Government spending was under control, and the overrun on the 1989/90 Budget was an estimated 0,3 percent.

Fiscal discipline would be maintained in the coming year. Promotion of saving had to be part of a counter-inflationary strategy.

The Reserve Bank's tight monetary policy had caused a decline in money supply.

Positive real interest rates and disciplined public spending had contributed to curtailing gross domestic spending, he said.

The slight increase in the rand had also helped to lower inflationary expectations.

The Government also sought to strengthen the supply side of the economy — not least by tax reform, which would reduce disincentives to labour and production. Tax on women was an example.

The substantial budget allocations for education, and providing physical and social infrastructure, would also help.

Inflation could not be combated successfully unless structural adjustments were made to improve the economic growth potential.

BDay 14/3/90

(49)

Simplistic ideologies and economics

AUBREY DICKMAN

IN A recent article in Business Day Economic Trends researcher Stephen Gelb lamented that simplistic ideologies have distorted the economic debate: he asserts that socialism Eastern European-style has failed, as has capitalism SA-style.

Yet sanctions were not needed to bring about the demise of communism. By contrast, it is hard to destroy an only partially free enterprise economy like SA: its resilience is remarkable.

Gelb's views echo those expressed by Cosatu economist Alec Erwin, whose address to the Paris indaba in December was condensed in Business Day of March 2.

Erwin's discussion rests on a major proposition that the SA economy, even without apartheid, will not be able to attract foreign capital or foreign aid. In fact, the problem of a capital outflow will remain. The reason for this is that international captial will flow to Eastern Europe, where there is better infrastructure and more skilled manpower.

It is true that SA will have to get its house in order to attract foreign capital. Yet to declare that not only will there be no inflow at all, but that, perversely, the outflow will continue, is to express an incredible vote of no confidence in the future of a non-racially demarcated economy whose productive capacity today is attributable in large measures to past capital inflows.

Perhaps this is not so surprising. While Erwin implies that the clash of rhetoric over different economic systems is not helpful, "we are", he says, "unashamedly socialist." This will surely be enough to sentence us to languish in a Third World morass, just as apartheid stunted our development. No wonder then, that foreign capital is ruled out.

Erwin is perfectly entitled to put a Marxist-socialist point of view but the full implications should be spelled out. Regrettably, this is not the case; hence the contradiction. We are assured that the economy can be restructured and set on a low cost/high wage growth path. This concept is that of an advanced economy where, with high productivity, high wages are consonant with relatively low unit costs given long production runs.

Erwin admits that the link is productivity. Yet the key area of his proposed transformation is nothing less than an "investment policy which would link foreign investment to technology and markets".

One asks whether there is a subtlety that has been missed. Is the answer through inward industrialisation? He seems to hint at this when referring to the process of lowering the relative prices of manufactured goods. However, as generally understood, this involves the freeing-up of the economy through urbanisation and deregulation, and permitting relative prices to reflect relative scarcities — in other words, resulting in positive retail interest rates and wage-setting according to the realities of labour supply and international competition.

However, Erwin promises more than the restructuring of opportunity and an expanded wage fund. He promises high wages, but his programme is the opposite of the inward industrialisation approach which is essentially labour intensive — it is manifestly capital intensive.

Part of the allure of those who cannot be expected to appreciate these inconsistencies is the suggestion that all this can be achieved through appropriate planning. In this respect the reference to Korea is especially misleading.

The emphasis on heavy and chemical industries in Korea through the diversion of private savings and pension fund money via the National Investment Fund, and other interventionist policies (including official pressure to raise unskilled wages), had serious distorting consequences. The result was a weakening of export competitiveness and a slowdown in overall growth. These policies were abandoned in 1979.

The seductive reliance on planning and all its trappings is a feature of Gelb's argument too. Rejection of the rights of individuals to act rationally to protect their interests is evident in his dismissal of financial reaction to nationalisation threats as destabilising.

This intrinsic approach is reflected in Gelb's approval for a greater increase in consumption in the future by maintaining investment in heavy industry. The reconciliation of this with production to meet current needs depends, for both Gelb and Erwin, on a form of "social control" through the "collective self-conscious", whatever this elitism means in terms of Western democratic values. It is no accident that those countries, nominally socialist or capitalist, in which this and other kinds of dirigism held sway, have sunk into abject poverty.

These comments should not be construed as rejecting the justifiable concerns that the gross inequities of apartheid must be redressed. The question is how. In the competitive international environment there are no simplistic ways to confer prosperity on those lacking it without impairing the delicate mechanism of enterprise and confidence, especially in a developing country.

This is no reason not to be creative or bold in accelerating the reallocation of the fruits of growth. Yet those who understand the basic insights of economics surely have a duty not to lead others into believing that there is an easy ride to a world of plenty.

☐ **Dickman is senior economic consultant at Anglo American Corporation.**

LETTERS

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Revised budget defended

ROBERT GENTLE

THE JSE yesterday defended itself against claims that its Traded Options Market (TOM) was running over budget and could already have swallowed up R5m to R8m in development costs. B Day 14/3/90

JSE president Tony Norton, responding to a speculated figure of R5m put out on the Reuters screen by the options firm Johannesburg Options Market, said the programme was within the revised budget.

He would not comment on the actual figure, saying the JSE's internal accounting was confidential.

The revised budget was, however, more than the initial budget, which Norton described as "unrealistic".

Meanwhile, TOM manager Jonathan Sims said most of the systems had already been written and that integration and testing were now taking place.

Sims said the systems, especially those that would be monitoring risk, were much more complicated than initially thought.

Neither Sims nor Norton would give an exact starting date for TOM. "As soon as is reasonably possible without taking any risk," said Norton. "We're on the last lap."

FW vow to cut back public service

GERALD REILLY

PRETORIA — Government was committed to reducing its intervention in the economy and to cutting the public sector size, President F W de Klerk said yesterday.

The economy could not afford a public sector of the present proportions, he said at the opening of the National Maize Producers' Organisation (Nampo) annual congress in Potchefstroom.

The tax burden, as well as a disproportionately large section of the population which had no part in the production process and supporting commercial services, made the situation untenable.

Outlining reasons for his non-intervention commitment, De Klerk said control systems often obscured market price signals and consequently lead to inefficiency.

Producers assured of a turnover, because of statutory control and protection, tended to lose interest in striving for higher productivity. Protection encouraged the creation of enterprises which would perhaps not function profitably without it.

De Klerk said government would focus on active implementation of its policy of deregulation. This policy, with privatisation as an essential part, was geared to improve achievement in the economy.

This would result in more effective application of production factors, optimal functioning of market forces and a rise in the percentage of net fixed investment by the private sector.

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● ~~See Page 3~~

Economic decline has already cost 1-m jobs

Argus

14/3/90 ·49

By MICHAEL MORRIS, Political Correspondent

Picture: DION TROMP, The Argus.

BUDGET SECRETS: A smiling Minister of Finance Mr Barend du Plessis keeps his Budget speech safe from prying eyes in his briefcase before heading for Parliament to reveal all today.

SOUTH Africa's declining economic performance has cost the country more than a million job opportunities in the past decade, according to the Budget review.

And, it warns, unless the "serious structural problems" that beset the economy are halted, the country's economic performance will fall further — with the growth rate possibly dropping below the average for the 1980s of 1,6 percent — and South Africa will fail to meet the demands for jobs and rising living standards

The review says "To relieve unemployment and increase average welfare will require, as part of a broad restructuring programme, an increase over the next five years of at least 40 percent in the average domestic savings ratio and the productivity of capital"

Sustained high inflation is singled out as the cause of many of South Africa's economic problems and the review defines it as a "structural problem itself"

"In the balance-of-payments dimension it surfaces in the deteriorating competitive position of our producers, on local and international markets alike and, to the extent that poor export performance causes exchange rate depreciation, inflation is exacerbated by rising costs springing, in particular, from the import of capital and intermediate goods

"The paralysing grip of inflation and other price-distorting factors on economic growth and employment is reflected in the course of certain economic ratios."

The review also spells out where the government will lay emphasis in tackling structural aspects of the economy

"SAVINGS"

"The South African economy must be restructured to raise the standards of life of the whole population Since the private sector is a very important and indispensable generator of economic growth, factors that can facilitiate the raising of the income- and work-generating ability of the sector must be promoted"

Factors highlighted for attention are inflation, the shortage of trained manpower and encouraging personal savings to increase capital funds

The review says events such as the Third World debt crisis, the American budget and current account deficits, the economic development of regions in Asia and the reforms in Eastern Europe have so increased investment opportunities that "South Africa can scarcely look in the foreseeable future for any notable augmentation of domestic savings by long-term foreign loans or investment capital".

Others factors to receive attention will be the reduction of the tax burden on households to free money for productive purposes, encouraging responsible wage bargaining to help contain inflation and raise employment, promoting the competitive ability of industry, and ensuring that the relative prices of labour and capital reflect their scarcity.

In line with long-term planning, fiscal discipline will be maintained and corporatisation, privatisation and deregulation will continue.

'Vital' short-term goals are protecting the balance of payments, strengthening the country's gold and other foreign reserves and bringing down inflation.

Monetary policy stays tight; aims to cut supply

Political Staff

FINANCIAL authorities have ruled out a relaxation of monetary policy at this stage They aim also to sharply reduce the money supply this year

Restrictive economic measures introduced last year had the main financial aggregates moving in the right direction now, according to a Department of Finance budget review tabled in parliament today.

But monetary authorities believe the level of increase in domestic credit and in the money supply, as well as the present inflation rate (15,1 percent), are still too high.

"Neither is the level of the country's gold and foreign reserves yet satisfactory," it said "So it is still too early to relax monetary policy."

The Reserve Bank would continue efforts to cut money supply. In the last quarter of 1989, it was 23,5 percent higher than the same period in 1988.

FOREIGN EXCHANGE

It was not only necessary to reduce the money supply to less than 18 percent as soon as possible, but the Reserve Bank was also considering a target for the end of this year still lower than that.

The review said Dr Chris Stals, Governor of the Reserve Bank, would make an announcement on this

The bank's net gold and foreign reserves increased by R2,9-billion in the first two months of this year.

On foreign exchange, the review said the Reserve Bank had intervened actively to prevent the rand appreciating more than it did.

It had bought "large sums" of foreign exchange in January and February because

- There was uncertainty about the duration of the improved foreign exchange market.
- An appreciation in the rand would not have been in South African exporters' short-term interests, and
- The bank thought it necessary to replenish its own foreign reserves when the opportunity arose.

South Africa was not able at this stage to relax existing exchange control measures. The financial rand was still needed.

R71 546-m estimated for State spending

Political Staff

THE government estimates it will spend R71 546 million (not including contingency reserves) in the coming year — up R6 365 million over the revised estimate of R65 181 million for last year

The breakdown is (last year's figures in brackets) State President, R15,9 million (R17,5 million) Parliament, R36,9 million (R56 million) Bureau for Information, R41,3 million (R47,9 million) Foreign Affairs, R3 795 million (R3 255 million).

Constitutional Development Services, R14,4 million (no separate listing last year) National Education, R204,9 million (R148,2 million). Defence, R10 070 million (R9 937 million). Mineral and Energy Affairs, R1 133 million (R786,9 million) Privatisation, R2,5 million (not listed separately).

Justice, R430,8 million (R348,6 million) Prisons, R878,1 million (R751 million) Administration, House of Assembly, R7 657 million (R8 400 million).

Finance, R1 140 million (R1 188 million) Audit, R1 000 million (R47,2 million) Manpower, R328 million (R216,2 million) Administration, House of Representatives, R3 245 million (R2 742 million) Administration, House of Delegates, R1 171 million (R1 000 million). Police, R2 927 million (R2 496 million)

Environment Affairs, R177,9 million (R160,6 million). Water Affairs, R351,6 million (R374,7 million) Trade and Industry, R2 215 million (R1 484 million). Development Aid, R5 119 million (R5 014 million) Education and training, R2 642 million (R1 952 million)

Home Affairs, R241,1 million (R173,1 million). Transport, R1 508 million (R1 509 million). Public Works and Land Affairs, R1 893 milion (R1 730million). National Health and Population Development, R719,4 million (R2 680 million). Planning and Provincial Affairs, R408,1 million (no department before).

Agriculture, R302 million (R288,7 million) Commission for Adminstration, R407,3 million (R277,1 million). Improvement of conditions of service, R1 921 million (R41,3 million).

Prospects for gold brighter

PROSPECTS for the gold price looked considerably brighter than in the previous year, the Minister of Finance, Mr Barend du Plessis, said in his Budget review today.

He said the dollar price of gold had increased sharply since November 1989 and in spite of short-term fluctuations, the gold price could rise even further.

A greater investment demand for gold was caused by uncertainty over exchange rate movements as well as political events in Eastern Europe. — Sapa.

Minimum tax possible for companies, taxpayer

THE possibility of introducing a minimum tax on both companies and individuals was already being considered by the Tax Advisory Committee (TAC) and this investigation would continue during the year, Mr Du Plessis, said.

The introduction of such a tax would be aimed at limiting the practice of existing tax concesssions, introduced for economic purposes and which could be phased out over a period of time, being abused for tax purposes.

Mr Du Plessis also said the Commissioner for Inland Revenue had launched an investigation into the introduction of a system of self-assessment for income tax.

As a first step, companies had been identified for this purpose, and this sphere of investigation had already reached an advanced stage.

Inland Revenue officials recently undertook research overseas in this regard, and acquired valuable information.

"The indications are that such a system could be successfully implemented in South Africa and Inland Revenue's proposals will shortly be discussed with interested parties"

The 1990 income tax return for companies had been adapted to provide information necessary for a conversion to a self-assessment tax system. — Sapa.

'New' politics boosts finrand

A MORE favourable perception of political developments in South Africa by non-residents had led to an appreciation in the financial rand by 22 percent between August and December last year, Minister of Finance Mr Barend du Plessis said today.

In his expanded budgetary review he said the effective exchange rate had fallen by 3,8 percent in 1989.

This had occurred mainly in the first part of the year and after it had reached a low on September 18 1989, it subsequently rose by seven percent.

However, after the rise at the end of last year, the financial rand fell back up to March 7 this year. — Sapa.

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maintain monetary ties with SA

relations with South Af- for a while at least

temporary agreement to end would have to be com- until Namibia decided on membership of the Common Area.

it did agree, it would pro- that the rand be legal cur- in Namibia and that Na- as at present, would have access to South African money and capital markets and to the foreign exchange market.

This would be very similar to South Africa's arrangement with Swaziland, which has its own currency but is part of the Common Monetary Area.

"Bearing in mind the high degree of economic integration of the two countries, an agreement of this kind would contain great advantages for them both," the review said.

Financial and trade operations between the countries would only flourish once uncertainties were removed.

"Discussions on the maintenance of the existing monetary relations have already reached an advanced stage," it said.

‘Caring’

Argus 14/3/90 (49)

● Bigger slice for social services ● D

By MICHAEL MORRIS, Political Correspondent

IN a Budget for a new era Finance Minister Mr Barend du Plessis has cut defence spending, given more money to social services and announced a special fund to tackle socio-economic backlogs.

Development, creating wealth and jobs and raising living standards are being given a high priority.

"Compassion and balance emerge in the expenditure side of the Budget," said Mr Du Plessis. "The Budget must help the developed and formal sector of the economy to create, through economic growth, expanding opportunities for the developing and informal sector so that an increasing number of South Africans may raise their standard of life."

The tax burden is being relieved to free more money for the economy and to spur savings.

Spending on State administration is down by more than 10,8 percent, but the police are getting more.

Challenges of the '90s

Affordability is a key watchword in the first Budget in the era of negotiations ushered in by President De Klerk, but affordability balanced by the ideal of creating a fairer and more just society with a stable, growing economy.

Tackling poverty, health and housing are prominent goals, with broader themes of fighting inflation, encouraging saving, promoting the creation of wealth and jobs and restructuring the economy to cope with the challenges of the 1990s.

It is a Budget against which South Africa and the world will judge how far President De Klerk will go to use the State purse to meet the political and social ideals he has set.

Mr Du Plessis laid before a packed joint sitting today a Budget of R72,9-billion — 11,9 percent more than the revised expenditure total of R65,181-billion last year.

Key features are:

- Defence spending remains virtually static and is down this year in real terms compared to last year — R10-billion is allocated for this year compared to R9,9-billion last year. The police will get 5,7 percent more — from R2,9-billion to R3,1-billion. "Protection services" (including police, defence, custody and administration of justice) go up as a whole from R15,030-billion to R15,325-billion;
- Social services — including housing, health and education — go up 11 percent from R25,074-billion to R27,853-billion. Housing goes up from R959-million to R1,4-billion, health from R6,5-billion to R7-billion and education from R12,1-billion to R13,3-billion;
- Public services, including foreign relations, constitutional development, civil matters and regional development are up 10 percent from R6,3-billion to R6,9-billion; and
- Improvement of conditions of service for civil servants — encompassing the recent 10 percent raise — goes up from R138-million to R2,2-billion.

It is estimated about R6-billion will be available for the special socio-economic fund the government announced today. It will be

● **More Budget reports — page 4.**

created by a transfer from the 1989/90 surplus and will be "specifically dedicated to the removal of socio-economic backlogs in our country".

"Certain measures originating in the political aims of the past" had helped create economic backlogs, said Mr Du Plessis.

President De Klerk is expected to make a further announcement on the fund this week.

Mr Du Plessis told parliament the Budget was aimed at two policy goals: contributing to stable economic growth with the emphasis on job creation and investment and relieving hardship and helping as many people as possible "to grasp, on an equal basis, the opportunities the economy offers".

The Budget aimed at helping the less-privileged by making "the greatest possible provision on the expenditure side of the account".

Tax reduction was crucial.

Mr Du Plessis said: "The process of tax reduction — and especially of personal tax, which at present constitutes a disproportionate share of the total tax revenue — is of crucial importance in boosting saving, enterprise and investment.

New approaches

"This Budget not only gives further impetus to certain economic adjustments already under way, but combines them with a number of new approaches in a dynamic action aimed — as President De Klerk has put it — at buttresing the new South Africa with a sound and growing economy."

The economic goals of the Budget demanded a constitutional dispensation that "by virtue of its fairness and justice, ensures inherent stability".

Mr Du Plessis highlighted the importance of the army, police and administration of justice, community services, health and housing and the need for a "good, modern education".

Privatisation and deregulation were important to generate greater efficiency and allow more people to "obtain a stake in the country's productive assets".

'Too high' inflation rate expected to drop

By MICHAEL MORRIS
Political Correspondent

The Argus will publish all the Budget details in a special edition later today.

PROSPECTS for a drop in the "unacceptably high" inflation rate are favourable this year, but the growth rate is not expected to rise above one percent.

The Budget review tabled in parliament today says that "prospects for a lower inflation rate are exceptionally favourable in the light of the present restrictive monetary and fiscal policy, a decline in real government spending, a more stable exchange rate and an expected smaller increase in the money supply.

"The extent to which the inflation rate may decline will also depend greatly on the extent to which unreasonable salary and wage demands can be resisted."

It also says that stronger monetary and fiscal policy, international economic developments and weaker agricultural conditions will contribute to a "further slowdown in economic activity".

Real gross domestic expenditure will show a further slight decline.

"Lower domestic spending should also cause a lower demand for foreign goods and a decline in import volumes is expected.

"The net result should be a surplus on the current account of the balance of payments of about R6 billion. This surplus should be sufficient for the further debt repayments that have to be made during 1990."

A stronger gold price than in 1989 is projected for 1990, since a price of $400 a fine ounce has been maintained since November last year.

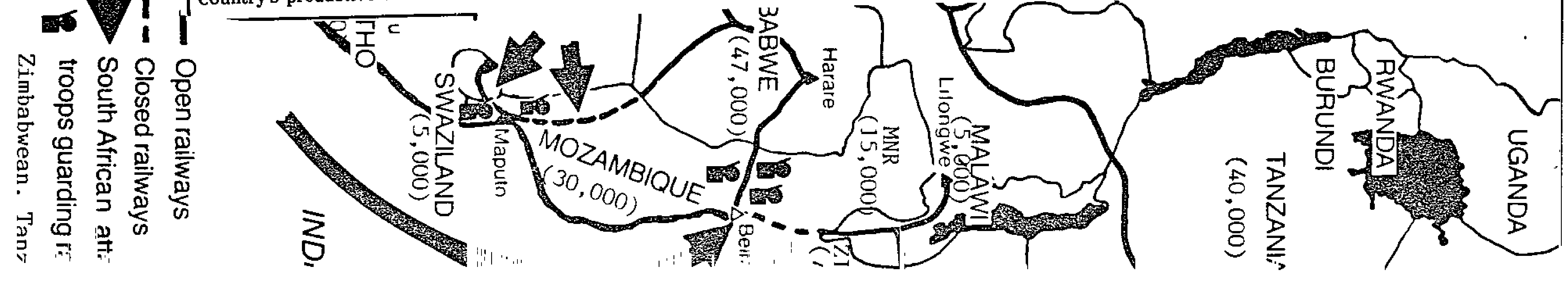
This higher price, coupled with the further but mild growth of the international economy, could counteract the adverse impact of lower commodity prices.

"Although there is now greater uncertainty over developments in the international economy than at the start of 1989, a so-called 'soft landing' is generally predicted."

The rate of exports is not likely to be as high as in the past two years, with only mild expansion expected in the year to come.

A slowdown in the world economy will probably be reflected in a phase of consolidation in the South African economy.

Exchange control is not likely to be relaxed.



Sisulu hard line shocks business

NEP 47 30 180

By Robyn Chalmers

WALTER Sisulu shook the JSE on Friday by telling a Wits Business School breakfast that the ANC would not budge on its nationalisation policy.

The veteran ANC leader delivered a hard-hitting speech about post-apartheid SA to more than 550 businessmen and bankers, including Reserve Bank Governor Chris Stals, Anglo American outgoing chairman Gavin Relly and JSE president Tony Norton.

Mr Sisulu reiterated ANC policy of nationalising "monopoly banks, mining houses and financial institutions".

Businessmen were disappointed that their warnings had gone unheard by the ANC.

S/Times 11/3/90

Central

Mr Sisulu said "creative nationalisation" was central to the ANC's economic policy.

Asked whether the ANC had considered any options to nationalisation in the face of foreign investor jitters, Mr Sisulu said it had not. The main objective of ANC policy was to uplift the economy while righting injustice. Nationalisation was the best method to do so.

"But we will not adopt a mechanical approach to nationalisation, rather we will be creative within given circumstances. The aim is to rid SA of present inequalities in terms of wealth.

"Sometimes one must go to war to secure peace. We realise that in the short term nationalisation may discourage foreign investment, but believe that in the long term it is the only solution."

WALTER SISULU ... we stick to nationalisation

A democratic SA would have to pursue an activist economic programme. Business would have to play a major role in funding the State's requirements for the redistribution of income.

Mr Sisulu listed some ways to achieve a mixed economy:

- Curbs on monopoly power through legislation and dismemberment of some key conglomerates to bring industry and its development closer to the workforce.
- Greater diffusion of power in industry through the spread of ownership by share ownership schemes.
- Renationalisation of privatised concerns, not only to maintain the industrial and service infrastructure, but to facilitate wealth redistribution.

Mr Sisulu said the ANC had not yet seen anything approaching a fundamental recasting of policies either by business or the Government.

"This explains why our people suspect that the main concern of both Government and business is not the dismantling of the key structures of apartheid, but rather the winning of international acceptability through the removal of anti-apartheid sanctions and boycotts."

He stressed that the business community had to recognise that old ways of resolving crises could not work.

Mr Sisulu called on businessmen to put aside their fears and work with the ANC.

"Together, we can forge a vibrant, prosperous new SA."

R2bn fund to 'remove backlogs'

BDay 15/3/90

(49)

LESLEY LAMBERT

CAPE TOWN — Government is to transfer R2bn from last year's larger-than-expected R6,97bn Budget surplus into a special fund to remove the backlog caused by restrictive job reservation and land ownership legislation.

Announcing this in his Budget speech yesterday, Finance Minister Barend du Plessis said the R2bn investment was aimed at removing backlogs which had arisen from restrictive measures imposed as a result of past political aims.

These included job reservation which had retarded the development, progress and earning capacity of many, and the prohibition of land ownership which had affected ability to build up capital.

In addition to this socio-political investment, R3bn is to be taken from the surplus after borrowing to settle net losses on forward cover transactions which were incurred as a result of rand depreciation.

Government has also proposed the transfer of R1bn from the surplus to the Government Service Pension Fund and the Associated Institutions Pension Funds.

A further R215,7m has been allocated to meet its capital obligations to the Development Bank of Southern Africa.

The remaining R754m is to be deposited in the Government's Stabilisation Account at the Reserve Bank to give the monetary authorities further support to the economy's consolidation phase.

Abnormally high tax collections and import surcharges last year helped to almost halve the deficit before borrowing for 1989/90 from a budgeted deficit of R7,855bn, or 3% of GDP, to an estimated R3,796bn, or 1,5% of GDP.

This, coupled with income from the privatisation of Iscor and the SA Mint and

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R2bn fund

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other loan receipts, resulted in a surplus after borrowing of R6,9bn.

Total tax revenue for the 1989/90 year was estimated at R61,385bn and this was R6,317bn or 27% above the R55,068bn originally budgeted.

Of this, tax collections from individual's income tax was estimated to have exceeded the budgetary amount by R2,19bn.

This increase was attributed largely to higher-than-expected wages and pay adjustments in the private sector.

Good profit performances from companies in 1988 and 1989, along with the third provisional tax payments, resulted in an increase in the estimated revenue from non-mining companies of R1,5bn over the budgeted amount.

B Day 15/3/90 (49)

R7,994bn deficit before borrowing likely

MIKE ROBERTSON

CAPE TOWN — Government expected a deficit before borrowing of R7,994bn in this financial year, Finance Minister Barend du Plessis said in his Budget yesterday.

Although higher than last year's abnormally low deficit of R3,79bn (1,5% of GDP), the deficit, which is equal to 2,8% of GDP, is still lower than government's target figure of 3% of GDP.

Du Plessis said loan redemptions during the coming financial year would be about R3,8bn bringing the adjusted borrowing requirement to about R11,8bn.

The intention was to finance this chiefly from domestic stock sales of R11,250bn, including investments by the Public Investment Commissioners (PIC).

Du Plessis said that following the abolition of prescribed investment requirements it had been decided that greater investment freedom should be allowed to the Government Service Pension Fund.

"The PIC will therefore no longer be treated as a fully 'captive' investor in government stock and will thus not be separately identified with regard to budget financing," he said.

Du Plessis said that although about R2bn worth of gilts had been sold in advance and the remaining R9,250bn should not put pressure on the capital market, this would not enable monetary policy to be relaxed in the forseeable future.

"Should it, however, appear that the relatively modest loan programme of government and other public bodies, coupled with other market factors, put downward pressure on interest rates too soon, neutralising measures will be taken if stabilisation objectives so dictate," he said.

Private sector is told to lend a helping hand

B'Day 15/3/90

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Political Staff

THE South African economy had to be restructured to raise the standard of life of the entire population, Finance Minister Barend du Plessis said yesterday.

But the private sector had to be prompted to do this, since it was "a very important and indispensable generator of economic growth", he said in his extended Budget speech.

Factors that could facilitate the raising of the income and work-creation ability of the private sector had to be promoted.

He said: "Among factors that need attention are the question of inflation and the shortage of trained manpower and capital."

High priority would have to be given to the pressing socio-economic development questions of poverty, housing backlogs, inadequate education and training, illiteracy, basic health needs and a host of other problems blocking the road to participation in the economy and progress.

"But in this process, fiscal discipline can in no way be jettisoned. Thorough priority determination and rearrangement remain essential.

"It was in everybody's interest that a more acceptable and better balanced situation with regard to living and other standards should come about in SA with all possible speed.

"In this way, there will not only arise an economic dispensation that will be in more stable equilibrium, but a significant contribution will be made to social and constitutional stability," he said.

There were backlogs of all kinds in similar countries, but it was true that certain measures originating in the political aims of the past contributed to certain economic backlogs.

"Viewed from the perspective of the utilisation of labour as a factor of production, certain past discriminatory practices contributed to the backlogs still found in some fields today, affecting our black people.

"In particular, job reservation. Thus, with its accompanying restrictions on training, it retarded the development, progress and earning capacity of many for about 20 years.

"Added to this was the long prohibition on the ownership of land and property in certain areas."

Expect a growth rate of only 1%

B/Day 15/3/90

(49)

MIKE ROBERTSON

CAPE TOWN — A growth rate of only 1% could be expected in SA this year, Finance Minister Barend du Plessis said yesterday.

He also predicted SA would obtain a R6bn surplus on the current account of balance of payments, while the exchange rate of the rand should remain stable.

In his Budget review, Du Plessis said the slowdown in the world economy would probably be reflected in a prolonged consolidation phase in SA.

While a soft landing for the international economy as a whole was generally predicted, this implied that only a mild expansion of real exports from SA could be expected.

Adverse

A stronger gold price than 1989's was expected, since a price of more than $400 an ounce had been maintained since November.

This higher price, coupled with mild growth in the international economy, could counteract the expected adverse impact of lower commodity prices.

The outlook for agriculture was less favourable than last year's, and coupled with stronger fiscal and monetary policies, this would contribute to a slowdown of economic activity.

Taking these factors into account, a growth rate of only 1% was projected for this year.

It was also expected that real gross domestic expenditure would show a further, but slight, decline.

Lower domestic spending was expected to lead to a substantial decline in the volume of imports, and the net result should be a surplus of R6bn on the current account of balance of payments, Du Plessis said.

He also said: "This surplus should be sufficient for the further debt repayments that have to be made during 1990. The maximum amount that has to be repaid on foreign debt in 1990 is calculated to be R6bn. The actual repayments will most probably be considerably less. The exchange rate is therefore expected to remain stable."

Du Plessis said the prospects of a lower inflation rate were exceptionally favourable in the light of: present restrictive monetary policy; a decline in real government spending; a more stable exchange rate; and an expected smaller increase in money supply.

However, the extent to which inflation actually declined would depend on the success achieved in resisting unreasonable salary and wage demands.

Budget develops debate on economic restructuring in SA

(49)

B/Day. 15/3/90

GRETA STEYN

IN THE debate raging about SA's future political economy, radical free-marketeers and rabid socialists agree on one point — a reconstruction of the SA economy is essential. They differ, however, on the state's role in achieving that aim.

The 1990/91 Budget, with its focus on building a new economy, is a major development in this debate.

Government's main policy instrument seeks to map out a role for government in alleviating poverty and addressing inequality — without increasing its stake in the economy.

In assessing the Budget then, three aspects should be considered — the socio-political, the longer-term economic strategy and the short-term, cyclical considerations. There are trade-offs between different goals, but economic policy is about the setting of priorities. Some are emphasised at the expense of others.

It is a balancing act requiring value judgments. As Finance Minister Barend du Plessis said yesterday, a Budget reflects something of the values and ideals of its society.

The main emphasis of the Budget fell on social spending and what was termed "economic backlogs". The first of the three broad policy considerations was to restructure the economy to raise the living standards of all South Africans.

Du Plessis noted about 40% of the Budget would go towards social services — about 10% of GDP and "much higher" than might be expected of SA at this stage of its development. But this figure is not evidence of a massive shift. It is not much higher than last year's 38% of total spending. The Budget simply continues a process started last year of curbing certain expenditures (notably defence) so that more emphasis can be placed on social spending.

The major development here is the creation of a special social fund to address "economic backlogs".

The R2bn transferred to this fund is not included in the total budgeted expenditure of R72,9bn (of which R27bn is on social services). Finance officials say the R2bn has not been included in the Budget because it is a "special fund financed from last year's surplus".

This reasoning is unconvincing. Government is indulging in some Chinese accounting to keep its overall spending total down. Where in government's accounts will this spending item be reflected?

The reason for the fancy footwork is Du Plessis's eagerness to present a Budget that cuts spending in real terms (up only 11,9%), rather than one that merely keeps pace with inflation (13%). A larger spending total, along with yesterday's tax concessions, would have brought the Budget close to being "mildly expansionary".

But officials note the entire amount of the R2bn "conscience money" will probably not be spent in this fiscal year. It is likely to be closer to R1bn, so a real cut in overall spending is still possible.

The financing of the special "social backlog" fund says something about government's priorities. It will be paid for by a transfer out of the huge (almost R7bn) bank balance left after the end of the 1989/90 fiscal year. Significantly, it was decided to put the money back into the economy.

Du Plessis, mindful of the fight against inflation and the roaring growth in the money supply, could have chosen to reduce the forward cover debt (of R14bn) on the Reserve Bank's balance sheet by a massive R5bn. Such a move would have amounted to large scale "money destruction" — when liquidity is taken out of the economy and never returned. It had been expected that government would handle its fat bank balance in this way to stress its battle against inflation.

But rather than "overkill" in the inflation fight, government will use the money to address social problems. It makes sense. Even Bank Governor Chris Stals, who sees inflation as his bogeyman, says crushing inflation through austerity policies is no use if the harsh measures aggravate poverty and unemployment.

The focus on social spending has a short-term urgency and a longer-term "reconstruction" focus. In general, government is approaching longer-term economic policy by focusing on the supply side. Through privatisation, deregulation and a reduction in taxes, the idea is to generate growth and wealth through an expansion in supply. This approach rejects the Keynesian focus on the demand side, with its preoccupation with short-term stabilisation policy.

Yesterday's tax reform was substantial progress in implementing longer-term, oft-promised policies. Du Plessis hopes to increase savings and investment through, among others, the exemption of dividends from taxation, the doubling of the exemption on interest earnings and the substantial relief from fiscal drag of just over R3bn.

But the meaningful tax relief in the Budget (R4,5bn in total), together with the larger deficit (2,8% of GDP compared with 1,5%) and the effective spending increase of about 13% prompts the question: Is this Budget right for the short-term, cyclical needs of the economy, given foreign debt payments of $3bn and a precarious gold price?

The question is whether it will encourage spending and imports, thus threatening the balance of payments. Probably not. The reduction in the import surcharge is not likely to lead to a surge in imports.

Du Plessis hopes the tax relief for individuals will encourage savings. The interest rate structure lends support to this view. Nonetheless, the Budget cannot be described as restrictive. At best, it is neutral and at worst, mildly expansionary. It assumes a relatively strong gold price and, probably, debt roll-overs.

Again, it was a question of priorities. The choice was between a tiny deficit and giving tax relief. With no tax relief, government would have announced a deficit of only R2,1bn. Such a low figure would have meant a second year of no "dissaving" — defined as the financing of current spending with long-term loans.

WITH capital spending at R5bn and the deficit at R7,99bn, the practice will reoccur. But perhaps the country's development needs have rendered this criticism invalid and of technical importance only.

As Du Plessis said yesterday — a huge part of government spending is investment in human capital. With the debate focused on wealth inequality and reconstruction of the economy, not all the old theories apply. In any event, the Budget makes an effort to address social issues within the framework of longer-term economic policy and short-term stabilisation policy. It is an imaginative exercise in balancing needs.

LETTERS

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‘R8bn in mature shares unlocked’

B/Day 15/3/90

BARRY SERGEANT

THE Budget had unlocked R8bn from the JSE, said Tom Dale, head of research at stockbrokers Ed Hern, Rudloph, Inc.

He said the new rule that shares held for 10 years or more on the JSE would be sold tax-free could unlock this amount, with major planned gold mines the most likely recipients.

Dale's analysis shows that the six major mining houses hold R32bn of JSE shares. He said R14bn of this could be regarded as "mature". It was unlikely, though, that the mining houses would sell all these mature investments.

"The shares are often tied to lucrative management contracts, and I estimate that the houses would be prepared to sell about R8bn worth, over a period of time."

Syfrets said the major impact should be felt in mineral rights holding companies, where cash available for greenfields ventures would be boosted by the exemption of mature investments from taxation.

Syfrets said: "This could free about R10bn to R18bn over a period of time. A consequence would be the increased share tradeability."

However, other changes for mines were generally met with disappointment.

Willem Cronje of Deloitte Haskins & Sells said the move towards gradual reduction of the high rates was welcome, "but this merely continues policy announced last year".

JSE president Tony Norton hailed the creation of a 10-year tax-free safe haven for shares listed on the JSE as tremendously important for the equities market, reports LIZ ROUSE.

Norton said huge funds would pass from the hands of the financiers into the hands of the "money engineers".

He estimated that at least R13bn would be released from the share coffers of the mining houses, which would now sell surplus stock held over many years.

This would mean a tremendous boost to the JSE's liquidity, said Norton.

He expressed some disappointment, however, that the period of tax-free release could not have been shorter, as hoped for by the JSE.

Norton also hailed the phasing-out of marketable securities tax (MST) over three years, starting next year, as a boost for the JSE. He said both measures indicat-

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Mature shares

ed government was taking capital investment seriously.

UAL Management Company MD Clive Turner said both measures would oil the wheels of the JSE to the benefit of unit trusts, which catered for the small investor.

A more liquid market and tax exemption of dividends to individuals would encourage a small-investor flow of funds into unit trusts, Turner said.

Anglo American Corporation said yesterday it was "most disappointed" the relaxation of ring-fencing in the Budget was not more substantial, reports RIAAN SMIT.

"It is unlikely that this measure will provide a significant impetus to the development of large new gold mines, although it may assist some smaller projects," it said in a statement.

B/D 15/3/90

Chamber of Mines vice-president Clive Knobbs said although the industry was encouraged by the partial lifting of ring-fencing, it was felt greater concessions were required to create real stimulation for the development of new mining ventures.

Knobbs and Anglo both welcomed confirmation of the second phase of the reduction of mining tax rates, which had the ultimate objective of equating these rates with ordinary company tax rates.

Anglo also welcomed the increase of the gold mine capital allowance from 10% to 12%, as this allowance partially compensated for increased interest rates and costs of capital.

Gold Fields of SA executive director Bernard van Rooyen said the three measures announced by Du Plessis would encourage investment in the mining sector.

FINANCE

BDay 5/3/90

Politics blamed for SA's economic ills

(49)

GERALD REILLY

PRETORIA — SA's economic problems and limited growth could not be blamed entirely on sanctions and boycotts, Pretoria University economist Geert de Wet said here last week.

He told an international conference on economic development in a changing socio-political environment politics had played a major role in SA's economic plight.

This had meant an excess of nationalisation in the sense of government involvement in the economy. Over-regulation had detracted from the economy's inherent ability to grow, said De Wet.

Too many restrictions had hobbled productivity and contributed to greater unemployment. Of prime importance in the lack of economic performance and achievement were erroneous monetary and fiscal policies over a prolonged period. Boycotts and sanctions had merely aggravated an already flawed situation.

"Nationalisation must be avoided at all costs and the economy freed to grow."

Total deregulation would take the economy down the road to vital development of inward industrialisation.

On Friday, Development Bank of Southern Africa CE Simon Brand told conference delegates a plea for rapid removal of remaining regulations had to be made.

There were still great economic inequalities, which would most problably become part of the negotiation process.

Public sector resources would have to be redirected to ensure optimal use.

The private sector would also have to adjust. It would have to recognise its social responsibility while adapting to the changing pattern of markets to survive.

Canadian economist C W Ahiakpor said SA was likely to emerge from its relative economic stagnation if goverment followed world trends towards greater civil liberties and freedom of enterprise.

He stressed the profitable investments that could be made from savings on the security services and bureaucracy needed to enforce apartheid laws.

This would open up greater opportunities for job creation and greater profitability of private enterprise under new institutions supporting individual freedoms.

Removal of apartheid promised liberty and economic prosperity as long as the change was peaceful.

On Saturday Development Bank special adviser F J van Eeden said neither dogmatic calls for nationalisation nor a vaguely defined free market approach "will bring us very far". Deregulation and privatisation would not suffice. Many more development programmes were essential to uplift the Third World sector.

Projections were that the black urban population would increase from 11,5-million in 1985 to almost 28-million in 2000. In a relatively short period SA would look like a Third World country.

Demand for public services would put the economy under severe strain. However, it would create opportunities for inward industrialisation.

Future development policy would also have to provide for increased co-operation with the rest of southern Africa.

Frigate achieves forecasts

Mining shares react with euphoria

1.49

MERVYN HARRIS

MINING shares on the JSE reacted with initial euphoria to the Budget proposals, but leading stockbrokers were divided in their views, with some welcoming it as imaginative and others expressing disappointment.

News of the wide-ranging proposals affecting mining shares came shortly before the close of trading and lifted prices of leading shares sharply higher. The JSE overall index closed 44 points up at 3 304.

Max Borkum, of Davis, Borkum Hare & Co, said: "This is an imaginative Budget which will be favourably received. The overall strategy — there was a modest increase in excise duty on cigarettes, beer and spirits — shows a greater emphasis on indirect as opposed to direct taxes, which must be an indication of future trends."

"The mining industry will benefit to the greatest extent simply through the encouragement of new mining ventures. There will also be a knock-on effect for the amelioration of the unemployment rate through the release of funds.

"Local beneficiation has been encouraged through the abolition of excise duty on beneficiated products. This will stimulate exports and be good for the mines."

Borkum said a long-term benefit for the share market would be derived from the scrapping of marketable securities tax (MST), starting from next year.

"On the negative side, construction companies are likely to suffer through the consideration of consumables and work in progress as trading stock.

"In addition, those companies which have a LIFO reserve will see this phased out over 10 years at 10% a year," he said.

David Shapiro of stockbrokers Max Pollak & Freemantle, said: "There was

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Mining shares

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very little to encourage the market in the Budget. The phasing out of mining tax has already been discounted.

"The lifting of tax on dividends for individuals might be a move towards high yielding second liners by individuals. In the longer term it will encourage share ownership. We are disappointed that MST has not been abolished immediately."

The 10-year safe haven would prompt some mining houses to consider selling shares. This might lead to more trade but much of the selling could by pass the market.

B/Day 15/3/90

John Rogers, of Edey, Rogers & Co, said: "The Minister has made more encouraging noises than in the past but this time it has been accompanied by practical action. Most striking were his proposals on gold mining tax and exemption of tax on dividends for individuals. This will persuade people to increase their investment in shares instead of in fixed interest deposits."

Di Dobson of Price-Waterhouse — one of the panel gathered to interpret the Budget speech — listens to Finance Minister Barend du Plessis.

Picture: ROBERT BOTHA

SA's capital outflow 'now the same as Third World'

49

Political Staff

CAPE TOWN — Trade sanctions had had a minimal direct impact on the economy but the effects of disinvestment were less easy to evaluate, Finance Minister Barend du Plessis said yesterday.

Delivering his Budget at a joint sitting, he said as far as the outflow of capital was concerned SA, despite its good record, was now in the same position as other developing countries.

All had at one time used international capital for development, just as SA had, and now had to make great sacrifices to repay their debts.

The Minister said the only difference financial sanctions had made for SA, as opposed to other developing countries was that, mainly as the result of political actions, it had been cut off from the normal international banking facilities such as the IMF.

This had complicated cash-flow management of the current account of the balance of payments and forced the country to maintain a continual surplus on that account.

Du Plessis said the result had been that the country's capacity for growth — which traditionally meant rising imports during an upswing — had been "tempered" for the time being.

However, he added, SA had been growing since 1987 despite sanctions, and the viewpoint was now growing that sanctions had compelled SA to push through certain structural adjustments more rapidly than would otherwise have happened.

Du Plessis said the sanctions lobby claimed credit for SA's low growth and alleged it was this which had forced government to change.

Government had known from the start that a period of unavoidable adjustment and economic restructuring involving sacrifice was likely.

Du Plessis said government's commitment to reform and its pursuit of a higher growth pattern despite sanctions underlined "both the folly of continuing foreign interference through sanctions and the futility of trying to put the lifting of these sanctions as a factor in the negotiation process".

The lifting of remaining apartheid measures and of sanctions were not "real negotiating counter" as neither had "any further claim to existence" in the light of government policy.

B/Day 15/3/90

Govt allocates R3bn to reducing forward cover losses

(49)

B/Day 15/3/90

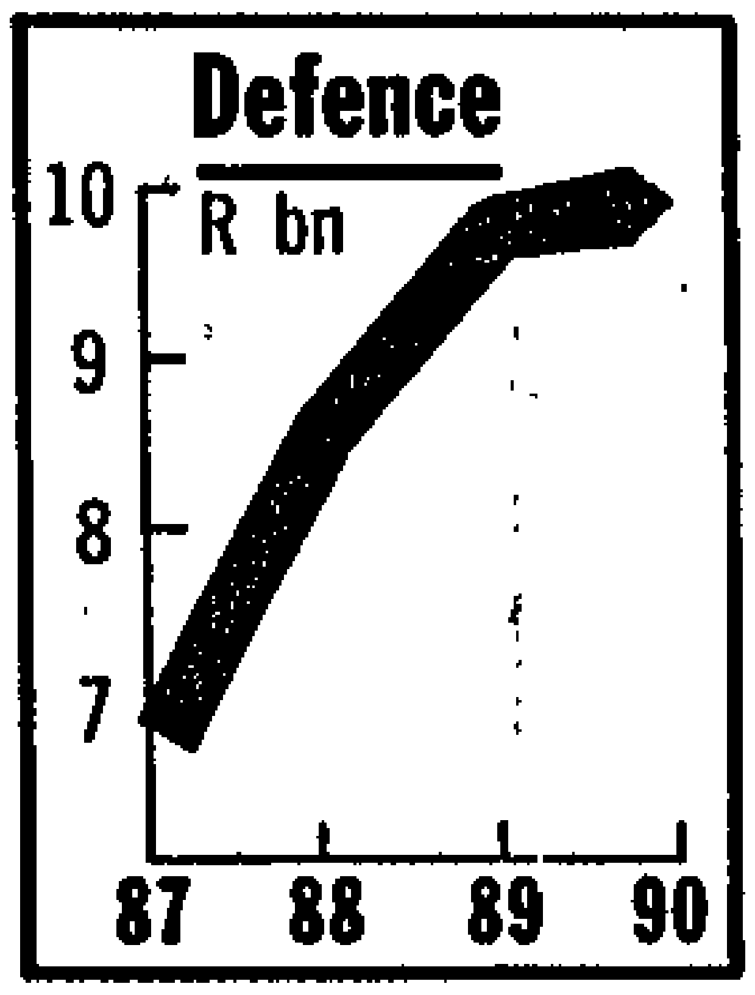
LESLEY LAMBERT

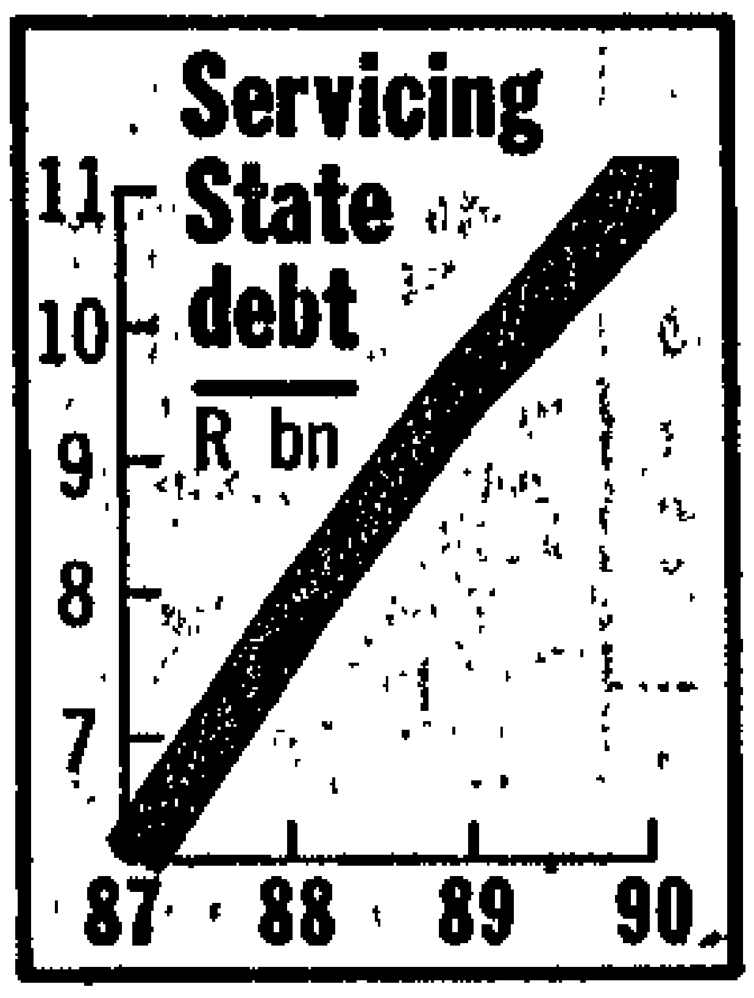
CAPE TOWN — Government will use R3bn from last year's larger-than-expected R6,97bn Budget surplus to reduce net losses on forward cover transactions incurred during the year as a result of rand depreciation.

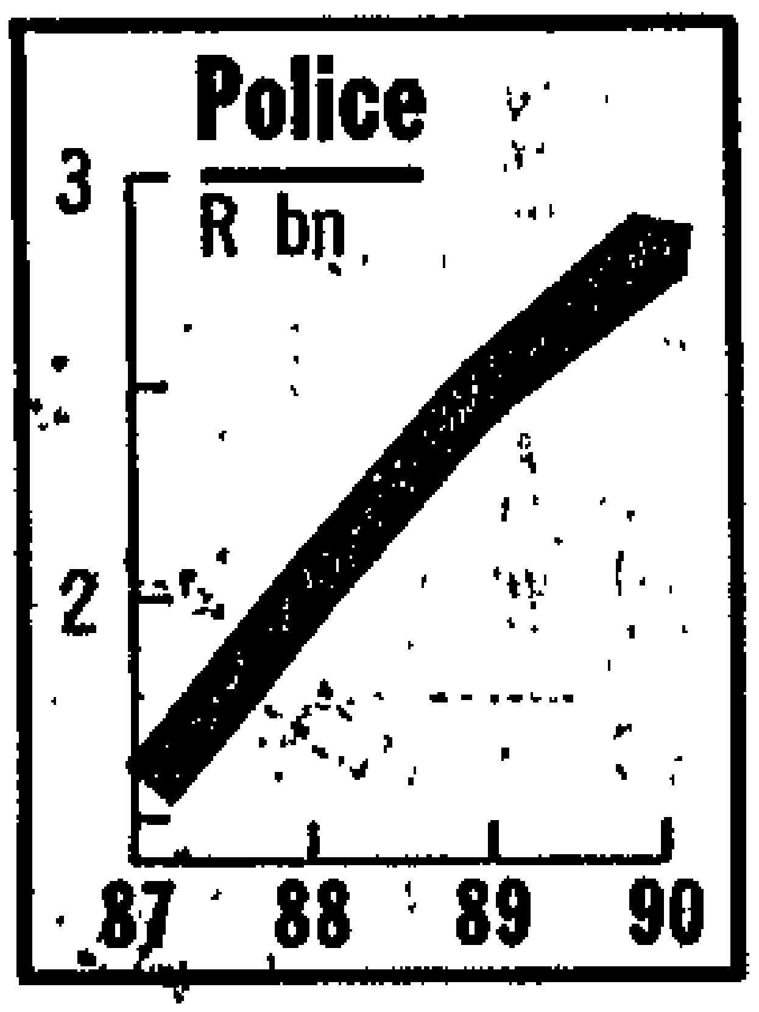
The losses arose from enormous deficits, related to the depreciation of the rand, on the forward cover facility provided by the Reserve Bank. The deficits, which amounted to R14bn last month, were financed by new money.

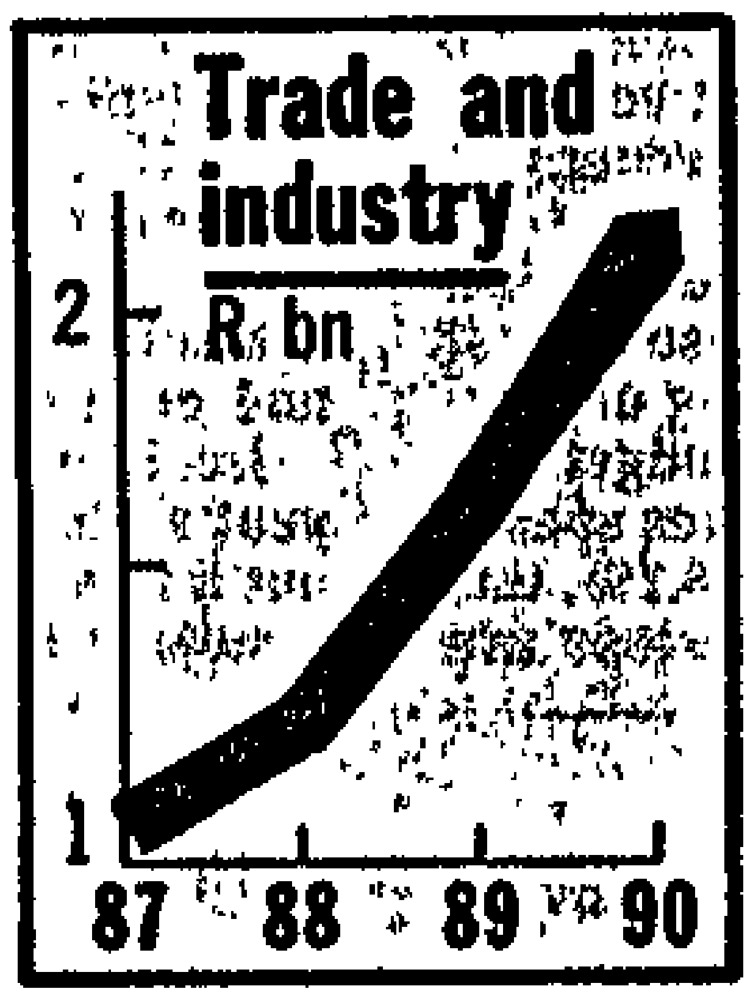
In a bid to limit the inflationary effects of increases in the money supply and the banks' credit extension, government decided to use capital from the surplus after borrowing to reduce the losses, rather than plough the surplus capital back into the money stream. Other financing options included non-bank loans or even higher taxation, but these were not appropriate.

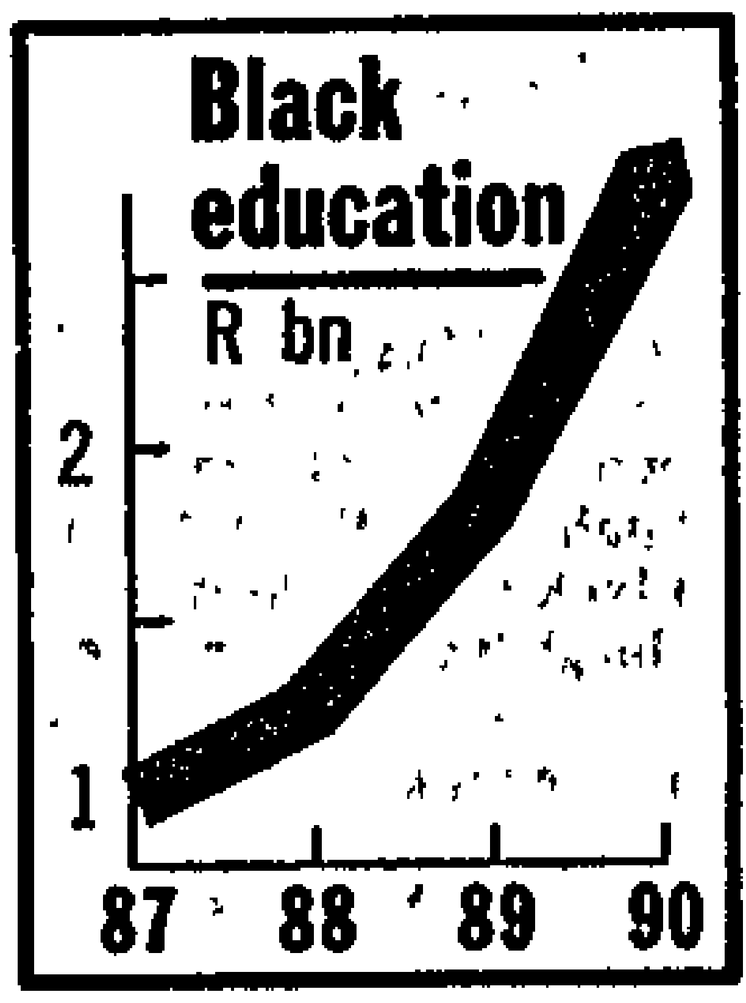
Du Plessis said it was not necessary at this stage to further reduce the accumulated losses because a slight upward movement in the commercial rand in October last year, had resulted in surpluses on the forward cover book.











Graphic: FIONA KIRSCH

Twin spurs of tax cuts and savings

B|Day 15|3|90 (49)

Barend's goal is SA growth

● DU PLESSIS

MIKE ROBERTSON

CAPE TOWN — In his R72,9bn Budget yesterday Finance Minister Barend du Plessis committed government to going for growth through tax cuts and encouraging savings.

He also took a step towards long-term economic restructuring by increasing spending on social services.

Du Plessis said revenue for the year was expected to total R64,938bn, leaving a defecit before borrowing of R7,994bn (2,8% of GDP), and predicted a 1% growth rate.

The Finance Minister unveiled a R4,5bn package of tax cuts, with more than R3,3bn in personal tax cuts — largely directed at eliminating fiscal drag at the bottom end of the tax scale.

The tax changes included:

☐ Decreasing the maximum marginal tax rate from 45% to 44% and restructuring lower rates;

☐ Increasing primary rebates for married and unmarried people from R1 250 and R850 to R2 100 and R1 800 respectively;

☐ Raising the threshold at which people start paying tax to R12 000 and R10 286 respectively for married and unmarried people with no children; and

☐ Increasing the rebate for people over 65 from R 1450 to R2 100.

● See Pages 6, 7, 8 & 9
● See also Special Supplement
● Comment: Page 8

To encourage savings, Du Plessis doubled tax exemptions on interest and building society dividends received by individual taxpayers to R2 000. He also gave away an estimated R408m by exempting all dividend income of individuals from taxation.

In a move that is expected to inject a considerable degree of liquidity into the JSE, Du Plessis announced the introduction of a "safe haven" for shares held for more than 10 years. Any profits gained on realisation of these shares would not be subject to taxation. Also, he said marketable securities tax would be phased out over three years from next year.

He introduced an across-the-board reduction in import surcharges at a cost of R835m and abolished the ad valorem duty on pearls and diamonds.

He announced a number of changes in the taxation of mines, including making 25% of existing mines' tax bases available for writing off the development costs of a new mine as long as the new mine remained the property of the same taxpayer.

Increases introduced included: a 1c a "can" hike in the price of beer; a 78c increase in duty on spirits; and a 4c increase in the price of a packet of 20 cigarettes.

Du Plessis abolished tax concessions on employee training allowances (a saving of

☐ To Page 2

B|Day 15|3|90

Barend's goal

(49)

☐ From Page 1

R80m is expected to accrue to the state); reduced by 10% the value of LIFO reserves to which taxpayers are entitled (R50m); and introduced a new construction industry tax on work in progress (R50m).

Increases in fringe benefit taxation included a 50% hike in the taxable value of company cars to 75% and the upping of the official interest rate to 19% (16%).

On the spending side, the Finance Minister said that almost 40% of total expenditure was devoted to social spending — up from 38% of the total Budget last year but with a tight rein on actual increases in department expenditure.

The total allocation to education amounted R13,3bn, a 9,8% increase on last yeat's revised estimates. Spending on education was 18,7% of the total Budget.

Although in the Budget estimates spending on black education is up by 26,1%, this is to a large extent because pensions are now being paid out of this vote. The increase in teachers' salaries is not included in the black education vote, nor is the R150m allocated to eliminate black schools' backlog.

Du Plessis announced a R50m one-off grant to universities and technikons.

Spending on health was up to R7bn, an increase of 8% or 9,8% of the total Budget, while housing expenditure was up by 15,8% to R1,5bn. A sum of R2,2bn covered the recent salary hikes for public servants.

Defence expenditure was up by 1,3% to R10,071bn, reflecting a substantial cut.

The servicing of public debt was expected to cost R11,3bn (a 15,3% increase).

Social pensions went up by R25 a month and civil and military pensions by 10%.

Du Plessis announced that R2bn of last year's R6,97bn Budget surplus would be put into a special fund to remove backlogs resulting from apartheid legislation.

Unkindest cut as pensions increase by R25

Budget for a new SA

Sowetan 15/3/90

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BEER, spirits and tobacco products would all be subject to "modest" increases in customs and excise duties, while tax concessions to individuals totalling R4,530-billion were announced by the Minister of Finance, Mr Barend du Plessis, in his Budget speech in Parliament yesterday.

Beer - excluding sorghum beer - would go up by about one cent a 375 ml bottle, spirits such as whisky, brandy and gin by about one cent a tot or 25,2c a 750 ml bottle, cigarettes by two cents for a packet of 10 and tobacco by two cents for 50g.

Record

But in the unkindest cut of all, pensions would be increased by R25, with the result that both white and black pensioners would get grants far below the lowest in standards of living.

Du Plessis presented a record Budget which clearly re-directs the economy towards a new South Africa in which blacks' historic backlogs are to be addressed.

He presented a Budget in which the emphasis fell on politics rather than finance. His speech was laced with the recurring themes of "restructuring" or "structural adjustments", and he identified "past discriminatory practices" and "restrictions" as having contributed to backlogs still to be found in certain fields and affecting black people in particular.

Job reservation and its restrictions had retarded black people's progress and earning capacity for more than 20 years.

Apart from increased spending on social welfare and education, he announced the creation of a special R2-billion fund to wipe out the backlogs.

Poverty would need to be addressed directly, he said. He also, as expected, gave the South African Police and nursing professions boosts at the expense of the Defence Force.

Tax concessions to individuals totalling R4,530-billion were announced.

Rebates affecting interest on building society investments, undistributed profits,

society investments, undistributed profits, married women and the aged as well as adjusted tax rates for lower and middle income groups alone would cost the Treasury an estimated R3,122 billion.

"The rates of tax proposed represent only the first phase of the considerable adjustments that are planned," he said.

The expected total tax revenue for the new financial year would rise by an estimated 5,8 percent over last year to total R64,938-billion.

Revenue statistics he tabled showed the nett increase in tax on individuals was expected to rise by 4,3 percent over 1989/90's R19 558 540 to R20 402 000.

Finance Minister Mr Barend du Plessis.

See also pages 2 and 23 to 30

Barend's budget realistic - expert

(49)

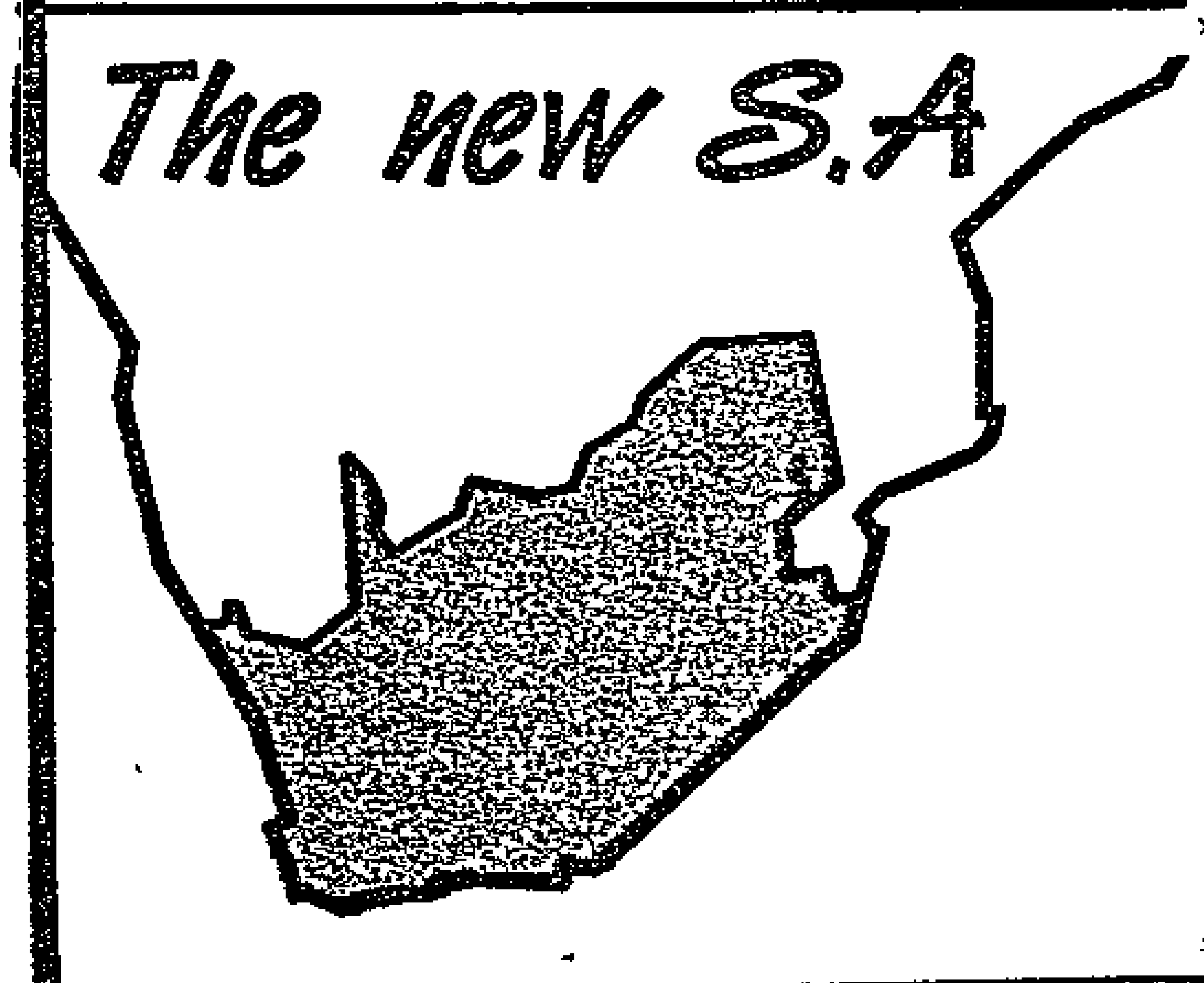
Sowetan 15/3/90

SOWETAN

OLD MUTUAL

BUDGET '90

The new S.A



By DAVID MOHR, chief economist, Old Mutual.

WHAT were the main aspects that the Minister had to take into account when drawing up the budget and how did it influence fiscal policy in general?

Our economy is still exposed to bottlenecks such as high inflation and the continued repayment of foreign debt.

The economic downswing is well established :- can be seen in total spending which, after taking inflation into account declined by one percent.

The consolidation phase will have to continue without excessively depressing the economy, but at the same time domestic demand cannot be allowed to rise too rapidly.

In principle, therefore, the budget should not encourage excessive spending.

In addition Government's total tax revenue rose by 62 percent during the past two fiscal years and the budget had to address the growing share of government in the economy, particularly with regard to rising pressure on the consumer's position.

Another important aspect is the changing political climate which has created socio-economic expectations. T

This impacted on fiscal policy as a re-arrangement of spending priorities had to be undertaken.

Would you describe the budget as realistic in the light on current economic conditions?

Yes. The budget has maintained the correct balance and was neutral enough not to depress the economy, which is already in downswring, nor to stimulate it.

Government's budgeted expenditure also appears to be realistic in contrast with past experience when actual spending overran budgets.

What are the most positive characteristics of the budget?

Government spending increases at a relatively low rate and spending is channeled to these areas where needs are the greatest.

Although the total increase in spending is small spending on black education and training is budgeted to rise by 26 percent.

Another positive characteristic is that the deficit before loans has again been restricted to less than 3 percent of GDP which is in line with sound international fiscal norms.

This should also restricted upward pressure on interest rates.

The individual's tax burden has also been relieved significantly having risen by 37 percent last year and contributing 31 percent to total tax revenue.

This year's budget provides for tax relief to individuals amounting to R4-billion. The largest portion of this amount namely R3,1 billion is aimed at alleviating the effect of fiscal drag.

The budget also aims at encouraging personal saving and the Minister increased the tax free amount on interest income from R1000 to R2000.

There was also a relief for married working women. This represents a further step away from joint taxation and will be to the benefit of the labour market.

What are the most disappointing characteristics of the budget?

Although the Minister mentioned in his preamble to the budget that government wished to stimulate savings the concession in respect of taxation of interest income was disappointingly small.

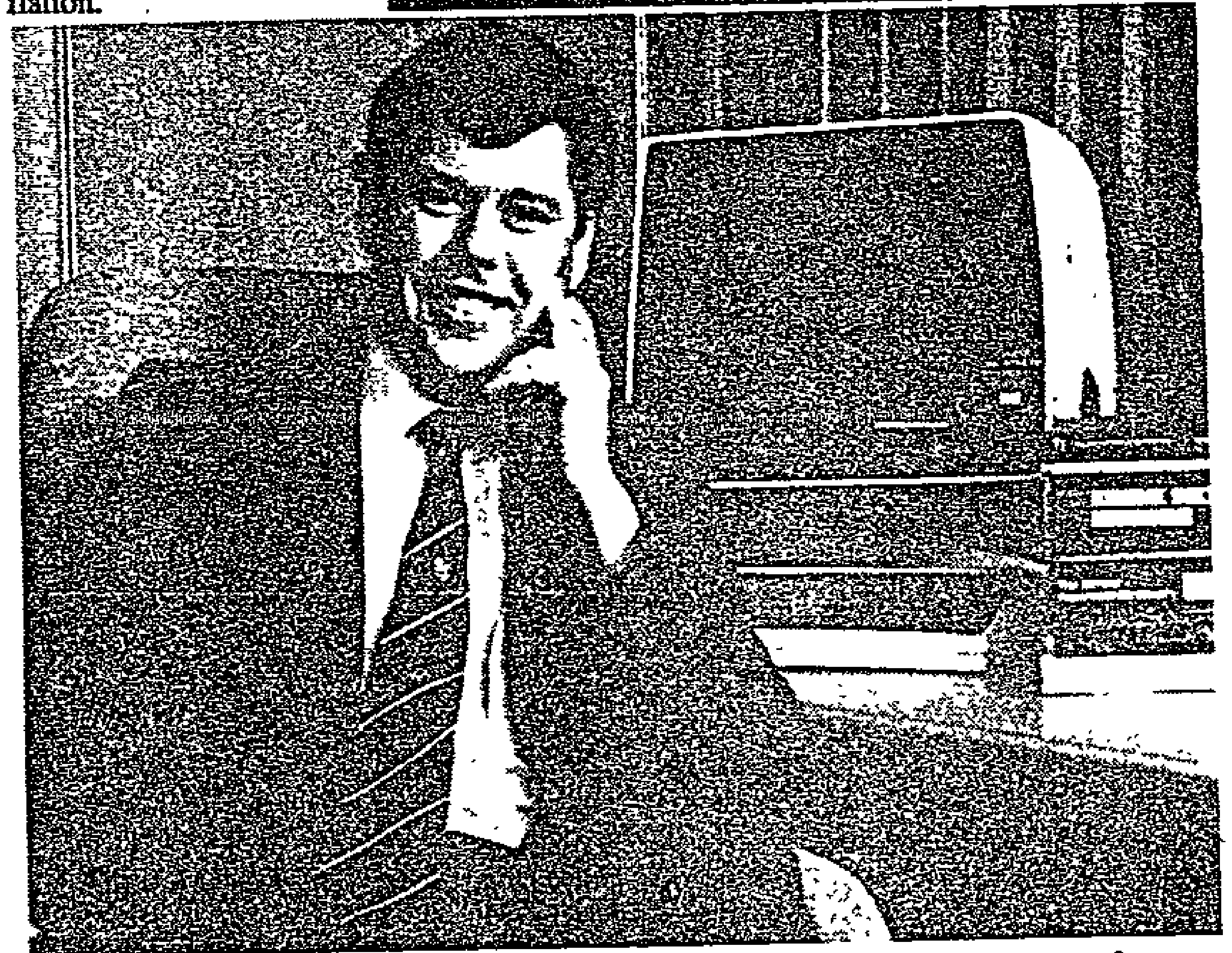
The tax free amount on interest income was raised from R100 to R2000 which will not do much to improve the extremely low savings rate of individuals of 1,6 percent of after tax income.

What effect do you think the budget will have on the economy?

The budget should contribute towards the consolidation phase in the economy but prevent an over kill of the economy.

It should therefore, in conjunction with the continued strict monetary approach contribute towards the further improvement of the current account of the balance of payments and the replenishment of the foreign exchange reserves.

At the same time the lower import surcharge should in the short run at least make a positive contribution to curtailing inflation.



Mr DAVID MOHR...'.Budget maintained correct balance and was neutral...'

State Fund will relieve

REDUCED relative spending on defence and increased spending on education, health, housing and pensions were announced by the Minister of Finance, Mr Barend Du Plessis,yesterday

Du Plessis said all social pensioners would get R25 a month more civil pensioners an adjustment of 10 percent=military

'More is still needed'

By JOSHUA RABOROKO

Sowetan 15/3/90

BLACK business yesterday welcomed aspects of Finance Minister Barend du Plessis' Budget, but said it fell short of what was expected.

The Minister should have cut the defence budget by half so that he could give more to housing, education, health facilities and business development in the black community, black business leaders said.

A spokesman for the Black Management Forum, Mr George Negota, said the defence budget should have been drastically cut to increase allowances for pensioners, who were already hard-hit by the inflation rate.

The acute housing shortage needed to be addressed as well as the poverty that went with it.

South Africa needed "a scheme of action coupled with a realistic plan of action to resolve the housing crisis," he said.

Financial adviser to the Foundation for African Business and Consumer Services, Mr Jeff Rapoo, said while the budget should be welcomed, it did not close the gap between black and white pensioners. The disparities must be closed.

A top Soweto tax consultant, Mr Matsheru Matsheru, said the budget was the "perfect matching of economic and political reform".

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He said incomes of married women will be taxed separately from those of their husbands. "This means that the tax status of a married woman has improved to a certain degree. This will further stimulate the supply of skilled married women in the market place.

The executive director of the Association of Black Accountants of South Africa, Mr Mashudu Ramano, said the fact that profits realised from shares listed on the Johannesburg Stock Exchange that had been kept for more than 10 years would be exempted from income tax under certain conditions, was making "the richer rich and poorer poor".

"The crisis in black education can be solved by this money," he said, expressing disappointment at the small increase for pensioners.

Meanwhile, OK Bazaars managing director, Mr Gordon Hood, said the budget must be accepted as a first step for creating a sound economic environment for a new South Africa.

The executive director of the Institute for Personnel Management, Mr Wilhelm Crous, also welcomed the budget.

C Times (49) 15/3/90

Govt spending on states goes up by 16,7%

Political Staff

GOVERNMENT spending on the ten homelands is to go up by R1,122 billion, or 16,7%, during the 1990/91 financial year to total R7,830 bn.

Most of this amount, R5,014 bn, will go to the six non-independent homelands.

The details of government spending on the homelands were contained in the Estimate of Expenditure for the financial year ending on March 31, 1991, which was tabled in Parliament yesterday.

The spending on the four independent homelands is provided under the Foreign Affairs vote, but no details were given of what funds would be allocated to each of them.

However, details of the allocations to each of the six non-independent homelands, which were provided under the Development Aid vote, were given.

KwaZulu is to receive R2,219bn, an increase of R359,4 million; Lebowa is to receive R1,283bn, an increase of R172,4m; Gazankulu has been allocated R617,9m, an increase of R80,6m; KaNgwane is to receive R338,9m, an increase of R46,6m; KwaNdebele has been allocated R268,9m, an increase of R28,6m; and QwaQwa is to receive R268m, an increase of R37,6m.

R4,5bn govt campaign 'to relieve hardship'

Political Staff

A R4,5 billion government campaign to eliminate "backlogs" among black communities in South Africa — including a special R2 billion fund and R150 million for schools — were disclosed in yesterday's budget.

The campaign will also include R1,9 billion for housing, R110 million for unemployment training and job creation, R215 million for the Development Bank and R100 million for development corporations and the Small Business Development Corporation.

Finance Minister Mr Barend du Plessis said yesterday that the budget sought, "within the maximum affordable level of expenditure, to contribute to the relief of hardship and to equip as many people as possible to grasp, on an equal basis, the opportunities the economy offers".

Few details were provided in the budget speech about the special fund and President F W de Klerk is expected to make a more detailed announcement on it soon.

But Mr Du Plessis did say that by way of a transfer from the 1989/90 surplus, the new fund would be specifically dedicated to the reduction of socio-economic backlogs in South Africa.

It was intended that this fund be augmented from time to time as circumstances permitted.

It could reasonably be expected that the full amount would not be spent in the first year.

Mr Du Plessis said that in its acknowledgement of the important role that education had to play in South Africa, the government wished to catch up on the backlogs with regard to education wherever and as fast as possible.

The additional non-recurrent amount of R150 million would mainly be used for capital expenditure in black expenditure and training in areas where the backlogs were most severe.

The Budget Review, which was released yesterday, said the increase in expenditure on housing was a reflection of the government's commitment to "addressing as far as possible the large housing backlog still existing in certain areas thereby improving the quality of life and enabling people to participate productively in the economy".

Bread price to rise after cut in wheat subsidy

Political Staff

AN increase of between six and seven cents for a loaf of bread can be expected following the drop of R20 million in the wheat subsidy.

And, bearing in mind the extra R35m allocated by the government for the subsidy after last year's budget, this means that the total subsidy is down by R55 million.

The last bread price increase, in October last year, pegged white bread at R1 a loaf and brown bread at 85c.

A spokesman for the Minister of Agriculture said yesterday that a statement would be issued in the near future about the implications of the subsidy decrease, once details of the programme to aid under-privileged people was known.

In his budget speech yesterday, Finance Minister Mr Barend du Plessis said the government opposed subsidies on the grounds that it was not only the poor who benefited.

Other means had to be found to address this problem, he said.

State receives R3bn from privatisation

Own Correspondent

JOHANNESBURG. — A total of R3,005 billion accrued to the state as a result of privatisation in the 1989/90 fiscal year, Finance Minister Mr Barend du Plessis said yesterday.

An amount of R2,915bn accrued from the privatisation of Iscor and R90 million from the privatisation of the SA Mint.

After financing certain expenditures R2,847bn was used to reduce the public debt, with a saving on interest of R500m which, he said, would be used to the taxpayer's benefit.

A portion of the proceeds from the sale of the SA Mint was used as a capital augmentation for the Small Business Development Corporation and the development corporations in the self-governing states.

The government decreased the gross financing requirement to an adjusted, lower amount of R5,856bn through privatisation income.

"Interest commitments for financing purposes consequently were at a lower level than would have been the case otherwise. This lower expenditure level enlarged the scope for certain tax proposals for 1990/91," he said.

On privatisation initiatives in the coming year, Mr Du Plessis said draft legislation providing for the creation of a telecommunications company and a postal company, of which the state will initially be the only shareholder, is being finalised and will shortly be submitted to Parliament.

Also, a draft amendment bill for the conversion of the commercial forestry and sawmill activities of the Department of Environmental Affairs into a financially autonomous corporation has been published, and will be finalised in consultation with interested parties.

Health spending up to R7bn

TOTAL government spending on health has been raised by 8% to R7 billion in this year's budget.

Mr Barend du Plessis announced yesterday that health expenditure amounted to 9,8% of total expenditure for 1990/91.

He said that by international standards the level of government expenditure on health services, in relation to the level of development in South Africa, was already significant, despite the fact that large backlogs still existed.

Mr Du Plessis said that from the point of view of affordability, attention should be given not only to the level at which health services were to be rendered in future, but also the structural nature of the services.

Disadvantaged to get R2bn fund

Political Correspondent

THE government is to set aside R2 billion towards a special capital fund aimed at removing backlogs in disadvantaged communities.

But it has also earmarked R1bn to help bail out the government's ailing pension fund.

Finance Minister Mr Barend du Plessis also announced in his budget speech yesterday that R3bn of its R6,97bn surplus from the previous financial year would be used to help settle losses that have accrued on forward cover transactions in 1989/90.

Mr Du Plessis said the scheme, in terms of which the Reserve Bank provided forward cover facilities, had spawned "mammoth" deficits in the wake of the depreciation of the rand and amounted to R14bn on February 28 this year.

Other portions of the surplus are being hived off to the Development Bank of South Africa (R215,7 million) and the government's stabilisation account at the Reserve Bank (R754m).

Relief for the poor

Police singled out for salary adjustments

AN increase in police salaries, details of which would be given shortly, were announced by Finance Minister Mr Barend du Plessis in his budget speech yesterday.

In his speech he said the government placed a premium on an efficient, well-motivated police force, a pre-condition for orderly reform and stability.

"It is realised by the government that the police are burdened by a severe shortage of manpower and resources at the moment. It is recommended therefore that an additional amount be set aside for specific salary adjustments for the police."

This formed part of a package for the improvement of conditions of service.

He also proposed that a non-recurrent R100 million be made available for the purchase of badly needed equipment.

He said the lowest-paid public servants also deserved attention.

An amount of R2,233 billion was included for the Vote: Improvement of Conditions of Service, for all public servants.

He said the release of defence funds would also provide an opportunity to do justice to the proper exercise of law and order, which was an inalienable right of the authorities.

This included the already announced non-pensionable allowance on basic salary, as well as additional improvements being introduced to address specific bottlenecks regarding the police, nurses and other law-enforcement personnel on a differentiated basis.

"The position of the lowest-remunerated groups of employees of the state also deserves attention," Mr Du Plessis said.

"The salary dispensation for these categories of employees is being investigated with a view to making structural changes."

More details of these adjustments would be given by the Minister for Administration and Economic Co-ordination in due course, he said.

Secret spending up

Political Staff

GOVERNMENT spending on secret projects and services will go over the R6-billion mark during the current financial year.

Most of this amount — R5,746bn — has been allocated under the Defence Force for the Special Defence Account.

This account, described in the Estimate for Expenditure, which was tabled in Parliament yesterday, as for "financing special defence activities and purchases", is marginally lower than the R5,816bn allocated for this purpose in the previous budget.

A further R327,2 million has been provided for "secret services" under the finance vote, which went up from R275,2m in the previous year.

This was described in the Estimate as "augmentation of the Secret Services Account to finance secret services undertaken by state departments".

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Budget special
Whole Supplement = 49
ie pp 1-12

FULL TEXT
OF THE MINISTER'S
SPEECH

Business Day
THURSDAY, MARCH 15 1990 BUDGET SPECIAL
A TIMES MEDIA PUBLICATION

INSIDE

It's supply-side measures that will give growth

FINANCE Minister Barend du Plessis yesterday introduced a R71bn Budget which he said would set the tone for economic restructuring and growth.

Du Plessis argued that this and future Budgets would be judged according to how they met three basic policy objectives:

☐ Economic restructuring to lift SA's long-term growth potential;

☐ Socio-economic development to raise the standard of living of all; and

☐ The pursuit of short-term economic stability.

Nearly 40% of the Budget was earmarked for social services. Du Plessis set aside R2bn for the elimination of socio-economic backlogs, some of which he conceded were the result of past discriminatory laws and practices. Not all the money will be spent this year, and the fund will be augmented from time to time.

Du Plessis said that as the private sector was the prime wealth creator, its income and wealth generation should be promoted. He did this by R4bn in tax cuts, benefiting companies and individuals, including working married women.

He also announced measures to encourage savings in order to promote capital formation and job creation.

The following is the full text of yesterday's Budget speech.

THROUGHOUT history mankind has been battling to satisfy its needs. Seldom does the contrast between *unlimited* material needs and *limited* means of meeting them emerge so clearly as in a country's annual budget.

A budget is thus much more than a mere accounting exercise. It is not only a reflection of a society's approach to its finite resources and its preferences in the meeting of its needs: it also reveals something of its values and ideals.

If, for short-term gain, a society overextends itself or depletes its resources it will find itself — and still more its posterity — on the road to impoverishment.

The imperatives of insight and responsibility in the evaluation of *how much* of the resources available should be used *now* finds expression in the criterion of "affordability". And this has been an important guideline in the crafting of today's Budget.

The choice of just *which* of the infinite needs should be addressed, and to what

now, in line with the present universal pattern of capital flows, they must make great sacrifices to repay their debts.

The only difference that financial sanctions have thus made for South Africa vis-à-vis other developing countries, is that we have in addition, and chiefly for *political* reasons, been cut off from "normal" international banking facilities, such as those of the International Monetary Fund.

This has complicated cash-flow management of the balance of payments and forced on us the necessity of maintaining a continual surplus on the current account. The upshot has been that our growth capacity, which traditionally has meant rising imports during an upswing, has been tempered for the time being.

But since 1987 we have been growing nonetheless; indeed, the view is gaining ground that the crunch of sanctions has compelled us to push through certain structural adjustments more rapidly than would otherwise have occurred.

The Government nonetheless did what was in its power to mitigate this by means of training and job creation programmes.

Spurning the path of escalating violence, the State President sought a mandate for a political solution by way of negotiation. The far-reaching steps taken by him since his assumption of office spring directly from carefully-considered initiatives and timing, and have nothing to do with sanctions.

The Government's commitment to reform and its pursuit of a higher growth pattern despite sanctions underline both the folly of continuing foreign interference through sanctions and the futility of trying to inject the lifting of these sanctions as a factor in the negotiation process.

No more than the lifting of the discriminatory measures still remaining is the lifting of sanctions any real negotiating counter — since, in the light of the Government's policy, neither of the two has any further claim to existence.

Seen against this back-

further. While such things as the raising of income tax thresholds certainly helped the lower income groups, since it could be targeted, the exemption of certain foodstuffs from GST was a most inefficient way of helping them inasmuch as only a small portion of the total benefit ultimately reached them.

This Budget therefore aims to help the less privileged by making the greatest possible provision on the expenditure side of the account.

By contrast, it is to the *revenue side* that one must look to promote economic growth in the interest of all. The process of tax reduction — and especially of personal tax, which at present constitutes a disproportionate share of total tax revenue — is of crucial importance in boosting saving, enterprise and investment.

Fundamental to today's Budget, therefore, is the viewpoint that workand wealth-creation comes first and foremost by way of investment in the private sector. This approach is sup-

It boosts private share ownership among the general public, whereby more people obtain a stake in our country's productive assets — as Iscor has shown.

Through corporatisation, management and other practices and techniques characteristic of the private sector take root in the public sector, leading to greater efficiency, lower costs and ultimately a smaller tax burden on the public. A better-functioning economy has a greater job-creating capacity.

This new approach to the co-ordinated implementation of broad economic policy calls also for a full exploitation of our country's comparative advantage in the field of industrial development.

This involves the channelling of the present spare capacity in our infrastructure (for example in electricity generation) towards export-oriented production of material-intensive and processed products. This gives us the benefit of added value above mere raw material exports, thereby boosting employment.

But the means for the rôle the Government must play do not lie in a growing tax burden. Quite the contrary: throughout the world experience has shown that lower taxes, when reinforced by the correct policy package, promote economic growth. The latter in turn can finance higher state expenditure without tax having to grow as a proportion of the gross domestic product.

Coupled with this growth — which can be achieved in the medium term — will be a rearrangement of spending priorities, more effective state administration, and other steps, whereby the share of social spending can be substantially raised.

Taken together, these things constitute nothing less than a new way of life so far as our economic activities are concerned.

Now, a few thoughts on the rationale of the expenditure side of the Budget.

It would not be scientifically correct without more ado to attribute either the phenomenon of backlogs, or its *extent* in South Africa, entirely to earlier restrictive legislation, as some commentators in fact do — and chiefly for partisan purposes.

There are backlogs of all kinds in all analogous countries, and even in the most highlydeveloped countries. But it is nonetheless true that certain measures originating in the political aims of the past contributed to certain economic backlogs. One or two aspects of this subject deserve mention:

☐ Viewed from the perspective of the utilisation of labour as a factor of production, certain past discriminatory practices contributed to the backlogs still found in some fields today and affecting our Black people in particular: job reservation, thus, with its accompanying restrictions on training, retarded for over twenty years the development, progress and earning capacity of many;

☐ Added to this was the restriction on the ownership of land and property in certain areas, which militated against the possibility of accumulating fixed assets and basic securities. This had a baneful impact on people's ability to build up capital and to enter the world of business.

It is in everybody's interest that a more acceptable and betterbalanced situation with regard to livingand other standards should come about in South Africa with all possible speed. In this way there will not only arise an economic dispensation that will be in more stable equilibrium, but a significant contribution will be made to social and constitutional stability.

Apart from the structural aspects already alluded to, today's Budget, with this purpose in view, creates, by way of a transfer from the 1989/90 surplus, a fund specifically dedicated to the reduction of socio-economic backlogs in our country. There will be a brief reference to this when we come to the financial data a little later, but otherwise details will be provided by the State President during the course of this week.

To summarise: over the next few years the Central Government's budget will have to comply with three broad policy considerations that in many respects are mutually inclusive:

(i) The economy must be restructured so as meaningfully to raise the living standards of the entire South African population. Since the private sector is

☐ To Page 4

Budget allocations for government departments in yesterday's Budget and the change from the previous year.

	1990/91 (Revised) Rm	1989/90 Estimate Rm	% Increase (Decrease)
State President	16,1	17,5	(8,7)
Parliament	57,5	60,4	(4,8)
Bureau for Information	41,4	55,3	(25,1)
Foreign Affairs	3 797,5	3 255,2	16,6
Constitutional Development Services	14,5	10,6	36,8
National Education	205,0	148,3	38,2
Defence	10 071,0	9 937,5	1,6
Mineral and Energy Affairs	1 133,6	814,4	39,2
Privatisation	2,6	89,4	(97,1)
Justice	459,5	384,6	19,5
Prisons	878,2	753,8	16,5
House of Assembly	7 657,3	6 529,6	17,3
Finance	12 478,0	11 137,3	12,0
Manpower	328,1	218,3	50,3
House of Representatives	3 245,4	2 805,4	15,7
House of Delegates	1 171,8	1 003,7	16,7
Police	2 927,7	2 546,4	15,0
Environment Affairs	177,9	169,8	4,8
Water Affairs	351,6	401,8	(12,5)
Trade and Industry	2 215,2	1 779,6	24,5
Development Aid	5 721,6	5 213,6	9,7
Education and Training	2 462,9	1 952,3	26,2
Home Affairs	241,2	213,0	13,2
Transport	1 508,2	1 526,4	(1,2)
Public Works & land Affairs	1 893,8	1 760,8	7,6
National Health	720,0	2 747,5	(73,8)
Planning and Provinces	8 826,6	9 081,3	(2,8)
Agriculture	302,0	324,5	(6,9)
Commission for Admin	407,3	283,5	43,7
Improvement of Conditions of Service	2 232,9	138,7	1 509,9*
Total	71 546,0	65 180,9	
Less expected savings	71 546,0	65 180,9	9,8
Contingency Reserve	1 000,0	1 000,0	

* Expenditure not yet divided among differente votes.

Whole page

ities mean that limited resources are simply consumed without significantly adding to society's longer-term ability to create more means, the unavoidable end is once again impoverishment. Compassion, and balance, emerge on the expenditure side of the Budget.

As to the impact of the Budget in its totality, the need for creating new means to the benefit of all finds expression in the goal of "restructuring" the economy.

This Budget not only gives further impetus to certain economic adjustments already under way, but combines with them a number of new approaches in a dynamic action aimed — as the State President has put it — at buttressing the new South Africa with a sound and growing economy.

But the Budget also stands squarely within the wide and complex question of our present economic situation.

One of the most disquieting economic events of the postwar period was the oil price shock of the 1970s. The industrial countries, reacting at once by way of bold restructuring programmes, thoroughly digested the ensuing worldwide inflation and restored stable economic growth. But this demanded sacrifice: a temporary fall in production, with its accompanying unemployment.

South Africa, by virtue inter alia of the exceptionally high gold price then ruling, could put these worldwide adjustments temporarily aside, in favour of other domestic priorities.

But, particularly since the middle eighties, with the advent of more adverse international and domestic economic conditions, low growth and rising unemployment came to be our lot too, and made the implementation of restructuring programmes inescapable.

Coupled with this was a tightening of international political action against South Africa, involving further and more intensive sanctions.

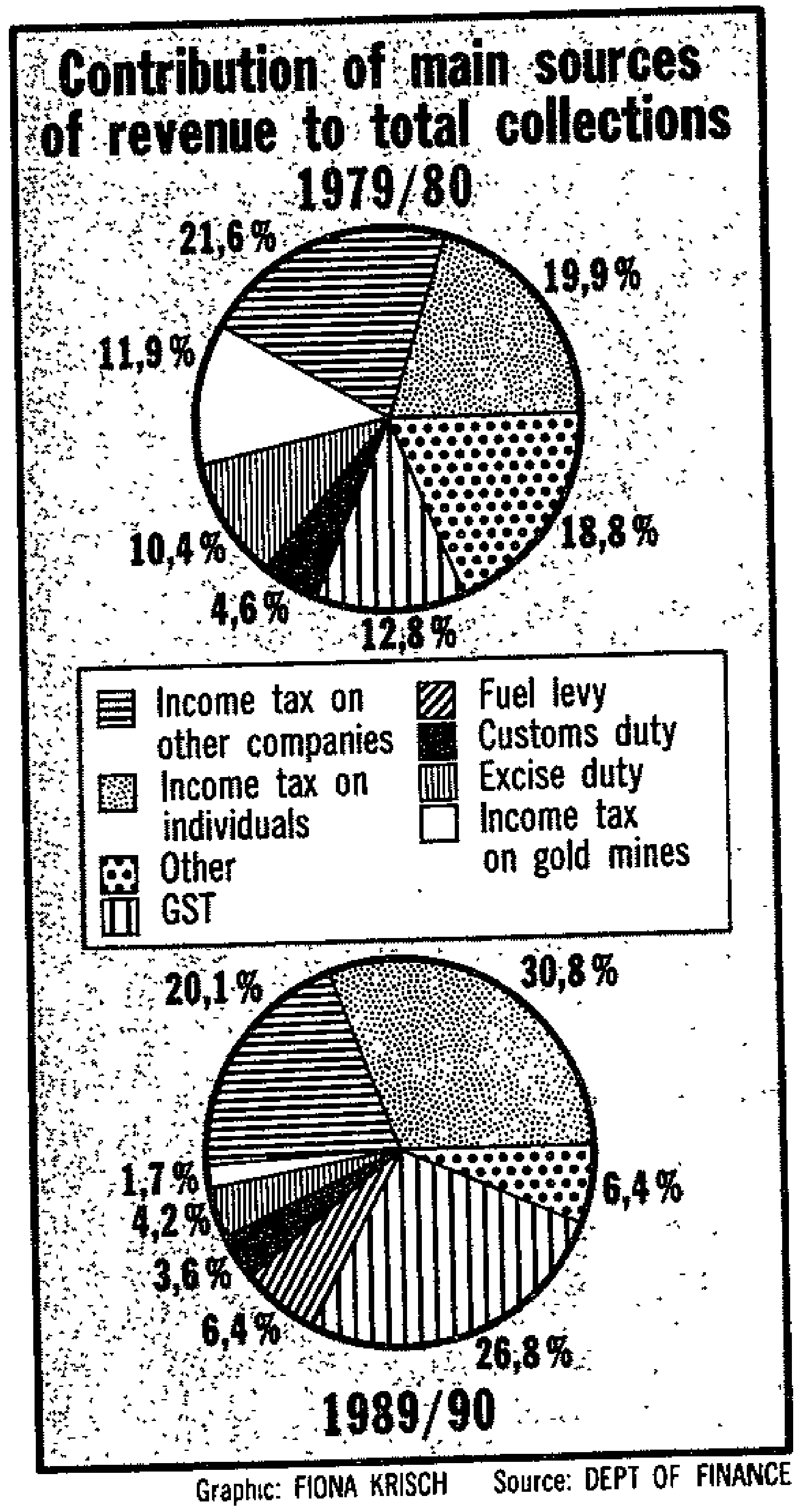
Objective analysis shows clearly that trade sanctions have had a minimal direct impact on the economy. The effects of disinvestment are however multifaceted and therefore less easily evaluated.

As far as the outflow of capital is concerned — our good record notwithstanding, we are now in the same position as some seventy developing countries. All of them once used international capital for development, just as we did; and sanctions have in this way served to strengthen our economy.

South Africa's time of low growth and of adjustment, which was in any case on the cards in the wake of changing world conditions and by virtue of cyclical factors, has thus coincided with more frenzied efforts by the proponents of sanctions, both here and abroad.

This casts an ironic light on the current political debate on sanctions, particularly against the backdrop of the State President's initiatives to break the political logjam on the road to a new South Africa.

The sanctions lobby claims credit for *its* being the cause of our low growth, and that it was *this* that forced the Government into certain paths; but the Government knew all along that a period of unavoidable adjustment and of economic restructuring could not but involve sacrifice, in the form of low growth and greater unemployment — just as has happened in similar countries and indeed even in Britain and the United States.



Graphic: FIONA KRISCH Source: DEPT OF FINANCE

The Budget is thus not only a macro-economic rôle but pursues two policy goals:

Firstly, it seeks to make the greatest possible contribution to stable economic growth, with the emphasis on job creation and investment.

Secondly, it seeks — within the maximum affordable level of expenditure — to contribute to the relief of hardship and to equip as many people as possible to grasp, on an equal basis, the opportunities the economy offers.

To put it another way: the Budget must help the developed and formal sector of the economy to create, through economic growth, expanding opportunities for the developing and informal sector, so that an increasing number of South Africans may raise their standard of life.

Over the past few years steps have been taken to make the total tax burden — especially direct taxation — as light as possible on the less-privileged section of the population; and there now remains little that can meaningfully be done on the revenue side of the Budget to help them.

The pursuit of this development-orientated approach, in our particular country with its special problems and circumstances, puts a heavy responsibility on the State:

☐ It requires that a framework be created and maintained within which both local and international entrepreneurs will be ready to take risks and invest personal assets and thereby create new work and wealth;

☐ It demands appropriate and properly co-ordinated policy execution by the authorities within a framework of economic strategies lending themselves to the greatest possible degree of predictability and stability.

The attainment of these economic goals clearly demands a constitutional dispensation that, by virtue of its fairness and justice, ensures inherent stability. But there are also, among others, the following necessary preconditions for development:

☐ It means that our Defence Force must be equipped to uphold our national integrity and sovereignty, and with it internal stability;

☐ It means that our Police must be equipped to act preventively and, by means of efficient crime fighting, to protect the citizen;

☐ It means that the law will be accessible to all, and be applied ably and worthily;

☐ It calls for adequate infrastructure and community services, and for reasonable housing — to which the private sector must make its proper contribution; and

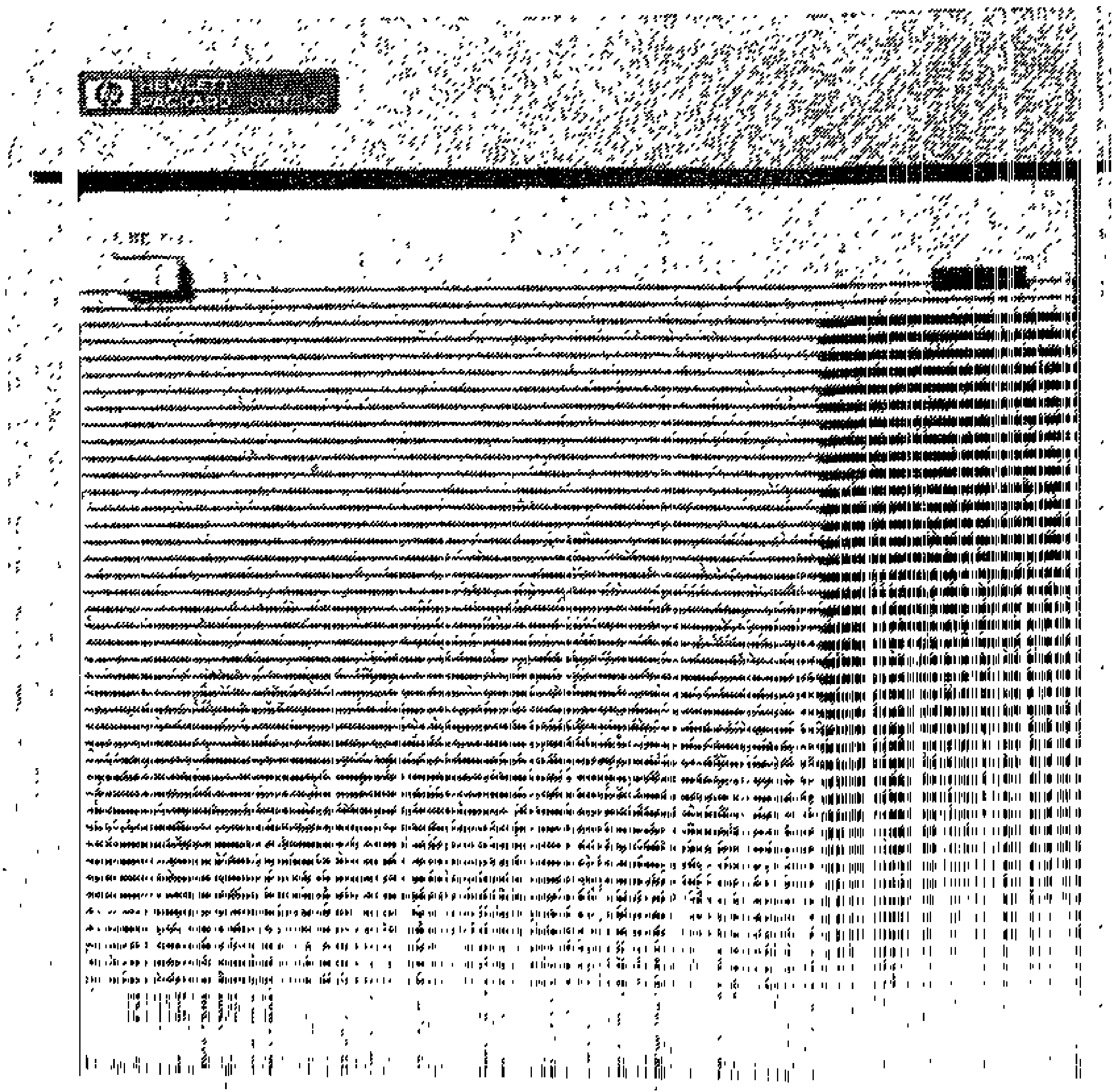
☐ It calls for good, modern education using the latest techniques, methods and technology and which is capable of equipping a person to earn a proper living in the demanding and highly competitive world of today.

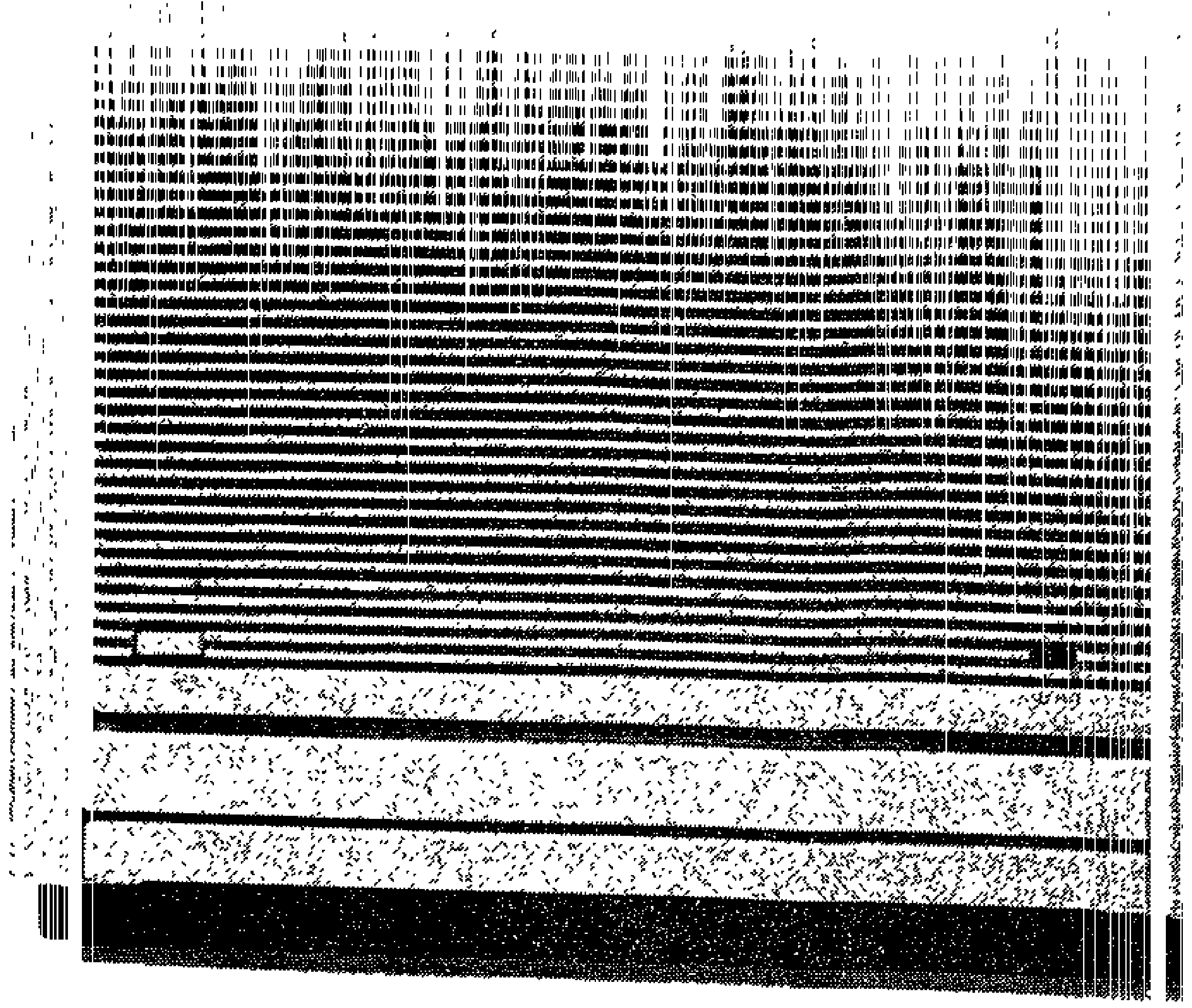
The Government holds the view that the economic system which will make all these things possible must rest on private property, free enterprise and strong competition.

In support of this view the Government has for some years now, where at all practical and possible, been moving away from excessive State control over people's lives, especially as far as their economic activity is concerned. Deregulation and privatisation are cornerstones of this approach.

Deregulation is thus an ongoing process; and it has already yielded good fruit.

Privatisation, for its part, is much more than simply the sale of state assets so as to recycle capital.





Lemon Aid.

When Volkswagen South Africa wanted to separate the plums from the lemons, they decided to install a computer.

Its task? To do for VW in the 1990's what Inspector Kroner and his 3,389 colleagues did for VW in the 1960's. Only do it faster. And better.

Naturally, the choice of computer could not be made lightly. Words like price-performance, scalability and support would have been a little alien to the likes of Inspector Kroner in the 1960's, but they were vital to VW today.

The computer VW chose was made by Hewlett-Packard.

With HP's track record of reliability and service excellence (words Inspector Kroner would have understood only too well), VW decided they'd found the right stuff.

So when they needed a UNIX* system for their new R40 million computerised tool room, guess which computer company VW turned to?

Whatever the task, if you're considering installing a UNIX system, you'd be wise to talk to us first. VW did. But then, isn't that what you'd expect from Volkswagen?

HiPerformance Systems

Sole authorised distributor of Hewlett-Packard products.

100789/R2

* UNIX is a registered trademark of AT&T in the USA and other countries.

The Jupiter Drawing Room

(49)

External factors are not a great restraint on the SA economy

☐ From Page 1

the prime wealth creator, those factors leading to incomeand wealth generation by that sector must be promoted.

In the process serious attention must be given to the question of inflation and the shortage of skilled labour and of capital, while the productivity of labour and capital must be raised within a market-oriented economic system based on private initiative. The focus will be on the supply or production side of the economy and on a smaller, more efficient public sector.

(ii) High priority will have to be given to the urgent socioeconomic development issues of poverty and the backlogs in housing, education and training, literacy, basic health needs and other factors impeding both participation in the economy and the raising of living standards. But fiscal discipline must not be jettisoned in the process: there must be a thorough determination and rearrangement of priorities, and also greater cost-effectiveness.

(iii) Apart from these long-term issues, macroeconomic policy in the short-term must remain focused on the stabilisation of economic activity over the course of the business cycle.

The emphasis in dynamic stabilisation policy will fall more on public debt and borrowing, with adjustments in state expenditure and revenue being more directed to the longerterm goals of economic restructuring and socio-economic development.

THE BUDGET REVIEW

AS IS now customary, a comprehensive Budget Review is being made available as a supplementary document. It gives fuller coverage of the contents of this address and also treats of a number of subjects that could not be included here.

Economic conditions and prospects

South Africa's unsatisfactory economic performance in the 1970s, but especially in the 1980s, is well known. The economic recovery beginning in 1987 was the gratifying outcome of much sacrifice and of tough policy decisions. Unfortunately, however, for the time being we shall unavoidably have to maintain a surplus on the current account of the balance of payments so as to be able to meet our foreign debt obligations. This puts a lid on our growth capacity and makes economic restructuring all the more urgent.

In last year's Budget Speech emphasis was laid on the important role to be played by fiscal policy, given the present constraints, in raising our economic performance over the longer term. Fiscal policy, in co-ordination with monetary policy, was also charged with managing the needed cooling-down of the economy.

Since the beginning of last year the economy has gradually moved into a downswing. This however became more clearly visible only in the second half of the year, and it is evident that the present consolidation phase is proceeding more moderately than previous ones.

The seasonally adjusted real gross domestic product for the fourth quarter of 1989 showed — for the first time since the first quarter of 1986 — a decline as against the previous quarter. The economic growth rate for the year as a whole was nonetheless still some 2%.

Apart from trade and agriculture, all economic sectors grew during the last quarter of 1989, albeit at a lower rate than for 1988. In contrast to the slow decline in the economy, total employment (excluding agriculture) in the first nine months of 1989 grew by 0,9% in comparison with the same period in 1988.

The restrictive economic measures contributed to a *fall* in real gross domestic expenditure — which had earlier been growing strongly — of an estimated 1% in 1989. This stemmed chiefly from lower inventory levels, but a slowdown in private consumption expenditure and gross domestic investment played a part too. Government expenditure grew strongly on a calendar year basis in 1989, but according to the revised estimates for the 1989/90 financial year it is within the original limits.

Various factors indicate however that the present consolidation phase is not yet over. The growth in the money supply, and credit extension by banks, for example, are still too high, while inflation is a further source of concern.

As predicted in last year's Budget Speech, during the past year there was an initial upward trend in inflation, which was later reversed; but further and continuing falls are needed if inflationary expectations are to be reined in.

In this light the consolidation phase will necessarily stretch over a longer period if the large increase of nearly 18% on average in nominal pay per worker in the non-agricultural sectors during the first nine months of 1989 is to be repeated this year. Since this increase was not supported fully by productivity gains it is a negative factor in the inflation process.

The Government trusts that the modest salary increase that is all that could be afforded for public servants, and which was recently announced, will exercise a moderating influence on this year's wage and salary bargaining in the rest of the economy.

As to the balance of payments: the surplus on the current account rose from R2,9 bn for 1988 to R4,1 bn for 1989, but as there was a net capital outflow of R5,6 bn, the country's net foreign reserves continued to fall. A prime policy objective for the year ahead must therefore be the strengthening of these reserves.

On the prospects for the economy: the nineties are being entered with expectations of a slowdown in the world economy; but although restrictive monetary measures were introduced last year in several industrial countries relatively good growth rates are expected in most of these countries in this year.

Coupled with an expected continuing, albeit more moderate decline in international commodity prices and better prospects for the gold price in 1990, external economic factors should not place a great constraint on the course of the South African economy.

At this stage it would appear that the interaction of external factors, the course of the domestic economy and the impact of the existing macro-economic measures will lead to the desired consolidation results. It remains necessary to restrain domestic spending in order to secure a balance of about R6 bn on the current account of the balance of payments so as to meet this year's exceptionally high foreign commitments.

An economic growth rate of 1% is therefore envisaged for 1990.

BROAD ECONOMIC STRATEGY

The Government is ready to launch a programme for restructuring the economy from the supply side. This broad economic policy strategy involves, in particular, the following:

☐ A high priority and in preparation for a sustained process of stable growth, the gradual lowering of inflation to levels comparable with those of our leading trading partners;

☐ Tthe recovery of the savings pattern, particularly as regards discretionary saving by households;

☐ The reduction of the tax burden on households relative to that on companies;

☐ The reform of the structure, and the raising of the level, of saving, so as to promote capital formation and job creation and to channel the available capital in more productive directions;

☐ The promotion of responsible wage determination, which will help in combating inflation and boosting employment;

☐ The promotion of the competitiveness of Sou African industry, which i ter alia will require rationalisation of industri protection policy; and

☐ The elimination of fa tors preventing the relativ prices of production facto (especially labour and ca ital) from faithfully reflec ing their relative scarcity

MONETARY POLICY STRATEGY

Monetary objectives and policy

In line with the broad eco nomic strategy, monetar policy must not only b geared to short-term sta bilisation but also suppor

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BUDGET 1990

INCOME TAX PAYABLE: 1990 AND 1991
MARRIED UNDER 60

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R	R	R	R	R	R	R
8 000	—	—	—	—	—	—	—	—	—	—	—	—
9 000	10	—	10	—	—	—	—	—	—	—	—	—
10 000	150	—	150	50	—	50	—	—	—	—	—	—
11 000	290	—	290	190	—	190	90	—	90	—	—	—
12 000	430	—	430	330	—	330	230	—	230	130	—	130
13 000	580	200	380	480	100	380	380	—	380	280	—	280
14 000	750	400	350	650	300	350	550	200	350	450	100	350
15 000	940	600	340	840	500	340	740	400	340	640	300	340
16 000	1 150	820	330	1 050	720	330	950	620	330	850	520	330
17 000	1 380	1 040	340	1 280	940	340	1 180	840	340	1 080	740	340
18 000	1 610	1 260	350	1 510	1 160	350	1 410	1 060	350	1 310	960	350
19 000	1 860	1 480	380	1 760	1 380	380	1 660	1 280	380	1 560	1 180	380
20 000	2 110	1 700	410	2 010	1 600	410	1 910	1 500	410	1 810	1 400	410
25 000	3 540	2 900	640	3 440	2 800	640	3 340	2 700	640	3 240	2 600	640
30 000	5 210	4 250	960	5 110	4 150	960	5 010	4 050	960	4 910	3 950	960
35 000	7 060	5 750	1 310	6 960	5 650	1 310	6 860	5 550	1 310	6 760	5 450	1 310
40 000	9 010	7 400	1 610	8 910	7 300	1 610	8 810	7 200	1 610	8 710	7 100	1 610
45 000	11 060	9 200	1 860	10 960	9 100	1 860	10 860	9 000	1 860	10 760	8 900	1 860
50 000	13 110	11 150	1 960	13 010	11 050	1 960	12 910	10 950	1 960	12 810	10 850	1 960
55 000	15 210	13 150	2 060	15 110	13 050	2 060	15 010	12 950	2 060	14 910	12 850	2 060
60 000	17 310	15 200	2 110	17 210	15 100	2 100	17 110	15 000	2 100	17 010	14 900	2 110
65 000	19 460	17 300	2 160	19 360	17 200	2 100	19 260	17 100	2 160	19 160	17 000	2 160
70 000	21 610	19 400	2 210	21 510	19 300	1 160	21 410	19 200	2 210	21 310	19 100	2 210
80 000	26 010	23 700	2 310	25 910	23 600	2 210	25 810	23 500	2 310	25 710	23 400	2 310
100 000	35 010	32 500	2 510	34 910	32 400	2 310	34 810	32 800	2 510	34 710	32 200	2 510
150 000	57 510	54 500	3 010	57 410	54 400	2 510	57 310	54 300	3 010	57 210	54 200	3 010
						3 010						

NB: The above amounts have been calculated on the basis that the taxpayer's wife has no income.

Whole page 9

Defence cuts free funds for SA's social needs

□ From Page 4

mediumto long-term structural adjustments.

This means that:

□ Interest rate levels should, in principle, be positive in real terms; and

□ The rand should not be overvalued: in the determination of the level of the exchange rate, the competitive ability of South African exporters must be taken into account.

It is essential in the short term that both credit extension by the banks and the growth in the money supply remain within the indicated limits, and that the country's goldand foreign exchange reserves be strengthened. It was therefore necessary to maintain a restrictive monetary policy over the past year, which is reflected in upward adjustments to interest rates and more stringent conditions on the Reserve Bank's accommodation to banking institutions.

In the light of the policy goals for 1990 it is important that the Reserve Bank continue in its efforts to reduce the rate of increase in the money supply (M3) to a more acceptable level.

Balance of payments, exchange rates and exchange control

Arising from the improved balance of payments position, the exchange rate of the rand has been reasonably stable since last June; in the eight months to the end of February 1990, the effective exchange rate appreciated by 4,6%. In fact, the Reserve Bank had to buy foreign exchange to prevent a further appreciation, since

□ There was uncertainty over the duration of the improved conditions in the foreign exchange market;

□ It is not in the short-term interest of our exporters that the rand should now rise drastically; and

□ The foreign reserves position must be strengthened.

As to exchange control, it remains the view of the monetary authorities that the existing control measures cannot now be relaxed. Over the past year the Reserve Bank took various administrative measures to apply controls more effectively; strong action is taken against offenders.

From time to time there were rumours that the financial rand system would be drastically revised or even abolished. While there can hardly be of the system cannot now be entertained.

Fiscal policy strategy: goals

VARIOUS policy documents and announcements, such as the Five Year Action Plan and the White Paper on the Margo Report, set out the Government's long-term fiscal policy objectives. The Government is committed to the following:

□ The reduction over five years of the marginal income tax rate on individuals, from the present maximum of 45% at R80 000 for married people to 40% at R100 000, at 1989 money values as far as possible, with corresponding adjustments throughout the brackets;

□ The reduction of the company tax rate to 40% — which can be implemented only to the extent that the elimination of tax concessions raises the average effective rate of tax;

□ Various tax reform measures, including those that will promote the effective use of labour and capital;

INCOME TAX PAYABLE: 1990 AND 1991
UNMARRIED

INCOME	UNDER 61			OVER 61 BUT UNDER 65			OVER 65		
	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R	R	R	R
6 000	—	—	—	—	—	—	—	—	—
7 000	130	—	130	10	—	10	—	—	—
8 000	270	—	270	150	—	150	—	—	—
9 000	410	—	410	290	—	290	—	—	—
10 000	550	—	550	430	—	430	—	—	—
11 000	700	150	550	580	30	550	—	—	—
12 000	870	360	510	750	240	510	—	—	—
13 000	1 060	600	460	940	480	460	—	—	—
14 000	1 270	840	430	1 150	720	430	—	—	—
15 000	1 500	1 080	420	1 380	960	420	50	—	50
16 000	1 750	1 320	430	1 630	1 200	430	300	—	300
17 000	2 020	1 590	430	1 900	1 470	430	570	—	570
18 000	2 290	1 860	430	2 170	1 740	430	840	—	840
19 000	2 580	2 130	450	2 460	2 010	450	1 130	30	1 100
20 000	2 870	2 400	470	2 750	2 280	470	1 420	300	1 120
25 000	4 500	3 930	570	4 380	3 810	570	3 050	1 830	1 220
30 000	6 370	5 640	730	6 250	5 520	730	4 920	3 540	1 380
35 000	8 420	7 530	890	8 300	7 410	890	6 970	5 430	1 540
40 000	10 510	9 520	990	10 390	9 400	990	9 060	7 420	1 640
45 000	12 640	11 580	1 060	12 520	11 460	1 060	11 190	9 480	1 710
50 000	14 810	13 700	1 110	14 690	13 580	1 110	13 360	11 600	1 760
55 000	17 020	15 850	1 170	16 900	15 730	1 170	15 570	13 750	1 820
60 000	19 270	18 040	1 230	19 150	17 920	1 230	17 820	15 940	1 880
65 000	21 520	20 240	1 280	21 400	20 120	1 280	20 070	18 140	1 930
70 000	23 770	22 440	1 330	23 650	22 320	1 330	22 320	20 340	1 980
80 000	28 270	26 840	1 430	28 150	26 720	1 430	26 820	24 740	2 080
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	35 820	33 540	2 280

□ The reduction of the fiscal deficit before borrowing to an average of 3% of the gross domestic product and ultimately to a level that ends dissaving;

□ The consequential reduction of the share of state expenditure in the economy and thus greater discipline and control regarding such expenditure;

□ More emphasis on the Government's socio-economic development r%le; and

□ Purposeful corporatisation, privatisation and deregulation.

Today's Budget stands at the threshold of this five-year period. But the consolidation phase that began last year has prepared the way for a number of important steps forward.

Taxes and tax reform

IMPORTANT changes have taken place in South Africa since the Government published its White Paper on the Margo Report. Government takes due and continual cognisance of these changes in its ongoing reform of the tax system, which is an important element in its economic restructuring programme.

Specific shortcomings identified by the Margo Commission are being addressed in the process. In this regard, special attention must be given to:

□ The necessity of broadening the existing tax base, by eliminating tax concessions and rebates;

□ The promotion of equal and fair treatment of all taxpayers and groups of taxpayers; and

□ The desirability of placing more emphasis on indirect taxes and less on direct taxes, having regard to the special socio-economic circumstances in South Africa.

The Tax Advisory Committee, which was brought into being after the conclusion of the Margo investigation to proceed with tax reform on a continuing and co-ordinated basis, has during the past year investigated and reported on various matters. Some of these will be referred to again later, but two such matters deserve special mention here:

Value added tax

IT will shortly be possible to publish the draft Bill, which has already been completed. Government confirms herewith its previous undertaking, namely that sufficient time will be allowed for general comment and consultation with representative organisations, and that the tax will not be implemented until a period of six months has elapsed from the final approval of the legislation by Parliament.

It thus follows that it will probably not be possible to implement value added tax before 1 October 1991.

Minimum tax

The Government is deeply concerned that existing tax allowances and concessions which were implemented for economic reasons are often misused for income tax purposes. The possibility of phasing-out this practice by the introduction of a minimum tax on both companies and individuals is already under consideration by the Tax Advisory Committee, and the investigation will be continued in the course of the year.

FINANCIAL YEAR 1989/90

THE 1989/90 financial year will now be dealt with briefly.

During the presentation of the Additional Budget full details were given of the course of expenditure in the current financial year. The revised estimate of expenditure of R65,181 bn for 1989/90 exceeds the original estimate, which included a contingency reserve of R1 bn, by only R164 m, or a mere 0,3%.

The provision of a contingency reserve appears to have played an important r%le in disciplining budgetary expenditure and a similar amount will be included in the 1990/91 Budget for this purpose.

The revised estimate of expenditure for 1989/90 represents an increase of 16,5% on the revised figure for the previous year, which is significantly lower than the growth of 17,9% in nominal terms in both the previous two years.

If the increase in the cost of public debt, which rose even further as a result of open-market operations for monetary policy purposes, is excluded, a significantly lower expenditure increase of 15,6% materialises. The latter figure gives a better indication of the progress with the policy of disciplining public expenditure.

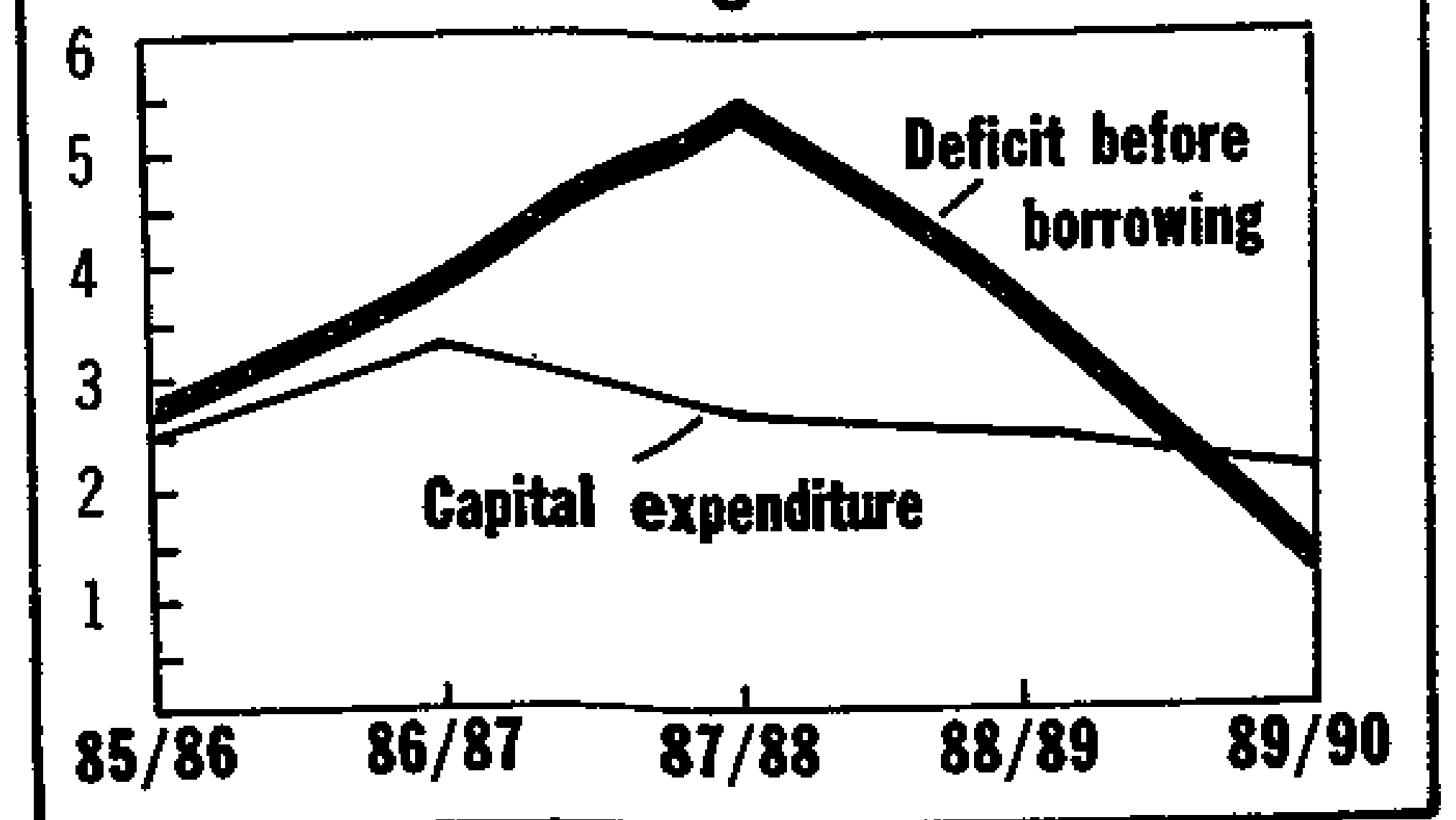
Tax revenue in 1989/90 is estimated to exceed the originally budgeted figure by R6,317 bn, thereby rising to an expected level of R61,385 bn, which is 27,7% above that of the previous year. This abnormally high increase is related to much larger than envisaged salary adjustments in the private sector, an underestimation of the extent of fiscal drag in the current tax brackets, more efficient tax collection because of the Standard Income Tax on Employees (SITE), continued good profits by com- [illegible] ustments to the get Review.

It is important to emphasise, however, that the exceptionally high additional revenue, which was of a non-recurrent nature, was not spent.

The revised estimates of expenditure and revenue leave a deficit before borrowing of R3,796 bn for 1989/90. This amounts to a mere 1,5% of the gross domestic product, which is considerably lower than the 3% policy goal which Government has accepted in its long-term economic strategy. The estimated capital expenditure included in the Budget amounted to approximately 2,2% of the gross domestic product.

The sharp decline in the deficit before borrowing was largely brought about by the abnormally high tax revenue. As a percentage of gross domestic product, the latter has increased from 23,0% in 1988/89 to an estimated 24,9% in 1989/90. This is substantially higher than the average of 18,8% in the 1970s and the 21,4% in the 1980s. It is the Government's viewpoint, however, that the elimination of dissaving should preferably be effected by the curtailment of expenditure and not through higher taxes.

Capital expenditure and deficit before borrowing as % of GDP



Graphic: LEE EMERTON Source: DEPT OF FINANCE

Consequently, the small deficit before borrowing does not indicate that the policy goal in this regard was achieved structurally.

After provision has been made for loan redemptions the estimated gross financing requirement amounts to R8,861 bn for 1989/90. Under normal circumstances the State would have had to borrow this full amount, with a concomitant increase in public debt costs. This was avoided in 1989/90 by two

THE 1990/91 BUDGET

Revenue

AT current tax rates, ie without allowing for any concessions or increases enue of R69,468bn, which is 13,2% higher than the revised estimate for 1989/90.

Inland Revenue and Customs and Excise are expected to contribute R60,870bn and R8,598bn, respectively. Estimates for the individual taxes and the reasons for the expected revenue are fully given in the Budget Review. Some salient features are the following:

□ Individual income tax: an expected increase of 24,3% compared with the revised estimate for 1989/90;

□ Income tax on gold mines: a decline of 1,5%;

□ Income tax on other mines: a decline of 9%;

□ Income tax on other companies: an increase of 17,7%;

□ General sales tax: an increase of 12,5%;

□ Excise duty: an increase of 6,0%;

□ Customs duty: a decline of 4,5%;

□ Import surcharge: an increase of 3,8%;

□ Consolidated fuel levy: an increase of 6,6%.

INCOME TAX PAYABLE — 1990 AND 1991
MARRIED WOMEN

INCOME	1990 SITE	1991	REDUCTION
R	R	R	R
4 500	50	—	50
5 000	175	80	95
5 500	300	170	130
6 000	425	260	165
7 000	675	440	235
8 000	925	620	305
9 000	1 175	830	345
10 000	1 425	1 040	385
11 000	1 675	1 250	425
12 000	1 925	1 460	465
14 000	2 425	1 940	485
16 000	2 925	2 420	505
18 000	3 425	2 960	465
20 000	3 925	3 500	425
25 000	5 345	5 020	325
30 000	6 885	6 660	225
35 000	8 545	8 420	125
40 000	10 325	10 260	65
50 000	14 125	14 060	65
60 000	17 925	[illegible]	65
[illegible]	[illegible]	[illegible]	[illegible]

BUDGET 1990

Expenditure proposals

THE printed Estimate of Expenditure for 1990/91 amounts to R71,546bn of which capital expenditure represents R5,113bn. Only a few items will now be highlighted.

Defence

ARISING from Government's announcement of 7 December 1989 on curtailing defence expenditure, the printed Estimate of Expenditure shows a considerably smaller increase in defence expenditure compared with the previous few years. A considerable real decline is envisaged even after allowing for improved conditions of service.

Since the pruning measures will obviously not have their full effect in the first year, a clearer picture of their precise impact on expenditure priorities will emerge only after a few years.

The full economic impact is of course also determined by various other factors, such as the influence of shortened conscription on the supply and utilisation of skilled manpower as well as the utilisation of the technological and other capabilities that the development of the armaments industry has brought into being in South Africa.

The release of funds that previously were necessarily devoted to defence purposes, should improve the ability to address socio-economic development questions as part of the programme of restructuring. The release of funds also provides the means of doing justice to law and order, an inalienable function of the government.

Police

THE Government places a high premium on an efficient, well-motivated police force. This is a precondition for orderly reform and stability.

It is realised by Government that the police are burdened by a severe shortage of manpower and resources at the moment. The hard work and sacrifice of the South African Police in efficiently performing their duties notwithstanding, is highly appreciated.

It is recommended, therefore, that an additional amount be set aside for specific salary adjustments for the police. This forms part of the package for the improvement of conditions of service, which will be returned to in a moment. It is also proposed that a supplementary non-recurrent amount of R100m be made available for the purchase of badly needed equipment.

Education

EDUCATION and training must inevitably be given an important role in the process of economic development and upliftment. Almost 19% of the Budget, excluding the recent improvement in conditions of service, is allocated to education, which is indeed the function enjoying the largest allocation.

International comparisons indicate that South Afpast year in the use of financial rand, the abolition

NB: The above amounts have been calculated on the basis that the taxpayer has no children.

various other factors that are mentioned in the Bud-

Revenue for 1990/91 provides for a total tax rev-

100 000	33 125	33 000	[illegible]

☐ To Page 7

whole page 4

IN 1992, WHEN EUROPE OPENS UP, 50% OF ITS COMPANIES COULD BE CLOSING DOWN.

(Now, which 50% will you be doing business with?)

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☐ From Page 5

Encouraging the mines helps create jobs and wealth

education is already high. Consequently there will have to be an increasing emphasis on proper expenditure priorities and on efficiency in education. The same applies, of course, to all the other services of the State.

In its acknowledgement of the important role that education has to play in South Africa the Government wishes to catch up on the backlogs with regard to education wherever and as fast as possible. It is proposed, therefore, that an additional non-recurrent amount of R150m be voted, mainly for capital expenditure in black education and training in areas where the backlogs are the most severe.

Health

THE urgent investigation with regard to health services, has already progressed far.

Development Corporations

AS in other countries, the investment the Government has made in small business development has paid very good dividends so far.

A non-recurrent amount of R100m is therefore proposed as a further capital contribution to the development corporations in the self-governing territories (R40 m) and to the programme funds of the Small Business Development Corporation (R60 m).

Pensions

BOTH social and civil pensioners experience a drop in the purchasing power of their pensions in an inflationary environment. The Government wishes, as far as the country's limited capacity allows, to make some contribution to their relief. The printed estimate thus makes provision for the following:

☐ Social pensions — R596,9 m. This was calculated on the basis of an increase of R25 per month to all social pensioners, which means an increase of at least 10%;

☐ Civil pensions — R7,0 m. An increase of 10% plus 1½% for each completed year of retirement; but with a maximum of 25%;

☐ Military pensions — R12,6 m. The general increase amounts to 10% and is supplemented with adjustments in respect of backlogs;

☐ Occupational diseases

tails a 10% increase as well as the removal of disparity.

Improvement in conditions of service

AN amount of R2,233bn is provided in the printed Estimate of Expenditure on the Vote: Improvement of Conditions of Service for all those paid from the Exchequer. As announced earlier, it takes the form of a 10% non-pensionable allowance on basic salary.

Additional improvements are being introduced to address specific bottlenecks regarding the police, nursing personnel and certain personnel involved in law enforcement. This will be done on a differentiated basis.

The position of the lowest-remunerated groups of employees of the State also deserves attention. The salary dispensation for these categories of employees is being investigated with a view to making structural adjustments.

The Minister for Administration and Economic Coordination will present more details of all these adjustments in due course.

A one-off amount of R50m is also provided for universities and technicons to enable them to finance adjustments.

Foreign Affairs

IT is proposed that R36m be provided for the Vote: Foreign Affairs as a one-off special demobilisation allowance to be paid for one year to ex-servicemen in South West Africa/Namibia.

Adjusted expenditure total

IF the proposed supplementary expenditures are included, the total expenditure for 1990/91 amounts to R71,932bn.

This includes structural adjustments to the Budget, such as the provision for training allowances which is to replace the existing tax allowance, as well as the return to Budget of Soekor expenditures. As was the case last year, another R1bn is added as a contingency reserve for unforeseen expenditure.

Total expenditure, including this reserve, will therefore amount to R72,932bn or 11,9% more than the revised expenditure total of last year. Expectations are that total budget expenditure will therefore show a small real decline in 1990/91.

This continued expenditure discipline facilitates further tax reform.

Formula for the financing of Own Affairs

FOLLOWING discussions among the respective Chairmen of Minister's Councils of the Own Affairs Administrations, they agreed on a formula for appropriations to the respective Administrations.

This formula is acceptable to the Government, and this year's appropriation is in fact already broadly based on this approach. The state law advisors are being consulted on the necessity for legislation in this regard.

The SA Rail Commuter Corporation

THE South African Rail Commuter Corporation will assume responsibility for suburban passenger transport according to the Legal Succession of the South African Transport Services Act, 1989 and will be established on 1 April 1990.

The South African Transport Services will be transformed into the public company Transnet on the same day. The traditional arrangement whereby rail commuter losses were partly defrayed through cross subsidisation by the South African Transport Services, will consequently lapse.

Until such time as the financing structure of the Rail Commuter Corporation and the responsibilities of various authorities in this connection can be arranged on a more permanent basis, an interim arrangement will be needed.

An agreement has been reached with the South African Transport Services and the embryonic Rail Commuter Corporation whereby, as an interim measure, dividends accruing to the State as shareholder in Transnet will go directly and immediately to the Commuter Corporation as a Part II appropriation of State revenue.

It is intended to include the legal provision for this financing arrangement in the Finance Act, 1990.

TAX PROPOSALS

Customs and Excise

THE Margo Commission and the International Monetary Fund have both recommended that specific rates of excise duty should be adjusted regularly to keep track with increasing prices.

Moderate increases on various excisable products were therefore announced during the previous two Budgets. To continue with this policy the following modest increases in customs and excise duties are proposed:

☐ Beer: Approximately 1c per 375 ml bottle ("pint");

☐ Spirits such as whisky, brandy and gin: Approximately 1c per tot or 25,2c per 750 ml bottle;

☐ Cigarettes: 2c per 10 cigarettes;

☐ Cigarette tobacco: 2c per 50 grams;

☐ Pipe tobacco and cigars: 20c/kg;

☐ Fortified wines and sparkling wines: 1,8c per bottle.

The increased duties will provide an estimated additional revenue of R145m in 1990/91.

Ad valorem customs and excise duty on jewellery

TO promote job creation by and the expansion of the jewellery industry, especially with a view to promoting the export of beneficiated South African mining products, it has been decided to abolish the existing duty of 20%.

The reimposition of this duty will be considered if after three years the results prove to be unsatisfactory in relation to these goals. The loss of revenue from this concession is estimated at R37m for 1990/91.

Import surchage

DIFFERENTIAL surcharge rates on imports of 60, 20, 15 and 10% were introduced as a temporary measure in August 1988 and revised in May 1989.

As a first step in the phasing-out process it has been decided to lower these rates by approximately one-third to 40, 15, 10 and 7,5%, respectively.

The loss of revenue is estimated at R835 m.

General

THE abovementioned increases take immediate effect and apply to all goods not yet cleared for domestic consumption, in other words not removed from warehouses and premises of manufacturers licensed by the Commissioner of Customs and Excise.

In accordance with section 58(1) of the Customs and Excise Act of 1964 the formal tax proposals concerning customs and excise duties are now tabled for consideration by Parliament.

The adjusted customs and excise duties will result in an estimated net loss of revenue of R727m in the 1990/91 financial year.

INCOME TAX

Mining

LAST year it was announced that the government had accepted various recommendations of the Technical Committee on Mining Taxation (the Marais Committee) and that steps were being taken to implement the first phase of the measures.

The mining industry plays an important role as earner of foreign exchange and creator of jobs. It is therefore essential to encourage the industry by, inter alia, gradually lowering the maximum marginal tax rate, which can currently be as much as 68,7%.

It is proposed, therefore, that the following additional concessions be made, as set out in more detail in the Budget Review:

(a) The second step in the phasing-in of a lower tax formula for gold mines and in the phasing-out of the surcharge on other mines.

(b) A partial lifting of the so-called "ring-fencing", which means that 25% of the tax base of an existing mine can be used to write off a new mine's development costs in cases where both mines are the property of the same taxpayer.

(c) The increase of the existing capital allowance for new gold mines from 10% to 12%.

These proposals will result in a total estimated revenue loss of R68m in 1990/91.

COMPANIES AND INDIVIDUALS

Tax treatment of capital versus income

THE distinction between capital and income is basic to the tax system, but neither of these concepts has been defined satisfactorily in the Income Tax Act.

Uncertainties in this connection are allegedly an important reason for the low turnover on the Johannesburg Stock Exchange and for the phenomenon that large financial investments are not released for direct application in other fields of investment.

The Tax Advisory Committee has consequently recommended the introduction of a so-called "safe haven" for shares listed on the Johannesburg Stock Exchange that have been kept for more than 10 years.

Profits from the realisation of such shares will be exempted from income tax. These recommendations are acceptable to the government under certain conditions as spelled out fully in the Budget Review. The adjustments apply as from today.

The results will be monitored to determine whether a more refined and efficient system for these and other assets can be developed.

The higher turnover of shares should lead to an increased revenue of about R15m from the marketable securities tax.

It has also been decided in principle to phase-out the present 1,5% tax on marketable securities over a period of three years. For revenue reasons this phasing-out will commence only in the 1991/92 financial year.

Phasing-out of tax expenditure

THE Margo Commission recommended that tax expenditures still remaining in our tax system should be phased out. To implement this recommendation and to broaden the tax base in the process, the following measures are proposed:

Employee Training Allowance

IT is proposed that the tax allowance with regard to employee training, which currently results in a loss of revenue of at least R110m per annum, be withdrawn and replaced with a direct

☐ To Page 8

INCOME TAX RATES: 1990/91

TAXABLE INCOME	RATES	
	MARRIED	
R 0 — 5 000	16% of each R1	
R 5 000 — 10 000	R 800 + 18% of the amount over	R 5 000
R10 000 — 15 000	R 1 700 + 20% " " " "	R10 000
R15'000 — 20 000	R 2 700 + 22% " " " "	R15 000
R20 000 — 25 000	R 3 800 + 24% " " " "	R20 000
R25 000 — 30 000	R 5 000 + 27% " " " "	R25 000
R30 000 — 35 000	R 6 350 + 30% " " " "	R30 000
R35 000 — 40 000	R 7 850 + 33% " " " "	R35 000
R40 000 — 45 000	R 9 500 + 36% " " " "	R40 000
R45 000 — 50 000	R11 300 + 39% " " " "	R45 000
R50 000 — 55 000	R13 250 + 40% " " " "	R50 000
R55 000 — 60 000	R15 250 + 41% " " " "	R55 000
R60 000 — 70 000	R17 300 + 42% " " " "	R60 000
R70 000 — 80 000	R21 500 + 43% " " " "	R70 000
R80 000 +	R25 800 + 44% " " " "	R80 000
	UNMARRIED	
R 0 — 4 000	15% of each R1	
R 4 000 — 8 000	R 600 + 18% of the amount over	R 4 000
R 8 000 — 12 000	R 1 320 + 21% " " " "	R 8 000
R12 000 — 16 000	R 2 160 + 24% " " " "	R12 000
R16 000 — 20 000	R 3 120 + 27% " " " "	R16 000
R20 000 — 24 000	R 4 200 + 30% " " " "	R20 000
R24 000 — 28 000	R 5 400 + 33% " " " "	R24 000
R28 000 — 32 000	R 6 720 + 36% " " " "	R28 000
R32 000 — 36 000	R 8 160 + 39% " " " "	R32 000
R36 000 — 40 000	R 9 720 + 40% " " " "	R36 000
R40 000 — 44 000	R11 320 + 41% " " " "	R40 000
R44 000 — 48 000	R12 960 + 42% " " " "	R44 000
R48 000 — 56 000	R14 640 + 43% " " " "	R48 000
R56 000 +	R18 080 + 44% " " " "	R56 000
	MARRIED WOMEN	
R 0 — 4 000	15% of each R1	
R 4 000 — 8 000	R 600 + 18% of the amount over	R 4 000
R 8 000 — 12 000	R 1 320 + 21% " " " "	R 8 000
R12 000 — 16 000	R 2 160 + 24% " " " "	R12 000
R16 000 — 20 000	R 3 120 + 27% " " " "	R16 000
R20 000 — 24 000	R 4 200 + 30% " " " "	R20 000
R24 000 — 28 000	R 5 400 + 32% " " " "	R24 000
R28 000 — 32 000	R 6 680 + 34% " " " "	R28 000
R32 000 — 36 000	R 8 040 + 36% " " " "	R32 000
R36 000 — 40 000	R 9 480 + 37% " " " "	R36 000
R40 000 +	R10 960 + 38% " " " "	R40 000

Threshold for normal income tax is R12 000. Lower figures refer to SITE.

INCOME TAX PAYABLE: 1990 AND 1991 MARRIED

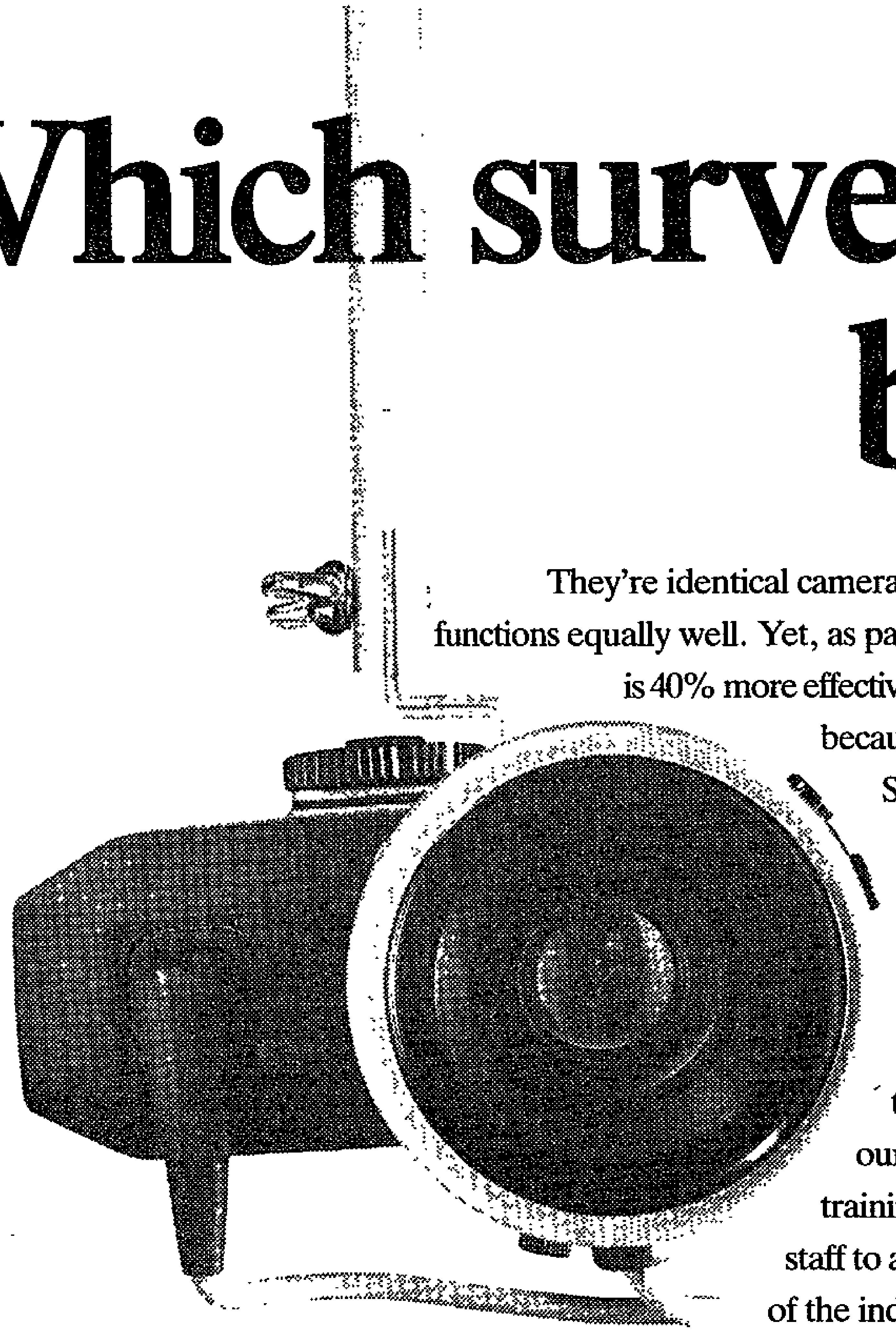
INCOME	OVER 61 BUT UNDER 65			OVER 65		
	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R
9 000	—	—	—	—	—	—
10 000	30	—	30	—	—	—
11 000	170	—	170	—	—	—
12 000	310	—	310	—	—	—
13 000	460	80	380	—	—	—
14 000	630	280	350	—	—	—
15 000	820	480	340	—	—	—
16 000	1 030	700	330	—	—	—
17 000	1 260	920	340	—	—	—
18 000	1 490	1 140	350	160	—	160
19 000	1 740	1 360	380	410	—	410
20 000	1 990	1 580	410	660	—	660
25 000	3 420	2 780	640	2 090	800	1 290
30 000	5 090	4 130	960	3 760	2 150	1 610
35 000	6 940	5 630	1 310	5 610	3 650	1 960
40 000	8 890	7 280	1 610	7 560	5 300	2 260
45 000	10 940	9 080	1 860	9 610	7 100	2 510
50 000	12 990	11 030	1 960	11 660	9 050	2 610
55 000	15 090	13 030	2 060	13 760	11 050	2 710
60 000	17 190	15 080	2 110	15 860	13 100	2 760
65 000	19 340	17 180	2 160	18 010	15 200	2 810
70 000	21 490	19 280	2 210	20 160	17 300	2 860
80 000	25 890	23 580	2 310	24 560	21 600	2 960
100 000	34 890	32 380	2 510	33 560	30 400	3 160
150 000	57 390	54 380	3 010	56 060	52 400	3 660

NB: The above amounts have been calculated on the basis that the taxpayer's wife has no income.

BUDGET 1990

whole page 4

Which surveillance camera has 40% better vision?



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Our staff, in effect, becomes part of your staff. For this reason our Supervisors and Area Managers are allocated to as few clients as possible – giving them more time to look after your needs, providing constant attention, back-up and analysis of security trends.

Perhaps your company doesn't need these qualities or this degree of professionalism from a security company. In which case we'd be the first to tell you to save your money and look elsewhere.

If, however, your security needs are more complex than average, we'd be only too glad to examine your current programme for flaws and potential trouble areas. We may be more expensive than most but our expertise in the total security programme has proven to be worth the difference. Because with Gray Security, you don't just pay 40% more for security – you get 40% more security.

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☐ From Page 7

subsidy by the Department of Manpower to stimulate certain types of training.

As this withdrawal will only become effective once the necessary legislation has been passed, the revenue increase for 1990/91 is estimated at R80 m.

In the printed Estimate of Expenditure provision has been made for the proposed direct subsidy. This should mean that training is encouraged in a more efficient manner.

Valuation of trading stock

REGARDING the valuation of trading stock it is recommended that the value of consumable stores and spares, as well as work in progress in the case of the construction industry, which are not at present considered to be trading stock for tax purposes, henceforth be included in taxable income.

These measures are to be phased in over a period of five years.

"Last-in-first-out" (LIFO) reserve

IT is recommended that the reserve that has existed since 1 April 1984 as a result of the withdrawal of the "last-in-first-out" method of stock valuation, be phased out completely at a rate of 10% per annum over the next 10 years.

Personal savings are a key to economic growth

The elimination of these three tax concessions will result in an estimated additional revenue of R230m in 1990/91. This will contribute to an increase in the effective company tax rate.

INDIVIDUAL INCOME TAX

Taxation of fringe benefits

Company cars

THE present table of values has been in force since 1 June 1989 and represents only about one-half of the full benefit. It is proposed, therefore, that these values be increased by half, to about 75%, as from 1 May 1990, and that the full real benefit be fully taxed as soon as possible thereafter.

Low-interest or interest-free loans

IN view of the general rise in interest rates, the official interest rate for purposes of the taxation of fringe benefits will be raised from 16 to 19% as from 1 May 1990.

The additional revenue as a result of the latter two measures is estimated at R20 m for the 1990/91 financial year.

Other fringe benefits

THE Commissioner for Inland Revenue is well aware of various methods that are applied to circumvent regulations with regard to fringe benefits and other tax liabilities. During this session of Parliament further anti-avoidance measures will be included in the Income Tax Bill.

Interest and dividends

IT is of the utmost importance for the promotion of economic growth that discretionary personal savings be encouraged wherever possible. For this purpose it is recommended that:

☐ The present exemption to individual taxpayers of the first R1 000 of interest income and building society dividends, be doubled to R2 000; and

☐ Other dividend income be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of dividends.

The latter exemption means that the undistributed profits tax no longer has any justification. It is proposed that this tax be abolished.

The net loss of revenue to the Exchequer of these three proposals amounts to an estimated R650 m for the 1990/91 financial year.

The Margo Commission recommended that the company tax rate be increased by about 2% to compensate for the loss of revenue as a result of the tax exemption of dividends. The tax exemption of dividends is now being implemented without increasing the company rate.

A committee chaired by the Deputy Minister of Finance is investigating the feasibility of substituting a final low-rate withholding tax for the tax concession on interest earned. If impediments can be removed it will be proposed that such a new tax be implemented from 1 March 1991, to replace completely the present tax approach to interest income.

PERCENTAGE CONTRIBUTION TO INCOME TAX IN SELECTED YEARS

Years ending 31 March	1970	1975	1980	1986	1987	1988	1989
Gold mines	10,3	20,1	22,3	14,9	13,5	9,9	6,7
Business enterprises	49,0	42,4	40,5	32,2	32,3	32,0	35,9
Households	40,7	37,7	37,2	52,9	54,2	58,1	57,4

Married women

THE recommendation of the Margo Commission that married women should be taxed separately, was accepted as a goal by government. In terms of the SITE system married women are at present taxed separately on all their "net remuneration" as defined for purposes of that system.

Investment income and certain trading income derived by a married woman who is not subject to SITE is still taxed in her husband's hands. It includes income derived by a married woman from her own business, and also her salary where her employment is connected with her husband's trade.

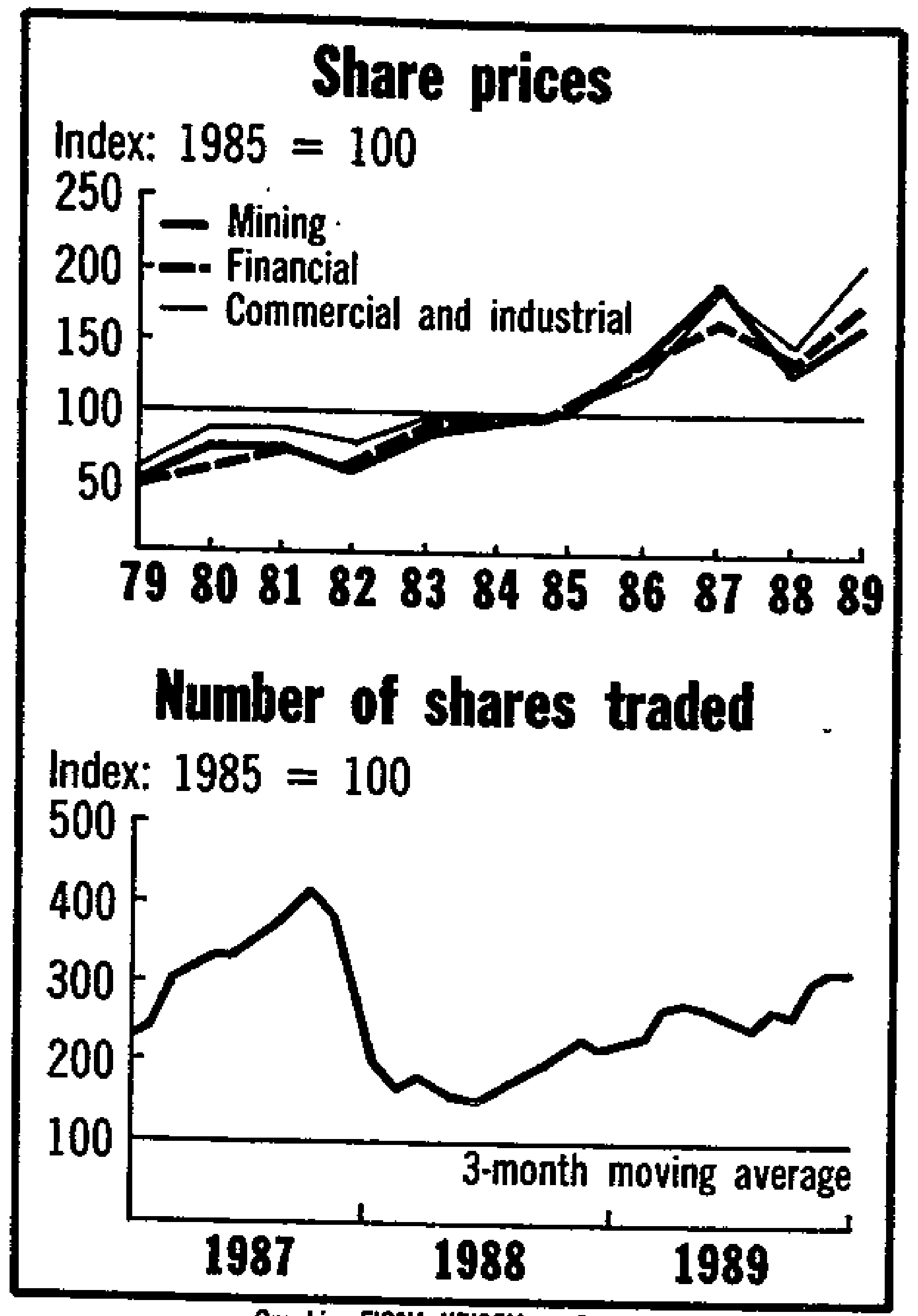
To take separate taxation a step further, it is proposed that all trading income of a married woman, which includes her salary and income from a business or profession, be taxed separately in her hands. Income she derives from employment or a trade connected with her husband's trade is included herein, on condition that her earnings are commensurate with her services. Her investment income will, however, still be taxable in her husband's hands.

It is further proposed that the present rates of tax for married women be adjusted so as gradually to align them with those of an unmarried person. The loss of revenue for the 1990/91 financial year is estimated at R206 m.

We are therefore once again this year making progress in improving the tax position of the married woman.

Additional rebate for the aged

TAXPAYERS between the ages of 60 and 64 years at present enjoy an additional rebate of R120 while those



Graphic: FIONA KRISCH Source: DEPT OF FINANCE

BUDGET 1990

lustrated by the following example:

The combined effective rate of tax of a husband and wife with two children and with taxable incomes of R30 000 and R20 000, respectively, was 17,9% in the 1990 tax year. Had they both received a salary increase of 12% on 1 March 1990 the effective tax rate according to the present rates would have increased to 19,5% in 1991. Under the proposed tax rates their combined effective tax rate now drops to 16,7%, which means that their direct tax burden will decline in real terms. The tax exemption on dividends and the increased interest concession may improve their potential position even further.

Summary

The outcome of all these tax proposals is a net estimated tax loss of R4,530 bn in the 1990/91 financial year.

ADJUSTED REVENUE TOTAL

AFTER taking the foregoing tax proposals into account, the expected tax revenue for 1990/91 amounts to R64,938 bn which exceeds the revised revenue for 1989/90 by only 5,8%. As a percentage of the estimated gross domestic product total tax revenue amounts to approximately 23%, which is considerably lower than the 24,9% for the 1989/90 financial year.

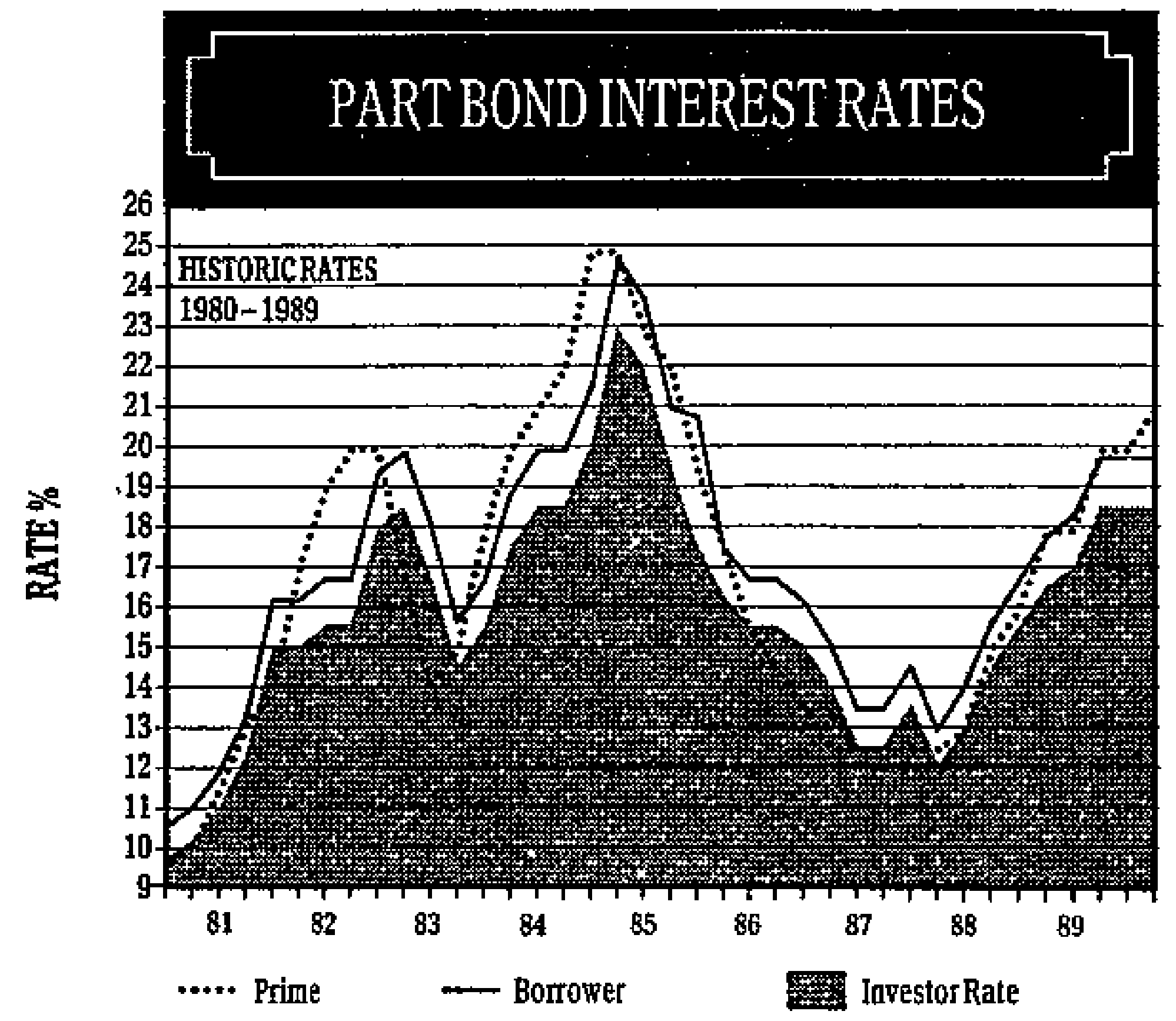
Financing of the deficit before borrowing

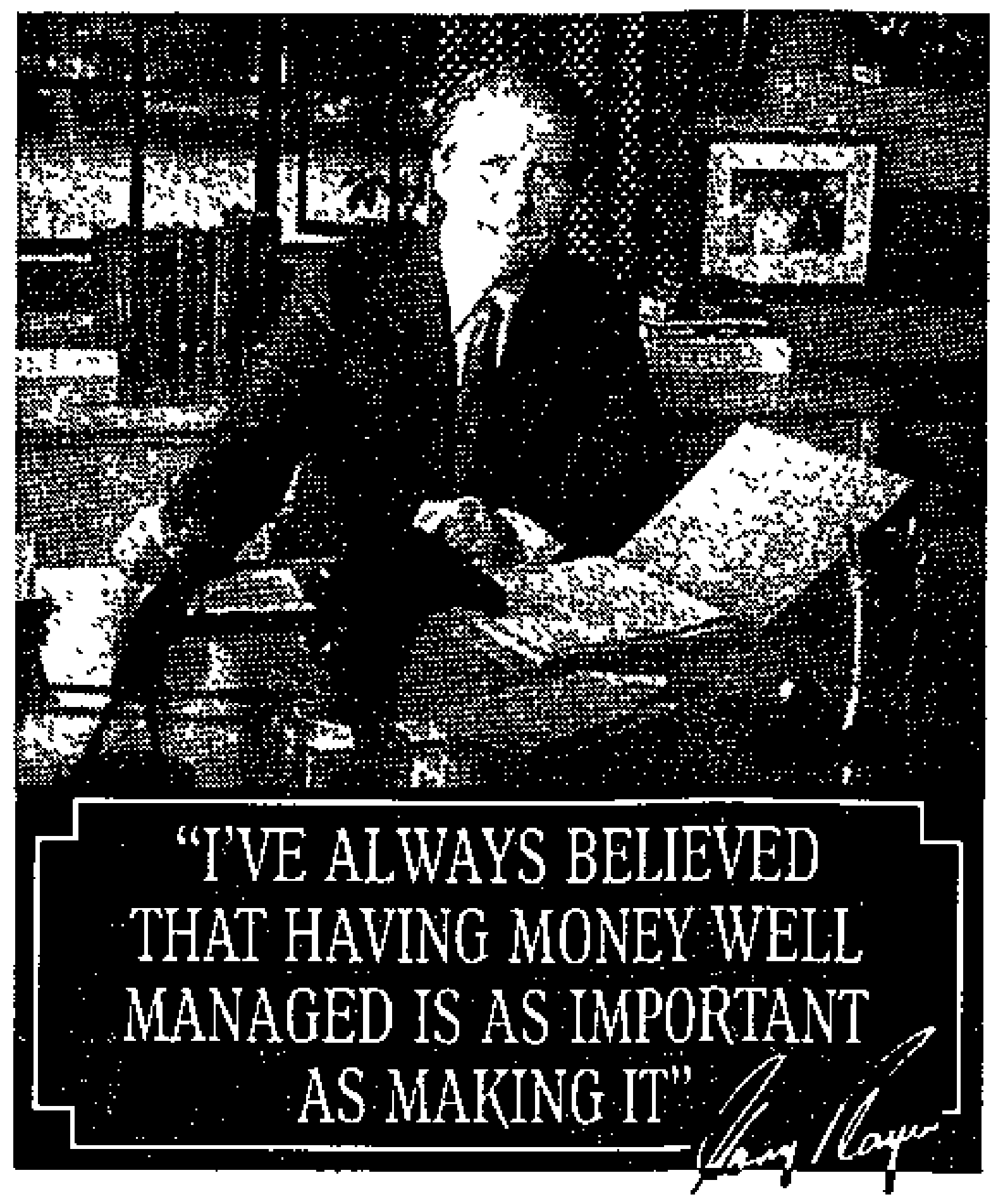
AFTER taking into account the supplementary budget proposals and the contingency reserve, the total expenditure and revenue for the 1990/91 financial year are R72,932 bn and R64,938 bn, respectively. The estimated deficit before borrowing is therefore R7,994 bn or 2,8% of the estimated gross domestic product. In this way the structural deficit before borrowing, which was exceptionally small in 1989/90, is kept low.

Loan redemptions will amount to about R3,8 bn during the 1990/91 financial year, which brings the adjusted financing require-

☐ To Page 10

whole page





total amount of R1 450 by way of additional rebates.

These rebates were introduced into the Act at different times, and it is clear that the criterion for determining advanced age has changed over the years. It is therefore proposed that the additional tax relief which is granted to the aged should in all cases apply to those who have attained the age of 65 years.

To this end the additional rebate for persons between the ages of 60 and 64 years will be phased out by annually raising (with effect from the 1990/91 tax year) the qualifying age by one year.

In this manner the rebate will in five years be consolidated with the rebate for persons who have already attained the age of 65 years, without its being taken away from anyone already entitled to it. The proposal will not result in a material increase in revenue.

It is also proposed that the additional rebates for persons older than 65 years be increased from R1 450 to R2 100. The effect will be an increase in the tax thresholds for married persons over the age of 65 years from R17 304 to R21 667 and from R14 782 to R18 889 for unmarried persons.

If, in addition, the higher interest concession is taken into account, a married person over the age of 65 years with an income of less than R23 667 will pay no tax. Furthermore, he will now receive his dividend income free of tax and will still be able to deduct all his medical expenses. This concession should cost R22 m in the 1990/91 financial year.

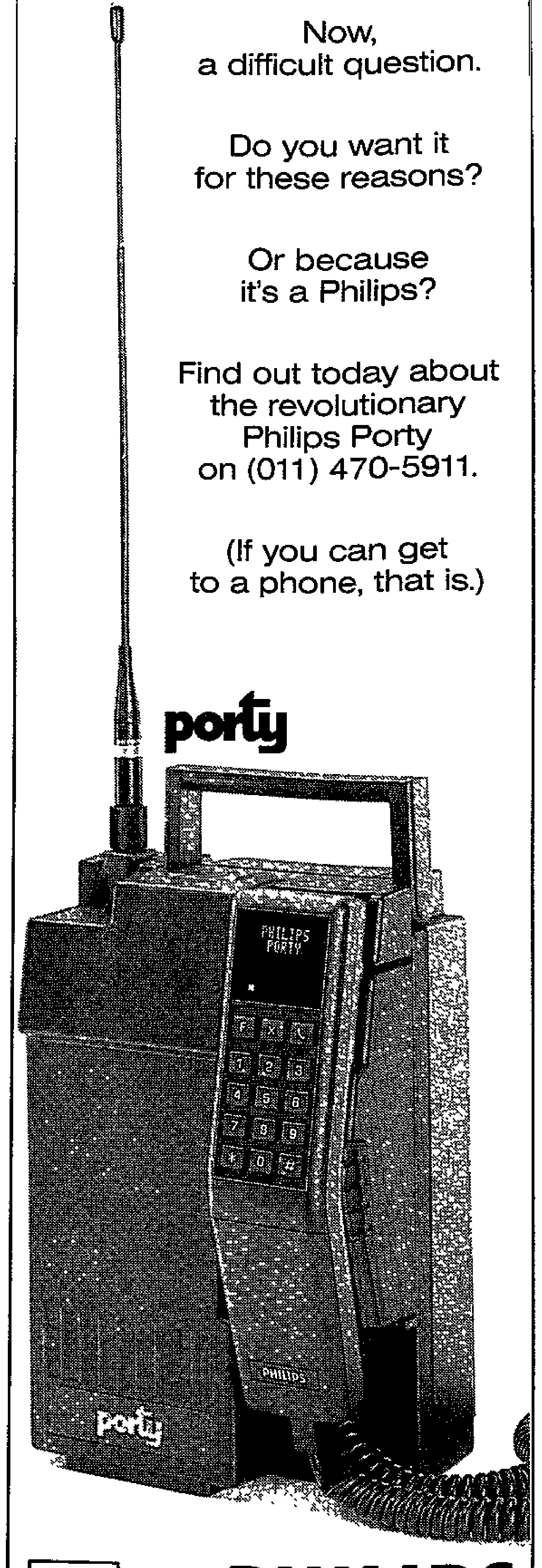
Individuals

DURING the last few years attempts to neutralise automatic tax increases arising from fiscal drag were not always successful. As already indicated, it is the aim of government gradually to reduce the maximum rate as part of a five-year plan.

The rates of tax proposed for the 1990/91 tax year, of which the full details are set out in the Budget Review, represent only the first phase of the considerable adjustments that are planned. The proposal will result in an estimated revenue loss to the Exchequer of no less than R3,122 bn for the 1990/91 financial year.

The larger portion of this tax concession is utilised to give relief to taxpayers in the lower-to-middle income groups, in which the largest percentage of taxpayers is found.

The effect of these proposals on individuals is il-



Now a Mercedes-Benz produces a remarkable performance over 100 metres.

As Christopher White approached the bend on Chapman's Peak Drive, he was seconds away from taking his car on a one-way flight.

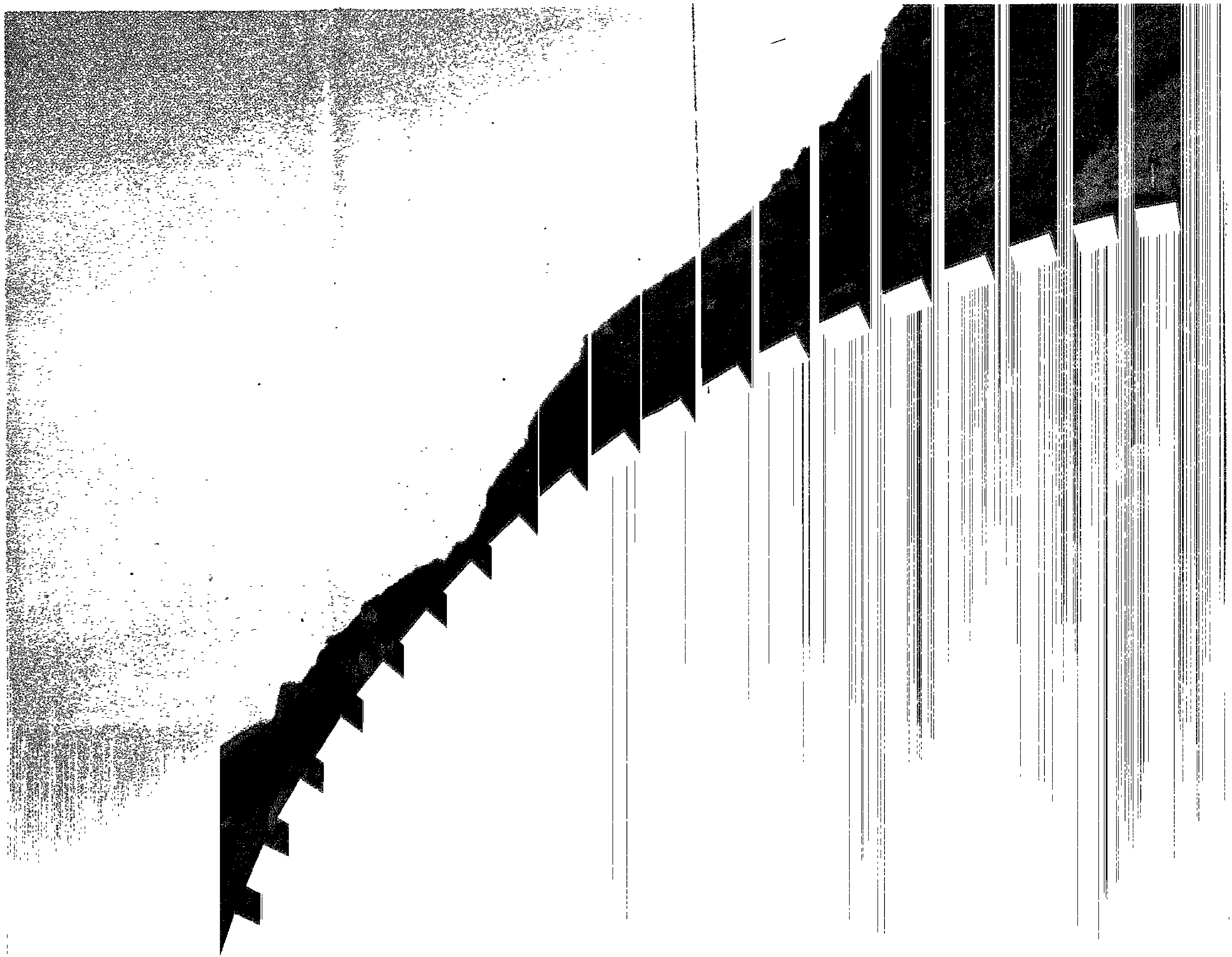
The clock on his fascia glowed 1,00 AM, conditions were murky and he was tired.

"It was wet and I wasn't paying proper attention to the road. I skidded and went over the edge."

Over the edge and into a headlong dive which terminated close to 100 metres down on unforgiving rocks.

"I remember falling and feeling the car roll a couple of times, and there were rocks flying past the car. I remember hitting the rocks and getting out of the car."

Three cracked ribs and a split hip



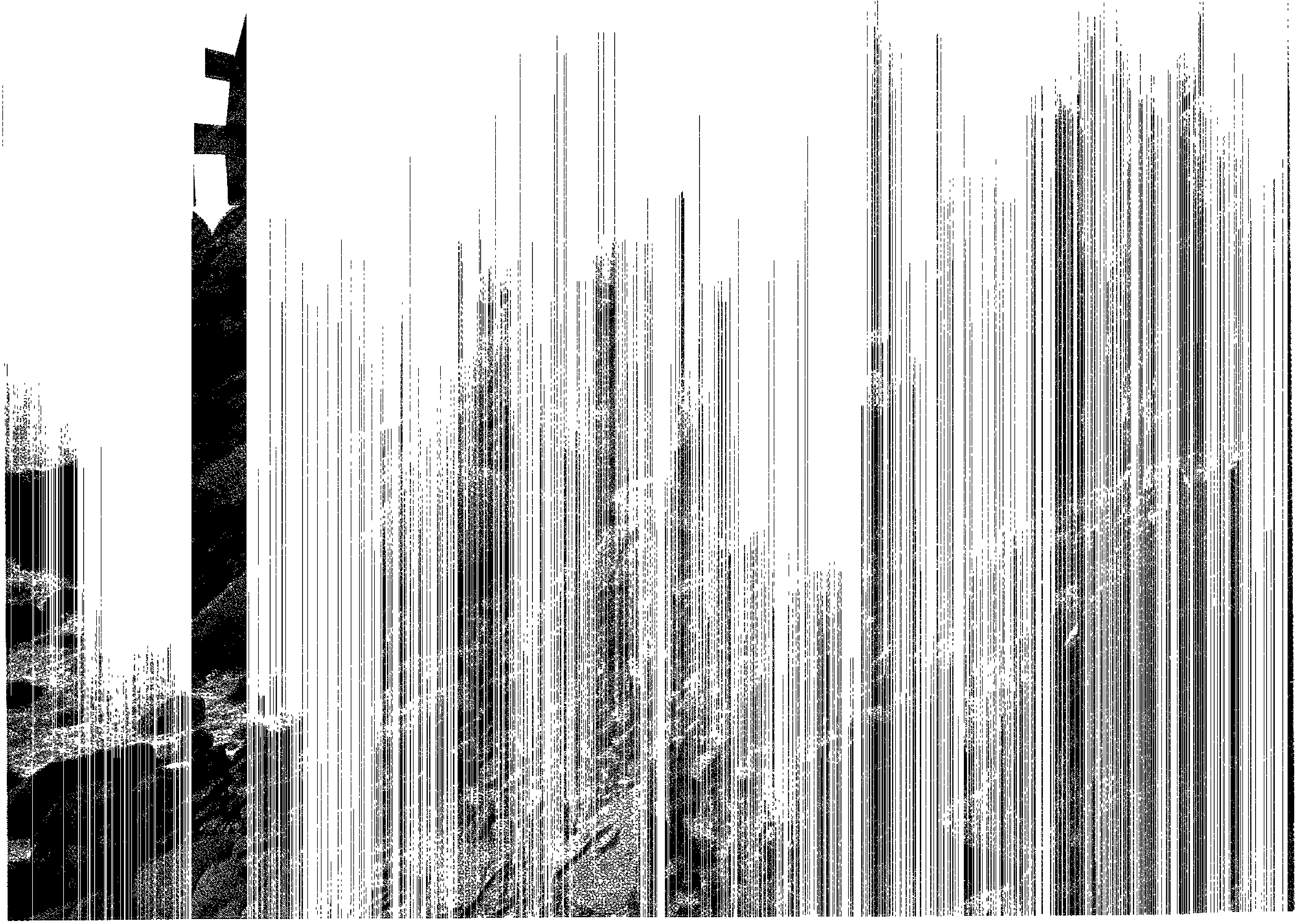
were Mr White's personal mementos. The car fared worse, being mangled beyond recognition.

The plunge should have been fatal. Two factors ensured it was not.

Mr White wore his seatbelt. And he was driving a Mercedes-Benz.

This most faithful of cars is built to self-destruct in a manner most likely to protect its occupants.

The bonnet and boot also act as deformation zones that crumple deliberately to absorb energy. The rigid passenger compartment is a web of enormously strong high-quality steel. Corrugations, Z-profiles and perforations are strategically designed into the whole system to allow the car to yield when it must.



The door was openable because the special locks are burst-proof and crush-proof up to 10 tons of pressure.

Safety engineering of this order has made Mercedes-Benz cars unusually protective. A view that is endorsed by the most thorough accident survey ever conducted.

Carried out in the USA by the Highway Loss Data Institute, it measured the frequency of personal injury claims following accidents.

Its conclusion: A Mercedes-Benz is the world's safest car.

Mr White would not disagree.

Dame Fortune may well have played a part in his survival. But statistics tell us that this good lady invariably favours those who travel in a Mercedes-Benz.

Mercedes-Benz. Engineered like no other car in the world.

DMB&B S9388

(49)

A launching pad for fiscal policy in years to come

☐ From Page 8

ment to approximately R11,8 bn. It is proposed to finance this amount mainly from the sale of domestic stock of R11,250 bn which includes investments by the Public Investment Commissioners.

Although stock to the value of approximately R2 bn has been sold in advance and the remaining borrowing requirement of R9,250 bn should not exert undue pressure on the capital market, it may not be possible to relax monetary policy in the foreseeable future.

Stabilisation goals may on the other hand also require corrective measures should the relatively modest borrowing programmes of the State and other public institutions, together with other market forces, exert a downward pressure on interest rates too early.

A comparative summary of the State Revenue Account, comprising the expenditure proposals and the tax and financing proposals, appears in the annexures to this speech.

THE BUDGET IN PERSPECTIVE

SHOULD doubt exist on the credibility of government's fiscal policy stance, then today's Budget will come short of its goals. Fortunately the budgetary discipline increasingly evident during the 1989/90 financial year, the moderate level of expenditure envisaged for the forthcoming year, and the manifest and growing co-ordination between fiscal and monetary policy demonstrate that financial discipline and proper economic co-ordination have been established. Without this the new South Africa can simply not prosper.

This hard-won success provides an indispensable platform from which newly-honed initiatives can be deployed to meet the three basic policy objectives spotlighted in the introduction — economic restructuring to lift our long-term growth potential, socio-economic development to raise the standard of living of all our people, and the pursuit of short-term economic stability. It is by these three that this and future budgets will be judged.

As far as structural adjustments are concerned, the Budget seeks to achieve a greater supply and a better utilisation of savings. While it has not yet been possible to eliminate structurally government dissaving as formally defined, significant progress has nonetheless been made, the deficit before borrowing having been brought below the target level of 3%.

Various measures in this Budget should contribute to more saving and investment by the private sector, including the following:

☐ Greater certainty on the taxation of dealings in listed securities;

☐ The exemption of dividends from taxation;

☐ The doubling of the exemption on interest earnings;

☐ the very substantial relief of almost R4 bn in respect of income tax on individuals; and

☐ The generally more favourable climate and institutional framework for personal saving and risk investments.

The systematic reduction of the surcharge on imports will also be viewed positively and can serve as an important element in tempering cost increases.

Appreciating that tighter fiscal and monetary discipline have brought hardship with them, the government has also instituted a number of special assistance schemes, such as the mortgage interest relief scheme concluded with building societies; the comprehensive job creation programmes; and assistance measures for the agricultural sector.

The Budget also promotes the upgrading and better utilisation of the country's manpower resources by way of the following:

☐ A more targeted scheme for assistance to manpower training;

☐ A large social investment in education by way of special contributions for training facilities; and

☐ Improved conditions of service in the teaching profession.

The tax concessions, which improve the position of working married women in particular, should also stimulate the supply of skilled labour.

These tax concessions also pave the way to a better balance in the field of taxation. Since the early 1980s, but especially over the past five years, the individual (income) taxpayer was called on to make a growing sacrifice when economic actions against South Africa laid a greater burden on the corporate sector. Coupled with a variety of factors, including tax concessions, this meant a fall in companies' tax contribution towards meeting the burgeoning demands for essential government services. As the economic restructuring programme gets off the ground the improvement made by today's Budget in the balance between the contribution to income tax by companies and by individuals can be taken further as part of the ongoing programme of tax reform.

In the nature of things the accent the restructuring programme places on the better training and utilisation of manpower applies also to the whole process of socio-economic development. In this regard education and training can in fact come fully into their own only if dynamically combined with health, housing and various other actions. Expenditure on social services is already running at almost 40% of the total Budget for 1990/91.

Priority is now being given to a reappraisal of the nature and extent of government's responsibility for social services, while the optimal utilisation of the more than R27 bn going to those services is being closely scrutinised.

Not only does the Budget for the coming year embody a reshuffle of priorities in favour of social services, but a considerable sum is also provided from the financing surplus of the closing financial year specifically for bold steps in the socio-economic sphere.

This Budget certainly does not aim at an early or short-term stimulation of the economy: in concert with monetary policy, fiscal discipline over domestic spending will soldier on in its pursuit of the immediate objectives of rebuilding foreign reserves and combatting inflation. What the Budget does do is provide a launching pad for fiscal policy as a key element in the coming years in establishing a correct balance between the nature and tempo of economic restructuring on the one hand and socio-economic development on the other. I am confident that we shall be given greater thrust today on the trajectory to the new South Africa.

Acknowledgements

I EXTEND my sincere gratitude to the State President for giving precedence to measures aimed at stable economic growth and job creation, and also his support for fiscal and monetary discipline. He also — and this is characteristic of his whole approach to government — gives a firm lead on changes in emphasis in government expenditure. This sets the course and creates confidence.

I also wish to thank my colleagues for their co-operation and for the agreeable manner in which decisions were arrived at on principles and details of this Budget. The same holds for their Directors-General and other advisors.

Many thanks to my colleague Dr Org Marais: he bears a heavy load but makes a great contribution.

A special word of thanks to the new Director-General of Finance, Mr Gerhard Croeser, for his most able contribution to the contents of this Budget and his management of the multi-faceted Budget process. He and the team he has now put together have woven a very high standard of expertise and macro-perspectives into the Budget fabric.

I also thank Dr Chris Stals, who recently took over the helm at the South African Reserve Bank after four years as Director-General of Finance and Special Economic Advisor. His contribution has always been of the highest standard, and he continues to set his mark on our economic life. In this regard one thinks especially of his role in the debt negotiations. I thank him and his team for their valuable work.

On behalf of the government I also thank Dr Japie Jacobs, who recently retired as Senior Deputy Governor of the South African Reserve Bank. He has made invaluable contributions over many years in various spheres of economics, especially in the agricultural field. He has since joined us as Special Economic Advisor and I thank him for his willingness to put his talents at our continued disposal.

After many years of service, Mr Theuns Pienaar recently retired as Chairman of the Land Bank. We thank him for his able leadership and service and wish him a happy retirement. Our best wishes accompany his successor, Mr Fanie Hugo.

The Central Economic Advisory Service, which in future will fall under another ministry, also deserves our thanks for its expert and objective advice, which greatly facilitates better planning and decision-making.

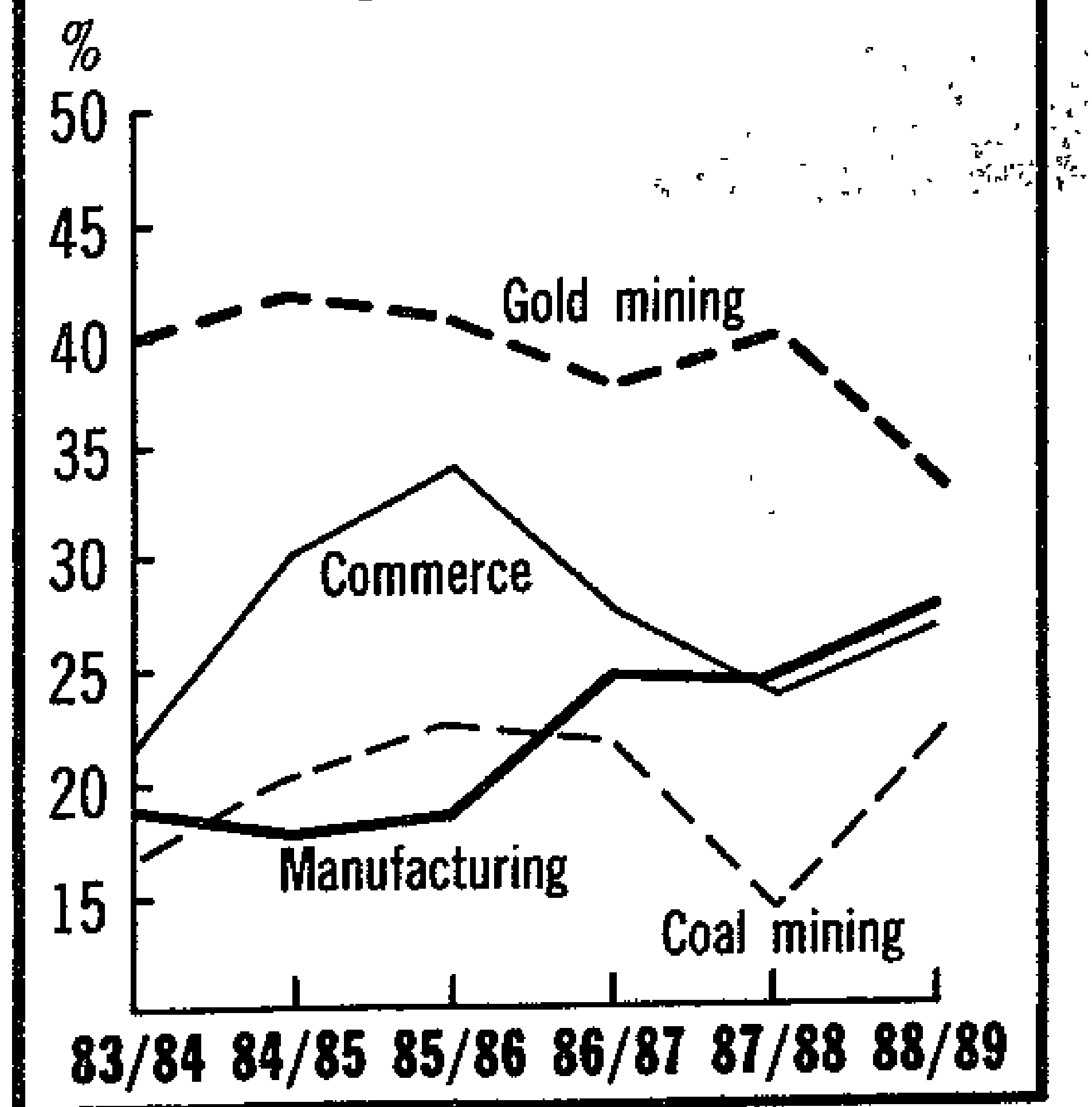
I also thank the members of the Tax Advisory Committee, who perform their work with great dedication and skill. We appreciate their professional approach, and also thank those many people and bodies in the private sector that provide important contributions in this respect.

Many thanks also to the spokesmen on finance of the various parties represented in Parliament, for the high level of discussion that characterises debates here and in the various committees. It bears fruit in sound legislation.

In conclusion, I wish to pay tribute to the memory of Dr Gerhard de Kock, who passed away last year. We sorely miss him as an advisor, a friend and a gracious man of many parts; who, as an internationally respected central banker and economist, rendered his country outstanding service. He would, I am sure, have found the budgetary achievements of the recent past most gratifying, and have wholeheartedly supported today's Budget.

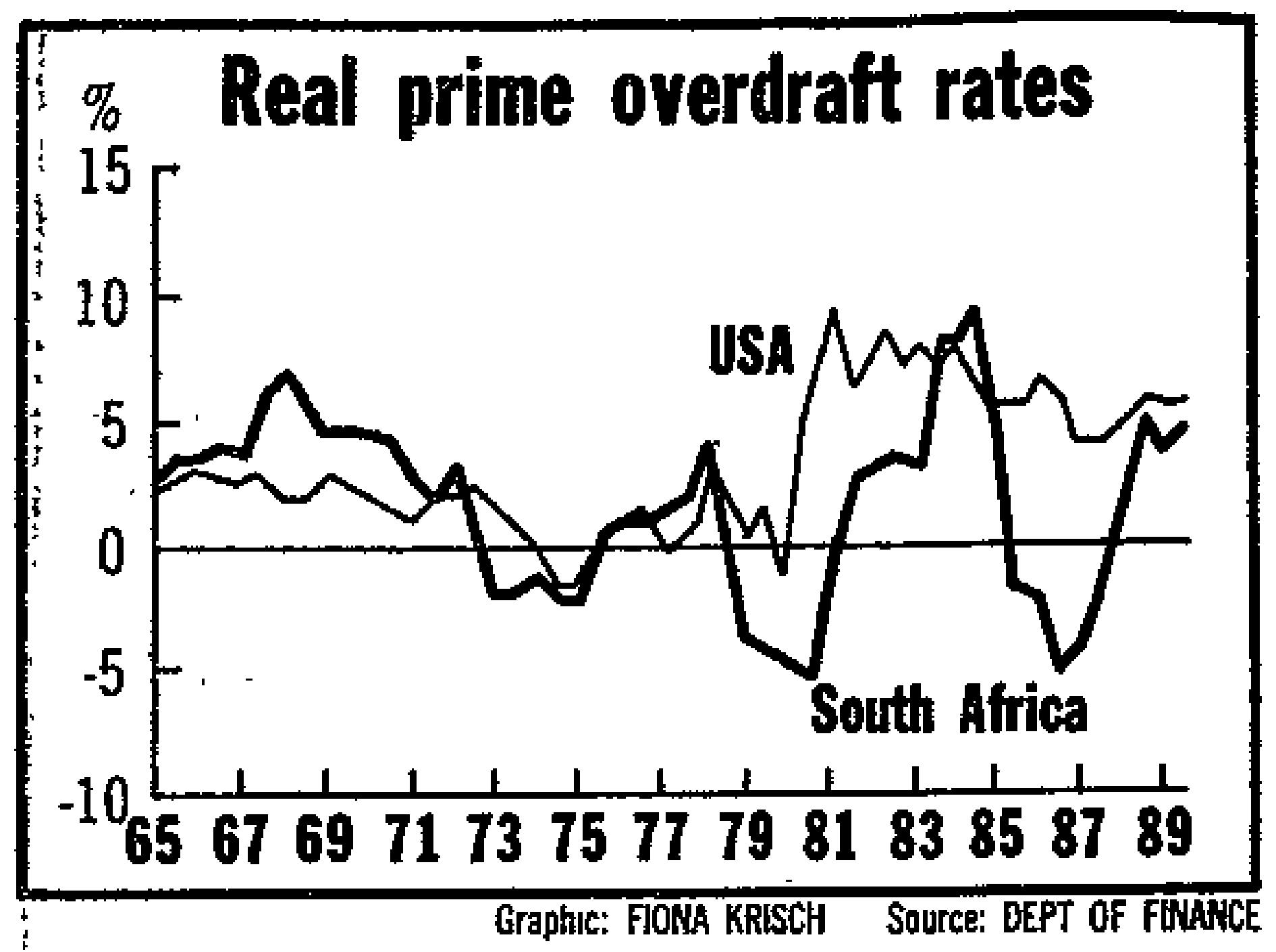
BUDGET 1990

Effective tax rates of selected groups of companies



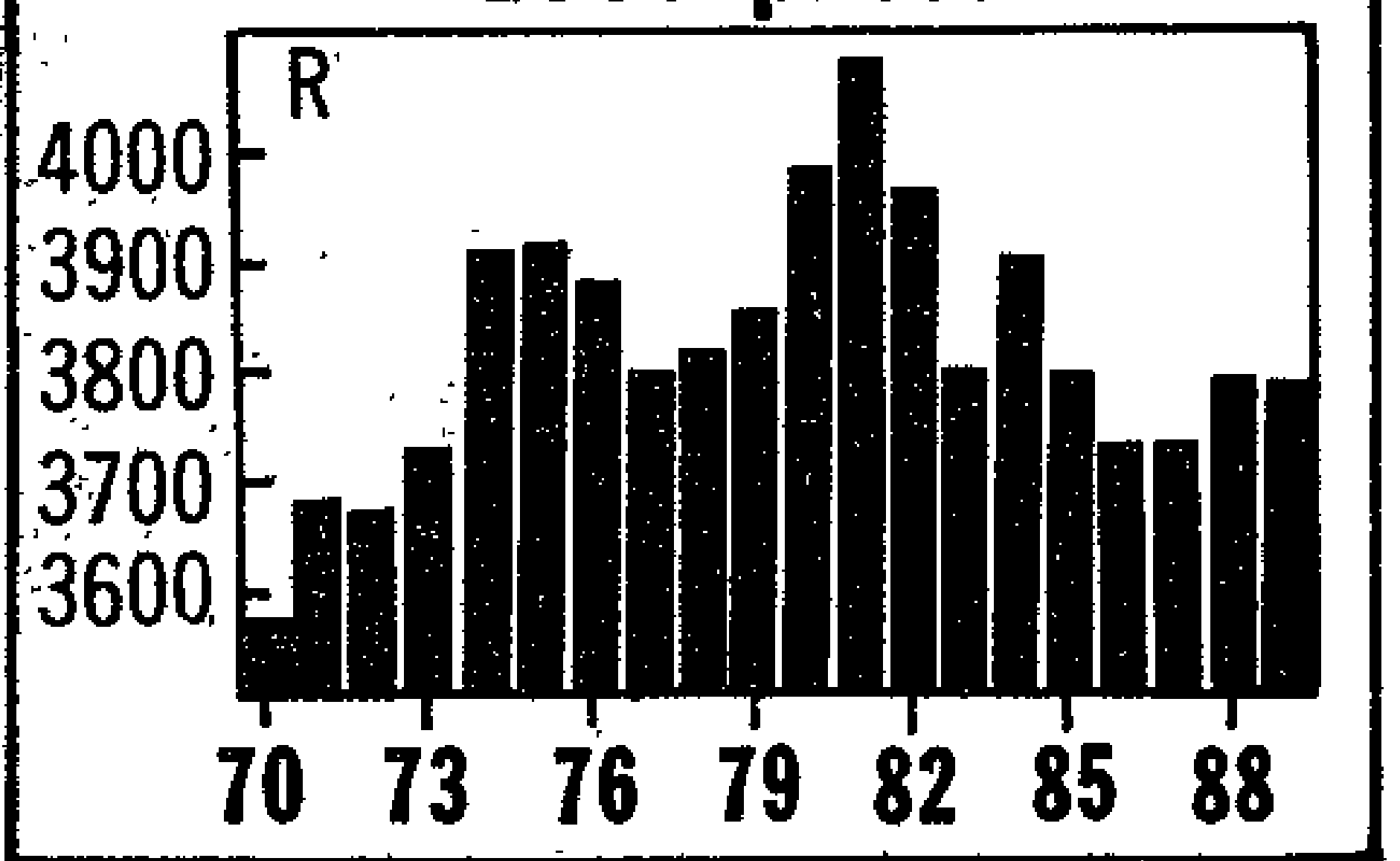
Graphic: FIONA KRISCH Source: DEPT OF FINANCE

Real prime overdraft rates



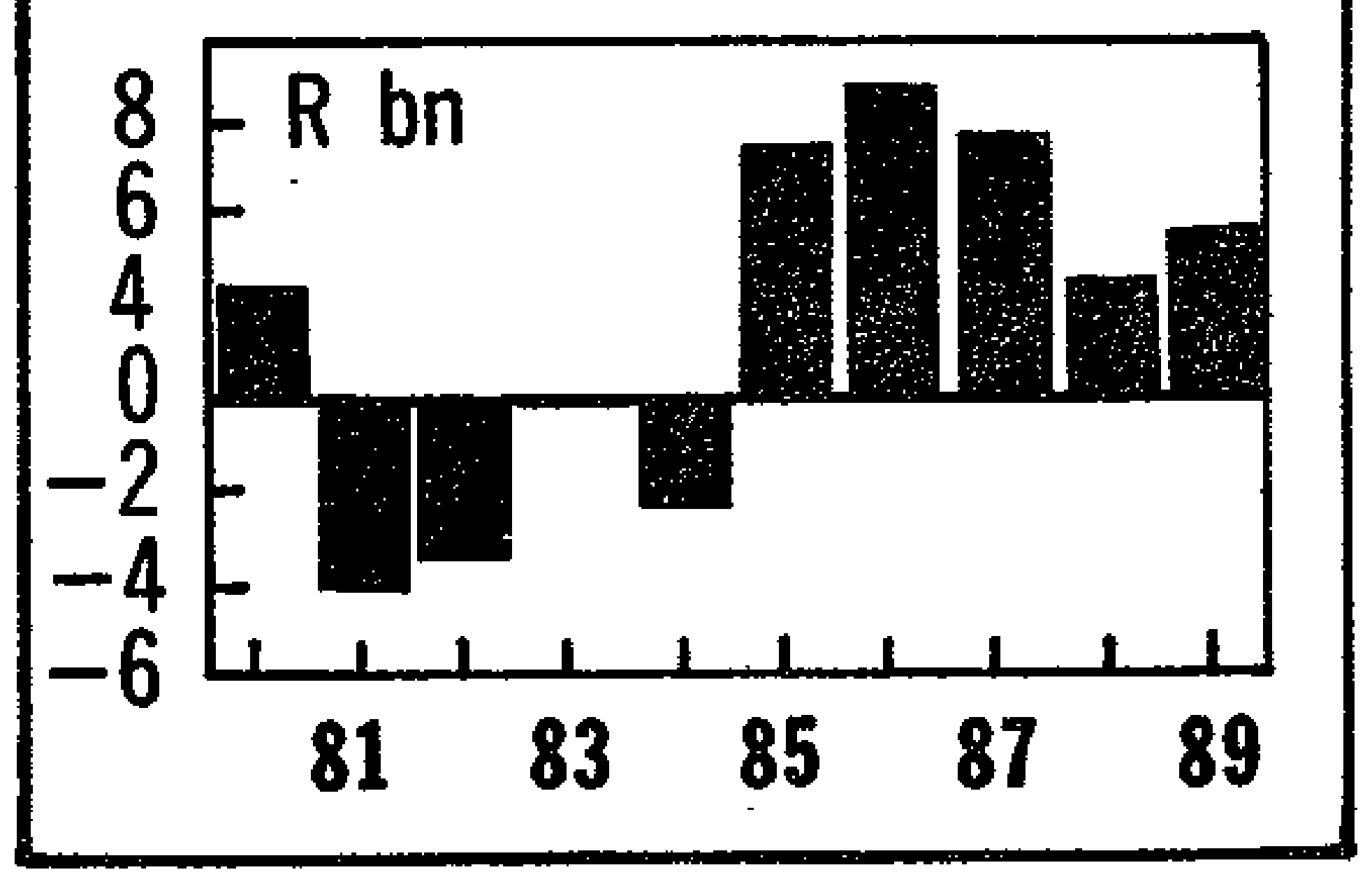
Graphic: FIONA KRISCH Source: DEPT OF FINANCE

GDP per capita at constant 1985 prices



Graphic: LEE EMERTON Source: DEPT OF FINANCE

Balance on current account



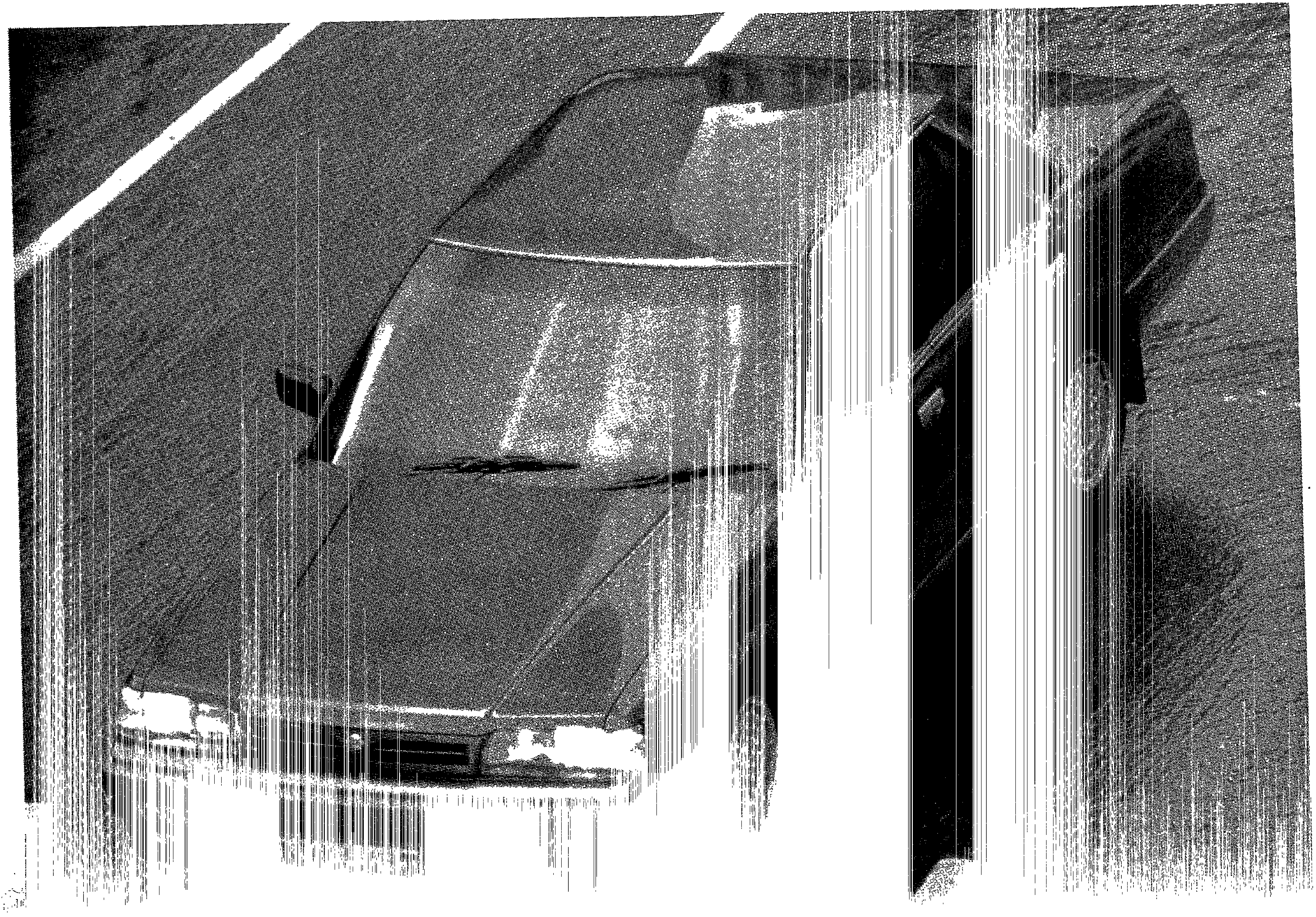
AVAILABILITY OF NEW CAPITAL AS PERCENTAGE OF GROSS DOMESTIC PRODUCT

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Gross private saving	27,4	21,6	27,4	24,3	25,6	26,3	26,2	24,4	23,0
Less depreciation	13,5	14,8	15,5	15,0	15,8	17,2	16,9	16,4	16,4
Net private saving	13,9	6,8	11,9	9,3	9,8	9,1	9,3	8,0	6,6
Plus government saving	−0,1	−0,6	−1,8	−1,5	−0,8	−2,1	−3,2	−1,5	−0,5
	13,8	6,2	10,1	7,8	9,0	7,0	6,1	6,5	6,1
Plus inflow from the rest of the world	5,6	4,0	−0,1	−2,1	−4,7	−4,9	−3,7	−1,4	−1,7
Net new capital	19,4	10,2	10,2	9,9	4,3	2,1	2,4	5,1	4,4

COMPONENTS OF GROSS DOMESTIC SAVING (Percentage of total)

	1971	1974	1977	1980	1983	1986	1988	1989
Companies	7,8	21,3	16,3	33,0	33,2	25,6	23,5	24,4
Depreciation	47,4	41,9	50,7	37,9	60,5	71,0	71,6	72,7
Personal:								
Contractual	15,1	14,7	16,0	14,9	28,1	30,2	42,8	44,0
Sub-total	70,3	77,9	83,0	85,8	121,8	126,8	137,9	41,1
Personal:								
Discretionary	21,1	3,5	−11,7	3,2	−22,6	−23,1	−36,2	−40,1
General government	8,6	18,6	5,3	11,0	0,8	−3,7	−1,7	−1,0
Sub-total	29,7	22,1	17,0	14,2	−21,8	−26,8	−37,9	−41,1
TOTAL	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

whole page



Some cars say you're smart. This one says you're clever. There's a difference.

If you drive the Nissan Skyline, you're clever enough to know that more money won't buy more luxury. Or more quality. Clever enough to know that the Skyline's plush leather interior, redesigned rear leg room, finest sound system and air conditioning with auto temperature control are some of the luxury features of a car that's not just smart, but also very affordable.

If you drive the Nissan Skyline, your car says something about you:

It says you weren't born yesterday.

NISSAN

We are driven

Skyline Range ☐ 3,0 SGLi AT ☐ 3,0 SGLi ☐ 2,0 SGLi AT ☐ 2,0 SGLi ☐ 2,0 GLE AT ☐ 2,0 GLE ☐ 2,0 GL AT ☐ 2,0 GL

BatesWells ● 19012/R

Business Day

A TIMES MEDIA PUBLICATION

THURSDAY, MARCH 15 1990

80c (71c + 9c tax)

BUDGET SPECIAL

/S

ita sabotage reatens A-built dam

E Gove dam on the Cunene ver in southern Angola was the verge of a atastrophic" collapse esterday after sabotage by nita, the Angolan news gency Angop reported.

It said a wave of 2,5-billion cubic meters of water would pour over the countryside if the dam burst. This would have disastrous consequences for Nambia, Angop said.

Namibian and Angolan officials have been studying ways of sharing water and hydro-electric power from the dam which was built by Portugal and SA.

A Unita spokesman in Lisbon said he knew nothing of any attack on the dam.

Nofemela under fire

FORMER security policeman Butana Nofemela was yesterday accused of twisting accounts of real events to suit his evidence. **Page 2**

Referendums

our

BUSINESS

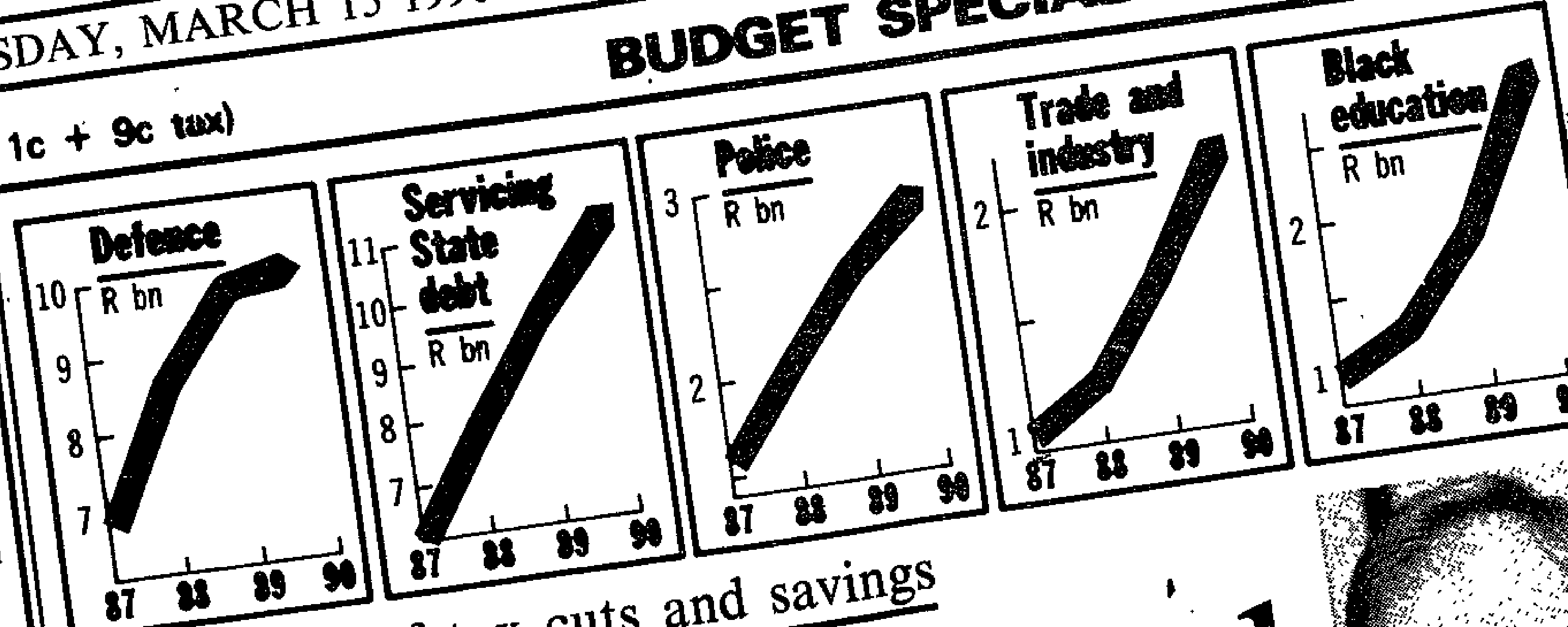
THE biggest close-out in the history of the SA futures market takes place today. By 4pm, when the March index futures expire, at least R500m worth of contracts will have been traded. Close-out is the process whereby investors and speculators cash in their futures contracts — which are still technically open — and take their profits or losses.

THE year ahead will be another active one in terms of SA mergers and acquisitions, but some of the major conglomerates may choose to curtail their level of activity, says Ernst & Young Corporate Advisory Services. The firm says several major corporations are now suffering "indigestion" after past acquisition sprees. **Page 10**

THE PC-dealer industry needs more discipline and accountability, says Spartan Micromanagement financial director Neil Michelson. With the confusion of recent computer industry insolvencies, he is calling for the formation of a dealer accreditation board. **Page 11**

SHARESPOT

State Development & In- Freddev)



Graphic: FIONA KRISCH

Twin spurs of tax cuts and savings

Barend's goal is SA growth

MIKE ROBERTSON

CAPE TOWN — In his R72,9bn Budget yesterday Finance Minister Barend du Plessis committed government to going for growth through tax cuts and encouraging savings.

o took a step towards long-term by increasing

R850 to R2 100 and R1 800 respectively;

☐ Raising the threshold at which people start paying tax to R12 000 and R10 286 respectively for married and unmarried people with no children; and

☐ Increasing the rebate for people over 65 from R1 450 to R2 100.

● DU PLESSIS

more than 10 years. Any profits gained on realisation of these shares would not be subject to taxation. Also, he said marketable securities tax would be phased out over three years from next year.

He introduced an across-the-board reduction in import surcharges at a cost of R835m and abolished the ad valorem duty on pearls and diamonds.

He announced a number of changes in the taxation of mines, including making [illegible] of existing mines' tax bases available [illegible] development costs of a [illegible] mine re-

THE MAIN POINTS

☐ Personal income tax relief of R3,3bn

☐ New tax package for mines

☐ Separate taxation for married women

☐ Double dividend taxation scrapped

☐ No Capital Gains Tax on shares held for 10 years

☐ Marketable Securities Tax to be phased out from next year

☐ Increase in fringe benefit taxation

☐ Import surchage rates to be cut by one-third

☐ Special R2bn fund for removal of economic inequality

☐ R3bn for reduction of forward cover losses

☐ R1bn to bale out government pensi funds

☐ Bulk of total expenditure on educati (19%)

☐ Total revenue up only 5,8% to R64,9bn

☐ Total expenditure up 11,9% to R72,9bn

☐ Interest on public debt up 15,3% to R11,3

☐ Deficit before borrowing up 110% R7,99bn

☐ Customs and Excise duty up for beer (1c pint), spirits (1c a tot), cigarettes (2c for 1 pipe tobacco and cigars (20c a kg), wine (1, a bottle), duty on jewellery abolished.

'R8bn in mature shares unlocked'

BARRY SERGEANT

THE Budget had unlocked R8bn from the JSE, said Tom Dale, head of research at stockbrokers Ed Hern, Rudloph, Inc.

He said the new rule that shares held for 10 years or more on the JSE would be sold tax-free could unlock this amount, with major planned gold mines the most likely recipients.

Dale's analysis shows that the six major mining houses hold R32bn of JSE shares. He said R14bn of this could be regarded as "mature". It was unlikely, though, that the mining houses would sell all these mature investments.

"The shares are often tied to lucrative management contracts, and I estimate that the houses would be prepared to sell about R8bn worth, over a period of time."

Syfrets said the major impact should be felt in mineral rights holding companies, where cash available for greenfields ventures would be boosted by the exemption of mature investments from taxation.

Syfrets said: "This could free about R10bn to R18bn over a period of time. A [illegible] would be the increased share [illegible] were

Sells said the move towards gradual redu tion of the high rates was welcome, " this merely continues policy announ last year".

JSE president Tony Norton hailed creation of a 10-year tax-free safe ha for shares listed on the JSE as tremend ly important for the equities market ports LIZ ROUSE.

Norton said huge funds would pass the hands of the financiers into the ha the "money engineers".

He estimated that at least R13bn be released from the share coffers mining houses, which would now se plus stock held over many years.

This would mean a tremendous b the JSE's liquidity, said Norton.

He expressed some disappoi however, that the period of tax- lease could not have been shorter, for by the JSE.

Norton also hailed the phasi marketable securities tax (M three years, starting next year, for the JSE. He said both measur

Page 2

independent [illegible]
hold referendums on whe[illegible]
or not to opt for reincorporation into SA. Bophuthatswana, the only state which has not followed suit, has not closed the door on such a move. **Page 3**

Talks on Germany

SECOND World War victors and the two Germanys met in Bonn yesterday at the start of talks on creating a united German state. **Page 4**

Zambian talks

INSPIRED by reforms in Eastern Europe, Zambia's ruling party opened a three-day convention yesterday to consider restoring multi-party democracy. **Page 5**

Church demands fail

THE Mossel Bay municipality yesterday rejected demands from church leaders to open the town's civic centre to all races. The CP-controlled town council also rejected demands that the central business district be opened to all and that other race groups be directly represented on council.

Gold mine blaze

AN UNDERGROUND fire

ve[illegible]
surged 175c or [illegible] JSE mining exploration sector yesterday with 6 800 shares changing hands in 12 deals.

The strong rise came towards the close of trade as news of the relaxation of tax and other benefits for mines and investors in the budget proposals filtered into the market.

Mervyn Harris

SAA has announced it will schedule five extra flights to Namibia next week to cater for passengers attending the independence celebrations. The flights will depart from Jan Smuts Airport on Sunday at 12.30pm; Monday at 12.30pm; Tuesday at noon; Thursday at 11.40pm; and Friday at 10.40pm. There are no flights on Wednesday, March 21, Namibia's independence day.

THE SA Reserve Bank announced yesterday it will soon be issuing new R20 notes that differ only in the numbering system used on the notes. Apart from this amendment the notes will be identical, and old notes can still be used as legal tender.

THE SA Franchising Association (Safa) has announced the creation of three Safa awards

eco[illegible]
spending on social [illegible] Du Plessis said revenue for the [illegible] expected to total R64,938bn, leaving a deficit before borrowing of R7,994bn (2,8% of GDP), and predicted a 1% growth rate.

The Finance Minister unveiled a R4,5bn package of tax cuts, with more than R3,3bn in personal tax cuts — largely directed at eliminating fiscal drag at the bottom end of the tax scale.

The tax changes included:

☐ Decreasing the maximum marginal tax rate from 45% to 44% and restructuring lower rates;

☐ Increasing primary rebates for married and unmarried people from R1 250 and

● See also Spec[illegible]
● Comment: Page 8

To encourage savings, Du Plessis doubled tax exemptions on interest and building society dividends received by individual taxpayers to R2 000. He also gave away an estimated R408m by exempting all dividend income of individuals from taxation.

In a move that is expected to inject a considerable degree of liquidity into the JSE, Du Plessis announced the introduction of a "safe haven" for shares held for

new mine [illegible] mained the property o[illegible] Increases introduced included: a [illegible] "can" hike in the price of beer; a 78c increase in duty on spirits; and a 4c increase in the price of a packet of 20 cigarettes.

Du Plessis abolished tax concessions on employee training allowances (a saving of

☐ **To Page 2**

However, [illegible] generally met with disapp[illegible] Willem Cronje of Deloitte Haskins [illegible]

Business hails lower import surcharges

BRENT MELVILLE

BUSINESS yesterday lauded Finance Minister Barend du Plessis's decision to slash the import surcharge.

The surcharge, which has been under fire since its introduction in August 1988, will be cut by about 30% in terms of yesterday's Budget announcement.

Du Plessis said the surcharge on luxury imports (including VCRs, televisions, antiques, jewellery, selected sporting goods, furs and artworks), currently at a hefty 60%, would be reduced to 40%.

Deloitte, Haskins & Sells associate director Doug Jolliffe said the reduction also applied to mineral waters, rum, beer from

The surcharge on imported consumer goods (less essential) would drop from 20% to 15% with the surcharge on capital equipment (such as computers and mining machinery) dropping from 15% to 10%. The charge on consumer goods that could also be used as raw materials would decrease to 7,5% from 10%.

Du Plessis said he expected the surcharge to yield about R2,6bn (R1,9bn) this year to the State — more than double the budgeted amount. He said the lowering of the surcharges would result in a loss of

hoping for a bigger reduction the move marked a "phasing out" and proved that the surcharge had failed in its main purpose of drastically curtailing imports.

It had had a cost-raising effect on the economy and had also given unintended additional protection to certain local industries.

Lacey said that while it would be nice to speed things up, it was impracticable to drop the surcharge "straight off".

Furniture Traders Association executive director Frans Jordaan said the reduction provided welcome relief.

He said there would be no dramatic

Mining shares react with eup

MERVYN HARRIS

MINING shares on the JSE reacted with initial euphoria to the Budget proposals, but leading stockbrokers were divided in their views, with some welcoming it as imaginative and others expressing disappointment.

News of the wide-ranging proposals affecting mining shares came shortly before the close of trading and lifted prices of leading shares sharply higher. The JSE overall index closed 44 points up at 3 304.

Max Borkum, of Davis, Borkum Hare & Co, said: "This is an imaginative Budget which will be favourably received. The overall strategy — there was a modest increase in excise duty on cigarettes, beer and spirits — shows a greater emphasis on indirect as opposed to direct taxes, which must be an indication of future trends."

"The mining industry will benefit to the

amelioration of the unempl through the release of funds.

"Local beneficiation has aged through the abolition o on beneficiated products. Th late exports and be good fo

Borkum said a long-term share market would be de scrapping of marketable (MST), starting from next

"On the negative side, co panies are likely to suffer sideration of consumables gress as trading stock.

"In addition, those c have a LIFO reserve wi out over 10 years at 10%

David Shapiro of s

Expenditure must be controlled at all levels

Sowetan 15/3/90

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SUCCESS in socio-economic development was obviously not only determined by the volume of funds, but also by the quality and purposefulness of programmes, the effectiveness of expenditure, the minimalisation of duplication in the provision of services, and so on.

State expenditure had to be controlled at micro level not only to ensure its regularity, but also its effectiveness.

Control at this level could also not be the responsibility only of the Minister of Finance; it was a collective responsibility devolving upon the whole government, and thus on every manager in the public sector.

Mr Du Plessis said about 60 per cent of the Budget took the form of transfers, including subsidies; and the fact that this portion would grow more slowly than total budget spending in 1990/91 indicated that the message of discipline over spending had also found a place on other government levels.

The planned small real decline in central government expenditure for 1990/91 represented a continuation of the hard-won expenditure discipline achieved in 1989/90 in the form of a very small overshoot of the main budget and a relatively small real increase in total expenditure compared with 1988/89.

Govt's expenditure will total R138b

Sowetan 15/3/90

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AFTER taking into account supplementary budget proposals and the contingency reserve, the total expenditure and revenue for the 1990/91 financial year was R72,932 billion and R64,938 billion repsectively, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said in his Budget speech the estimated deficit before borrowing was, therefore, R7,994 billion or 2,8 per cent of the estimated gross domestic product.

In this way the structural deficit before borrowing, which was extremely small in 1989/90, was kept low.

Loan redemptions would amount to about R3,8 billion during the 1990/91 financial year, which brought the adjusted financing requirement to about R11,8 billion.

It was proposed to finance this amount mainly from the sale of domestic stock of R11,250 billion, which included investments by the Public Investment Commissioners.

Although stock to the value of about R2 billion had been sold in advance and the remaining borrowing requirement of R9,250 billion should not exert undue pressure on the capital market, it might not be possible to relax monetary policy in the foreseeable future.

Stabilisation goals might, on the other hand, also require corrective measures should the relatively modest borrowing programmes of the State and other public insititutions, together with other market forces, exert a downward pressure on interest rates too early.

DU PLESSIS

Barend challenges Mazwai's claims

Sowetan
15/3/90

'Nationalisation is ineffective'

(49)

IN his column "Its my business" of 1 March 1990 Mr Thami Mazwai apparently attributes to me a statement that a policy of nationalisation is theft.

Our regular column "It's my business" does not appear this week. Instead we publish a letter from Finance Minister Barend du Plessis challenging Thami Mazwai's claims in his column three weeks ago. Mazwai will respond to the Minister next week.

As you will see from the attached copy of the relative Hansard report, I was quoting Mr Ken Owen, editor of Business Day. My words in Hansard are: "We then read in Business Day what they said about nationalisation etc. Someone with the political conviction of Mr Ken Owen wrote frankly in his leading articles: "It is nothing short of theft."

I must therefore point out to Mr Mazwai that those words were not actually mine.

Response

I find it interesting that when Mr Owen wrote those words in the first place, it did not inspire Mr Mazwai to the kind of agitated response that was meted out to me as a politician.

I can only assume that he did not see the particular comment.

Nevertheless, I must state that I do not think a policy of nationalisation could ever bring about the kind of equitable redistribution of wealth which Mr Mazwai wishes to see.

And if by nationalisation is meant confiscation, then it is indeed nothing short of plunder, or yes, theft. even on the basis of compensation, nationalisation is equally ineffective in achieving the ends Mr Mazwai seeks.

It is true that some Nationalists were in favour of such a policy before the NP came to power in 1948. But it is also a fact that this was never implemented. Sanity prevailed when they accepted the sobering responsibility of governing and today we have a mixed economy.

Existing private concerns were never nationalised in South Africa.

The parastals in which the Government has or had a controlling interest were all created by the Government because the private sector wasn't interested or was openly hostile to the idea. Iscor and Sasol, which have since both been privatised, are examples.

Talks

We shall have to sit around a table and agree on economic policy. We may even have to discuss the whole spectrum, from nationalisation to totally free markets, in order to work out the best policy for a new South Africa.

But it is neither wise nor helpful at this to advocate either of these poles without taking the experience of other countries into account.

In that regard it is clear that socialist policies, which include inter alia that of nationalisation, were a dismal failure in every country in which they were applied.

That kind of attempt to redistribute wealth resulted merely in the poor getting poorer and the economy taking a nose-dive, as is now manifest in Eastern Europe and Africa.

Wealth

If, on the other hand, sound economic policies, including promotion of private enterprise, deregulation and further privatisation are pursued, new wealth and new jobs will be generated.

In turn, higher economic growth will give the State an increased income through taxes which could be used for education and other methods of lifting the quality of life of the less privileged.

The problem of poverty cannot be solved overnight by the application of formulae. Nor is poverty restricted to one race or population group, as Mr Mazwai seemed to suggest.

Severe

He referred to the policy of apartheid. Could he explain why scores of countries that never practised statutory apartheid, also suffer from poverty - in many instances in severe form?

As I have aid, the alternative must be discussed around a negotiating table. Let's not be dogmatic about our ideas. Let's rather put our heads together to find the best policy for the future of all the people of South Africa.

Sincerely,
B J du Plessis MP,
Minister of Finance.

Why economic issues are important

Sowetan 15/3/90 (49)

THE economy has been in the news recently and yesterday the Minister of Finance, Mr Barend du Plessis, gave his budget speech. In this article Mark Addleson, economics lecturer at the Wits Business School, looks at the some of the basic issues involved in the field of economics.

Over the past few months and especially since the release of Mr Nelson Mandela, there has been great interest in economic matters.

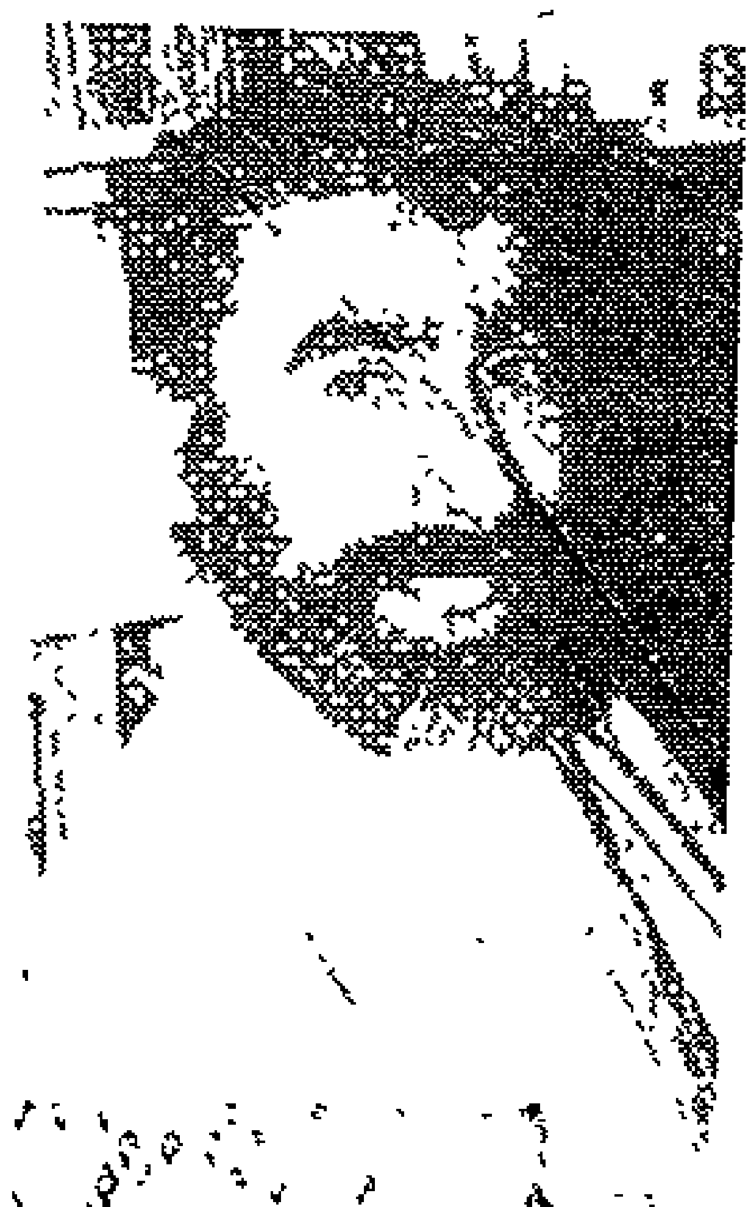
Questions that still puzzle a lot of people are, "why all this interest in economic?" and "does it have relevance for me?"

Why economic issues are important.

A problem we confront is that of making sure the things we produce end up in the hands of those who need them.

This is called the distribution problem. Distribution is a problem because there is often disagreement about how goods and services should be distributed. Should they go only to the people who can afford them?

In a society where many people live in terrible poverty this will clearly not be satisfactory because the poor would not be able to enjoy the benefits of that society produces.



Mark Addleson

Here the government plays a role in the economy, providing services like education and health care to the poor because they cannot afford these services; but is important, too, that the government uses resources wisely and fairly.

Economic issues are of vital concern to everyone because economic deals with those things that influence our well-being and material standards of living: how much we earn, how we are educated, what housing we have and what we pay for things like food, transport and electricity.

Economists try to understand what factors contribute to an improvement in people's quality of life. Why do people in some societies enjoy high living standards while in others there is poverty and unemployment?

Economists also try to work out policies that will help to contribute to a better quality of life.

In South Africa, where living standards have been falling and unemployment has been increasing, there is every reason why we should pay attention to the problem of managing the society's resources efficiently, which is the main concern of economics.

The unfortunate state of affairs is that economic matters have been mismanaged for a long time.

They have not been given a high priority by government and the use of our resources has been dictated mainly by political considerations, with little thought for whether this was in the interests of the community as a whole.

Now, however, the situation is changing because political debate is bringing economic issues to the fore.

Why it is necessary to manage resources effectively.

What forces us to manage our resources effectively is the fact that they are scarce.

Unfortunately there is no society where people are free from want, and in South Africa the magnitude of the problems is only too obvious to anyone who knows the townships or the rural areas.

The more effectively we can use our resources, the bigger the "basket" of goods we can produce and the more there will be to share out among the population. The difficulty is that it is no simple matter to manage resources efficiently.

Because resources are scarce, when we spend more money on housing, we effectively have to give up something else. The bricks and steel and labour that went into housing could have been used to build factories or hospitals or schools.

One of the problems that we face as a society is that these choices are not always clear-cut. Different people have different ideas about how resources should be used and the policies that are devised to manage resources are also strongly influenced by political considerations.

R2b set aside for special Govt fund

Sowetan 15/3/90 (49)

THE Government proposed to set aside R2 billion from the loan surplus of the 1989/90 financial year for the special fund for the removal of socio-economic backlogs, the Minister of Finance, Mr Barend du Plessis, said in his Budget speech yesterday.

He also said it was proposed to transfer R1 billion of the loan surplus to the Government Services and Associated Institutions pensions funds, and to use R3 billion to settle losses on forward cover transactions.

He said it could reasonably be expected that the full amount allocated to the special fund for backlogs would not be spent in the first year.

It was intended that this fund be augmented from time to time as circumstances permitted.

The current expenditure implications of the fund for the Budget would have to be accommodated within the parameters of fiscal discipline.

The financing of the Government Services Pension Fund and the Associated Institutions Pension Fund had on several occasions been the subject of criticism.

Special problems

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Sowetan 15/3/90

PURSUIT of a development-oriented approach in South Africa, with its special problems and circumstances, placed a heavy responsibility on the State, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said in his Budget speech this approach required that a framework be created and maintained within which both local and international entrepeneurs would be ready to take risks and invest personal assets.

Barend's Budget a record

Sowetan 15/3/90

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THE Minister of Finance, Mr Barend du Plessis, presented Parliament with a record budget which clearly redirects the economy towards a new South Africa in which blacks' historic backlogs are to be addressed.

He presented a Budget in which the emphasis fell on politics rather than finance. His speech was laced with the recurring themes of "restructuring" or "structural adjustments", and he identified "past discriminatory practices" and "restrictions" as having contributed to backlogs still to be found in certain fields and affecting black people in particular.

Apart from increased spending on social welfare and education he announced the creation of a special R2 billion fund to wipe out the backlogs and also gave the SA Police and nursing professions boosts at the expense of the Defence Force, as expected.

Setting out the broader objectives in an expanded Budget Review, he said it was in everybody's interest that a more acceptable and better balanced situation with regard to living and other standards should come about in South Africa.

Poverty would need to be addressed directly.

Job reservation and its restrictions had retarded black people's progress and earning capacity for more than 20 years.

No easing up - experts

Sowetan 15/3/90

SOWETAN Correspondents

FINANCIAL authorities have ruled out a relaxation of monetary policy at this stage.

They aim also to sharply reduce the money supply this year.

Restrictive economic measures introduced last year had the main financial aggregates moving in the right direction now, according to a Department of Finance budget review tabled in Parliament yesterday.

But monetary authorities believe the level of increase in domestic credit and in the money supply, as well as the present inflation rate (15,1 percent) were still too high.

"Neither is the level of the country's gold and foreign reserves yet satisfactory," it said. "So it is still too early to relax monetary policy."

The Reserve Bank would continue efforts to cut money supply. In the last quarter of 1989, it was 23,5 percent higher than the same period in 1988.

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It was not only necessary to reduce the money supply to less than 18 percent as soon as possible, but the Reserve Bank was also considering a target for the end of this year still lower than that.

The review said Dr Chris Stals, Governor of the Reserve Bank, would make an announcement on this.

The Bank's net gold and foreign reserves increased by R2,9 billion in the first two months of this year.

On foreign exchange, the review said the Reserve bank had intervened actively to prevent the Rand appreciating more than it did.

It had bought "large sums" of foreign exchange in January and February because:

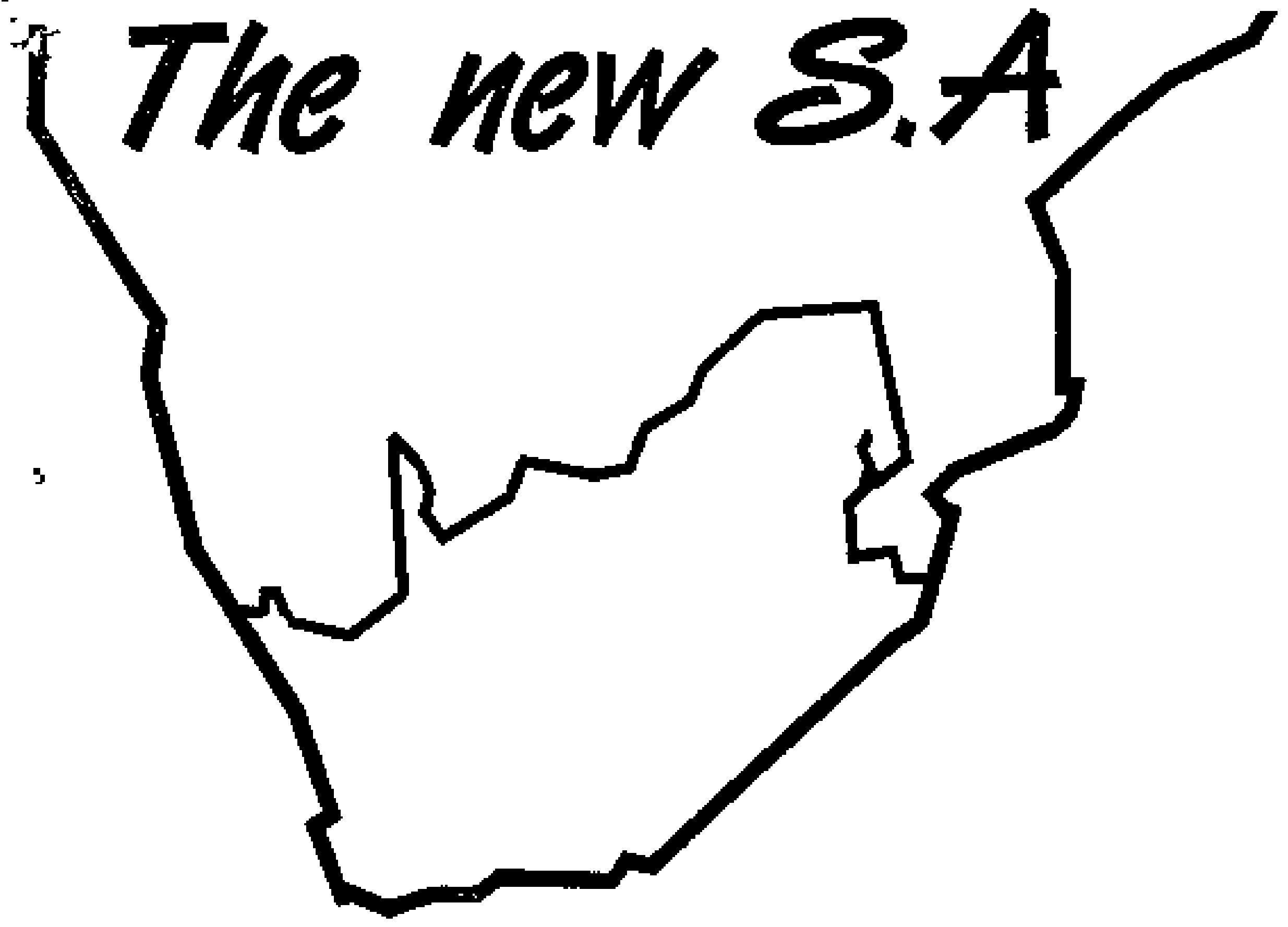
* "There was uncertainty about the duration of the improved foreign exchange market;
* "An appreciation in the Rand would not have been in South African exporters' short-term interests; and
* "The Bank thought it necessary to replenish its own foreign reserves when the opportunity arose."

South Africa was not able at this stage to relax existing exchange control measures. The financial rand was still needed.

SOWETAN
Building the Nation

OLD MUTUAL

BUDGET '90



Still too early to relax cash policy

(49)

Sowetan 15/3/90

IT was still too early to relax monetary policy and the Reserve Bank would continue its efforts to reduce the rate of increase in the M3 money supply to a more acceptable level, the Minister of Finance, Mr Barend du Plessis, said yesterday.

The latest available data on total economic activity showed that real economic activities, as well as the main financial aggregates, were now all moving in the desired direction.

The monetary authorities believed however that the level of increase in domestic credit extension especially, and in the money supply, as well as the present inflation rate, were still too high.

Nor was the level of the country's gold and foreign reserves yet satisfactory.

In the fourth quarter of 1989 M3 was 23,5 per cent above its level in the fourth quarter of 1988, and therefore substantially above the upper target limit of 18 per cent regarded as desirable by the Reserve Bank at the start of 1989.

"It is at this stage not only necessary that the rate of increase in the money supply be brought down to below the level of 18 per cent as soon as possible, but the Bank is now also considering the targets for the end of 1990 on a basis of a still lower growth rate than 18 per cent.

"An announcement in this regard is to be made by the Governor of the Reserve Bank."

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The Budget

The proposals at a glance

Political Staff

REVENUE: After taking into account tax proposals which will result in an estimated loss of R4,5bn, expected tax revenue for the 1990/91 financial year amounts to R64,9bn.

This exceeds the revised estimate for 1989/90 by only 5,8% and represents 23% of GDP.

Inland revenue and Customs and Excise are expected to contribute R57,1bn and R7,8bn, repectively. Personal income tax is expected to contribute 24,3% more than last year's revised estimate, income tax on gold mines is expected to decline by 1,5%, income tax on other mines, to decline by 9%, while income tax on other companies is expected to increase by 17,7% compared with last year's estimates. GST is expected to contribute 12,5% more, excise duty 6% more, customs duty 4,5% less, import surcharges 3,8% more and the consolidated fuel levy 6,6% more than last year's estimates.

EXPENDITURE: Estimated total expenditure for 1990/91 amounts to R72,9bn, including a contingency reserve of R1bn. This exceeds the revised estimate for 1989/90 by 11,9% which is significantly lower than previous years. Of this amount, capital expenditure represents R5,1bn. The largest single allocation, representing 19% of the budget, goes to education.

FINANCING: After taking account of the supplementary budget proposals and the contingency reserve, the estimated deficit before borrowing is R7,99bn, or 2,8% of GDP. Loan redemptions will amount to about R3,8bn during the 1990/91 year, which brings the adjusted financing requirement to about R11,8bn. It is proposed to finance this amount mainly from the sale of domestic stock of R11,3bn which includes investments by the Public Investment Commissioners. Of this amount, stock valued at R2bn has been sold in advance.

TAX PROPOSALS: Personal income tax: Attention to bracket creep resulting in relief, largely to lower and middle income groups, of almost R4bn in personal income tax. Married women's trading income, including salary, to be taxed separately. Other benefits include, exemption of dividends from taxation and doubling of exemption on interest earnings.

Capital Gains Tax: Scrapping of tax on profits from sale of shares held for over ten years.

Mining: New tax package including provision for further phasing in of a low formula for gold mines, phasing out of surcharge for other mines, partial relaxation of "ring-fencing" of capital expenditure, increase in capital for new gold mines from 10% to 12%, unlocking capital for new mines.

IMPORT SURCHARGE: Different categories of import surcharge rates to be cut from 60% to 40%, 20% to 15%, 15% to 10% and 10% to 7,5% as a first step in phasing out the surcharge. Loss of revenue as a result of these cuts estimated at R37m.

CUSTOMS AND EXCISE DUTY: Increase of 2,4c a litre or 1c a pint for beer. Increase of 78,1c a litre or 1c a tot for spirits. Cigarettes increased by 2c for ten, pipe tobacco and cigars by 20c a kg, wine by 2,4c a litre or 1,8c a 750ml bottle. Increased duties expected to provide additional revenue of R145m.

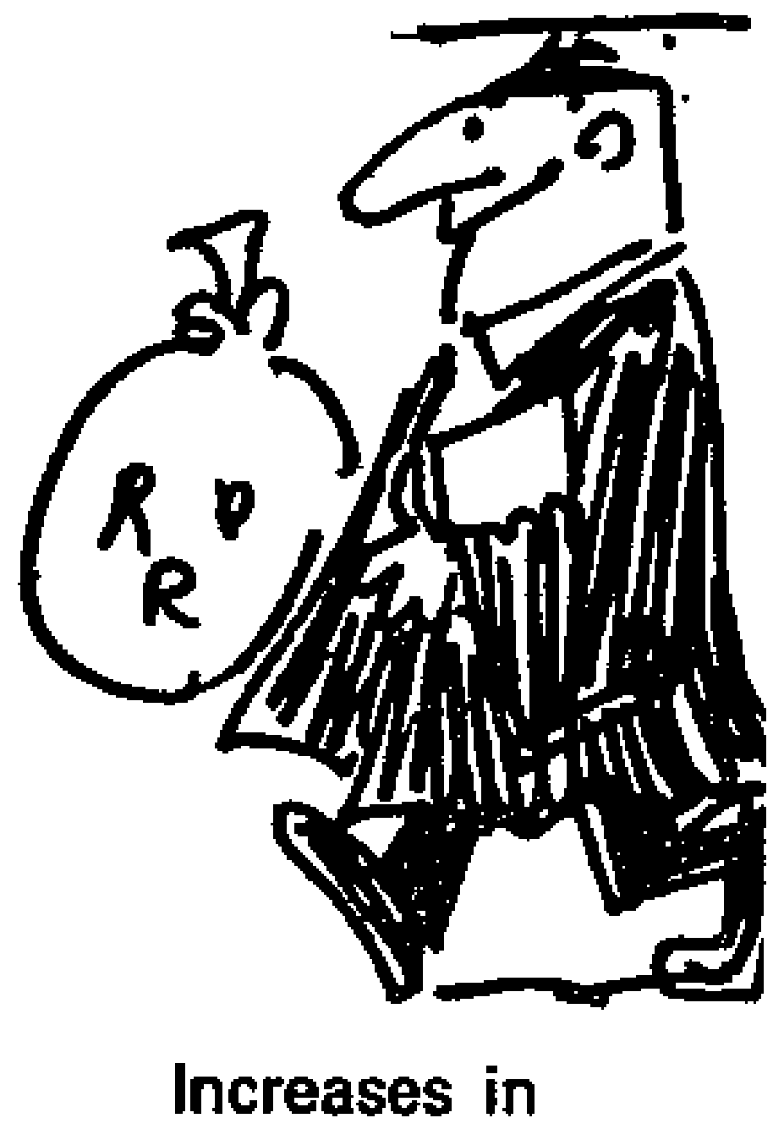
LAST YEAR'S SURPLUS: Special fund: R2bn to be allocated from last year's loan surplus of R6,9bn for removal of economic backlogs caused by restrictive legislation.

Forward cover losses: R3bn to be allocated for reduction of losses on forward cover incurred as a result of the weak rand.

Government Service Pension Fund and Associated Institutions Pension Fund: R1bn allocated to reduce deficit in these funds.

Development Bank of Southern Africa: R215,7m allocated to meet government's debt obligations to the bank.

Stabilisation Fund: R754m allocated to government Stabilisation Account at the Reserve Bank.



Increases in education spending

Education gets largest slice of budget

By BARRY STREEK
Political Staff

EDUCATION, which is to get R13,35 billion excluding the recently announced increases for teachers, enjoyed the largest allocation in this year's budget, Minister of Finance Mr Barend du Plessis said.

A further R150 million has been voted as a non-recurrent amount, to catch up with backlogs, mainly for capital expenditure in black education and training in areas where the backlogs are the most severe.

"Education and training must inevitably be given an important role in the process of economic development and upliftment," Mr Du Plessis said in his budget speech in Parliament.

"Almost 19% of the budget, excluding the recent improvement in conditions of service, is allocated to education, which is indeed the function enjoying the largest allocation.

"International comparisons indicate the South Africa's public expenditure on education is already high.

"Consequently there will have to be an increasing emphasis on [illegible]

Hospitals and roads the big losers as inflation bites

By ANTHONY JOHNSON
Political Correspondent

THE big losers in the Cape's R2,596-billion budget will be hospitals, health services, roads and traffic administration.

According to the estimates of expenditure tabled in Parliament yesterday, R2,476bn spent on the Cape in the past financial year will be increased by 4,8%.

This amounts to a decrease in real terms of about 8,2% once an estimated inflation rate of 13% is taken into account.

The ammount earmarked for hospital and health services in the province will decline from the revised 1989/90 figure of R1,648bn to R1,6bn in the current financial year, a drop of 2,9% or 15,9% in real terms.

Hospitals in all regions of the province — including those specialising in teaching, mental health and infectious diseases — will in general suffer real-term decreases in funding.

Cape hospitals have five million patients and see more than nine million out-patients.

In the case of roads and traffic administration, the 1989/90 revised expenditure of R439,1m has been lowered by 10,8% to an estimated R391,8m. This amounts to an effective decrease of 23,8% once inflation is taken into account.

According to the memorandum, the aim is to "provide for the road infrastructure needs of the Cape Province and to promote road safety and traffic control with the aid of a traffic force".

Cape budget second largest

PROVINCIAL budgets estimating a total expenditure of R10,4 billion were tabled yesterday.

The largest budget, that of the Transvaal, provides for expenditure of R4,377bn, up from R3,744bn for 1989/90.

The Cape is second with R3,182bn, compared to R2,935bn last year.

Natal's expected expenditure is budgeted to rise by R89,1 million to R1,666bn and the Free State from R1,024bn last year to R1,09bn in the coming tax year. — Sapa

Govt to up spending on housing to R1,5b

THE government has increased spending on housing by 15,8% to R1,5 billion in this year's budget.

This is in line with Finanace Minister Mr Barend du Plessis's promise to divert increasing resources to the provision of shelter in SA.

However, it is also in accordance with a warning by Finance Director-General Mr G Croeser that because housing is coming off such a low base it will take several years before it receives a substantial percentage of the total budget allocation.

Mr Du Plessis said in his budget review that certain interest earnings and capital repayments also accrued to various housing funds, bringing the gross estimate of expenditure on housing in the 1990/91 financial year to R1,9b.

He said the increase in expenditure was a reflection of government's commitment to addressing as far as possible the large housing backlog.

Import surcharges on luxury goods cut

Political Staff

IMPORT surcharges on luxury goods are to be cut by a third, Finance Minister Mr Barend du Plessis announced yesterday.

Mr Du Plessis said in his budget that the surcharge on luxury imports like televisions and hi-fi sets would be dropped from 60% to 40%.

The surcharge on imported consumer goods would be dropped from 20% to 15% while the surcharge on consumer goods that could also be used as raw materials would be dropped from 10% to 7,5%.

The import surcharge on capital goods would be dropped from 15% to 10%.

Mr Du Plessis said the lowering of the surcharges would result in a loss of revenue to the state of R835m.

He said it was expected that the surcharge would yield about R2,6bn in 1989/90 as opposed to R1,9bn in the previous financial year. This large yield, he said, showed that the surcharge had failed in its primary purpose of drastically cutting imports.

"What is more, it has had a cost-raising effect on the economy and has also given unintended additional protection to certain local industries.

"It is confidently hoped that commerce and industry will pass on the consequential price reductions of these charges and that the Consumer Council will be able to play a role here."

It had also been decided to abolish the ad-valorem customs and excise duty on pearls, diamonds, precious and semi-precious stones and jewellery. The estimated loss of revenue to the state was expected to be R37m.

All the tax tables

Income tax for 1990-91: Married

INCOME	OVER 61 BUT UNDER 65			OVER 65		
	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R
9 000	–	–	–	–	–	–
10 000	30	–	30	–	–	–
11 000	170	–	170	–	–	–
12 000	310	–	310	–	–	–
13 000	460	80	380	–	–	–
14 000	630	[illegible]	[illegible]	–	–	–

Income tax for 1990-91: Married women

INCOME	1990 SITE	1991	REDUCTION
R	R	R	R
4 500	50	–	50
5 000	175	80	95
5 500	300	170	130
6 000	425	260	165

Income tax for 1990-91: Unmarried

INCOME	UNDER 61			OVER 61 BUT UNDER 65			OVER 65		
	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R	R	R	R
6 000	–	–	–	–	–	–	–	–	–
7 000	130	–	130	10	–	10	–	–	–
8 000	270	–	270	150	–	150	–	–	–
9 000	410	–	410	290	–	290	–	–	–
10 000	550	–	550	430	–	430	–	–	–
11 000	700	150	550	580	30	550	–	–	–
12 000	870	360	510	750	240	510	–	–	–

ciency in education.

"The same applies, of course, to all the other services of the state.

Universities

In its acknowledgement of the important role that education has to play in South Africa, the government wishes to catch up on the backlogs with regard to education wherever and as fast as possible," Mr Du Plessis said.

The extra R150 million was voted for this.

Mr Du Plessis also said a one-off amount of R50 million was being provided to universities "to enable them to finance adjustments".

The R13,35 billion allocated during the 1990/1 financial year is 9,8% higher than the revised estimate of R12,16 billion for the previous financial year, but the increase will be higher when the salary increases for teachers are included in the total expenditure on education.

Included in this allocation is R2,46 billion for the Department of Education and Training, which is responsible for black education, an increase of R510,6 million over the previous financial year.

16 000	1 030	700	330	-	-	-
17 000	1 260	920	340	-	-	-
18 000	1 490	1 140	350	160	-	160
19 000	1 740	1 360	380	410	-	410
20 000	1 990	1 580	410	660	-	660
25 000	3 420	2 780	640	2 090	800	1 290
30 000	5 090	4 130	960	3 760	2 150	1 610
35 000	6 940	5 630	1 310	5 610	3 650	1 960
40 000	8 890	7 280	1 610	7 560	5 300	2 260
45 000	10 940	9 080	1 860	9 610	7 100	2 510
50 000	12 990	11 030	1 960	11 660	9 050	2 610
55 000	15 090	13 030	2 060	13 760	11 050	2 710
60 000	17 190	15 080	2 110	15 860	13 100	2 760
65 000	19 340	17 180	2 160	18 010	15 200	2 810
70 000	21 490	19 280	2 210	20 160	17 300	2 860
80 000	25 890	23 580	2 310	24 560	21 600	2 960
100 000	34 890	32 380	2 510	33 560	30 400	3 160
150 000	57 390	54 380	3 010	56 060	52 400	3 660

NB. The above amounts have been calculated on the basis that the taxpayer's wife has no income.

8 000	[illegible]	[illegible]	[illegible]
9 000	1 175	830	345
10 000	1 425	1 040	385
11 000	1 675	1 250	425
12 000	1 925	1 460	465
14 000	2 425	1 940	485
16 000	2 925	2 420	505
18 000	3 425	2 960	465
20 000	3 925	3 500	425
25 000	5 345	5 020	325
30 000	6 885	6 660	225
35 000	8 545	8 420	125
40 000	10 325	10 260	65
50 000	14 125	14 060	65
60 000	17 925	17 860	65
70 000	21 725	21 660	65
80 000	25 525	25 460	65
100 000	33 125	33 060	65

15 000	1 500	1 080	420	1 380	960	420	50	-	50
16 000	1 750	1 320	430	1 630	1 200	430	300	-	300
17 000	2 020	1 590	430	1 900	1 470	430	570	-	570
18 000	2 290	1 860	430	2 170	1 740	430	840	-	840
19 000	2 580	2 130	450	2 460	2 010	450	1 130	30	1 100
20 000	2 870	2 400	470	2 750	2 280	470	1 420	300	1 120
25 000	4 500	3 930	570	4 380	3 810	570	3 050	1 830	1 220
30 000	6 370	5 640	730	6 250	5 520	730	4 920	3 540	1 380
35 000	8 420	7 530	890	8 300	7 410	890	6 970	5 430	1 540
40 000	10 510	9 520	990	10 390	9 400	990	9 060	7 420	1 640
45 000	12 640	11 580	1 060	12 520	11 460	1 060	11 190	9 480	1 710
50 000	14 810	13 700	1 110	14 690	13 580	1 110	13 360	11 600	1 760
55 000	17 020	15 850	1 170	16 900	15 730	1 170	15 570	13 750	1 820
60 000	19 270	18 040	1 230	19 150	17 920	1 230	17 820	15 940	1 880
65 000	21 520	20 240	1 280	21 400	20 120	1 280	20 070	18 140	1 930
70 000	23 770	22 440	1 330	23 650	22 320	1 330	22 320	20 340	1 980
80 000	28 270	26 840	1 430	28 150	26 720	1 430	26 820	24 740	2 080
100 000	37 270	35 640	1 630	37 150	35 520	1 630	35 820	33 540	2 280
150 000	59 770	57 640	2 130	59 650	57 520	2 130	58 320	55 540	2 780

Stock value changes will hit Iscor

Own Correspondent

JOHANNESBURG. — Newly listed steel giant Iscor is likely to be especially hard hit by the phasing out of the Lifo reserve and the withdrawal of the tax concession on the valuation of trading stock, MD Mr Willem van Wyk said yesterday.

Responding to Mr Barend du Plessis's speech, he said there were two tax-collection devices which would afford the taxman a larger bite and increase Iscor's taxable income: The abolition of trading allowances and the phasing out of the Lifo reserve.

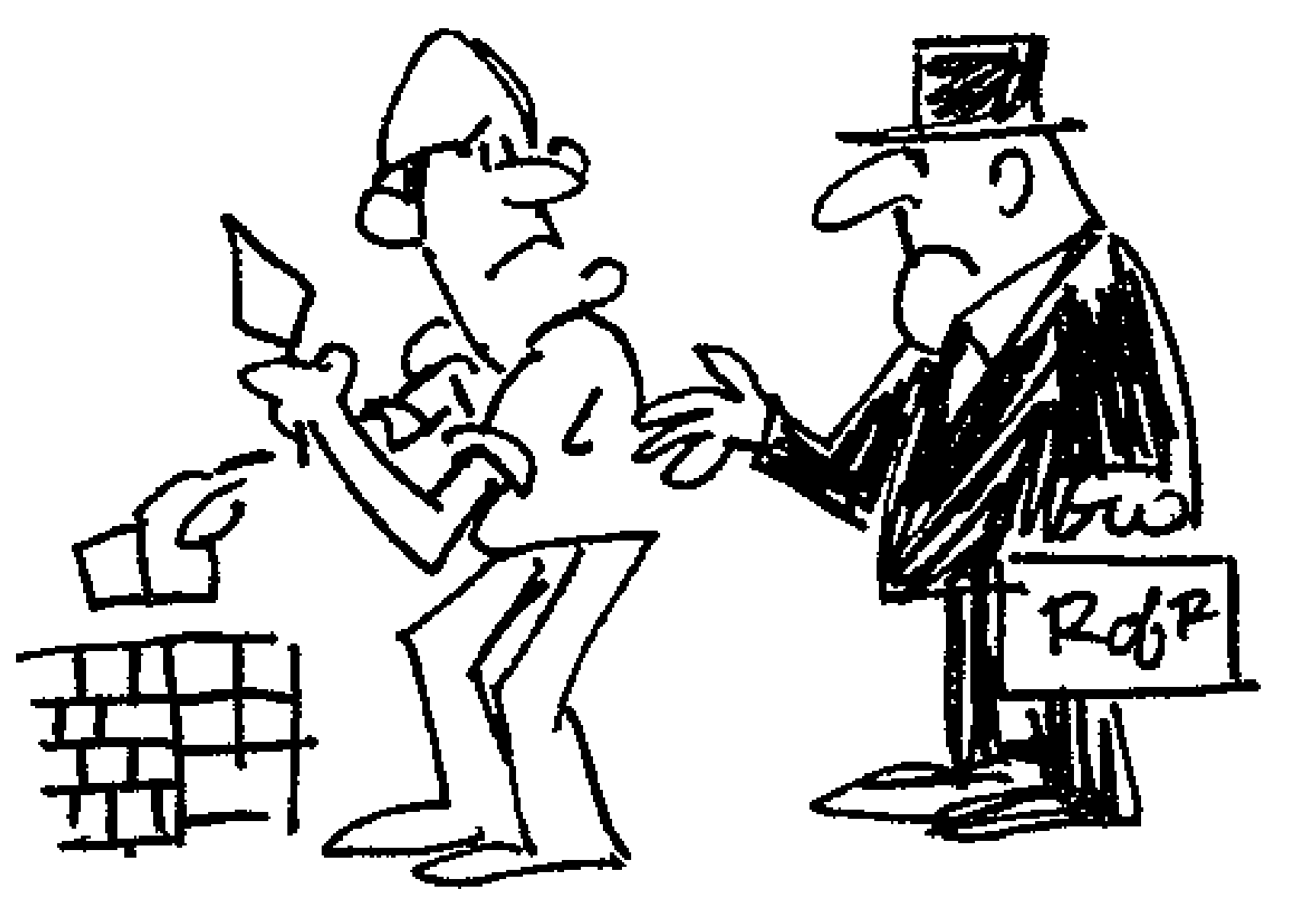
Mr Du Plessis said that the tax benefit accorded the "last-in-first-out" (Lifo) reserve would be phased out over 10 years and that concessions on the value of trading stock, as well as the value of consumable stores and spares as well as work in progress, would be terminated.

Mr Van Wyk said that no estimates had yet been made as to how much Iscor would be paying to government but said it was likely to be substantial.

He highlighted the phasing out of the surcharge on mining tax, the five-year plan to lower company taxes and the 30% immediate decrease in the import surcharge.

Mr Van Wyk said that between R300m and R400m of Iscor's planned R1bn capex would be imported and previously subject to a 20% surcharge. The new 15% charge translated into a potential saving of R20m.

"Generally there were few surprises. The budget was not, after all, aimed at stimulating the economy," he said.



Tax on work in progress in construction industry

Cigarette, liquor producers react optimistically

Own Correspondent

JOHANNESBURG. — Cigarette and liquor producers and retailers were cautious but optimistic in reaction to the budget.

Mr Barend du Plessis described the customs and excise increases on beer, spirits, wines and cigarettes as "modest".

Beer is up 1c per 375ml bottle, spirits by 25,2c per 750ml bottle, and cigarettes up 2c per 10 cigarettes.

Chairman and MD of Aroma Liquor Holdings Mr Mike Kovensky said the increase in excise on spirits was "minor" if not seen in isolation.

Aroma had feared paying R6 more per case of whiskey, while the rise meant a R3 increase.

Due to price hikes throughout the year consumers will pay between 30-40% more for imported liquor like whisky, while a bottle of house brand whisky would sell at R13-R15, as opposed to R10.

Branded whisky would rise from R14 to R23.

KWV public relations manager Mr Jos le Roux said that while the 1,8c rise in tax on fortified and sparkling wines was modest, the new excise on brandy was unfortunate.

The increase in duty on cigarettes and tobacco will mean that industry will have to tread carefully when deciding on a price increase for farmers for fear of consumer resistance, according to Mr Neil le Roux, chairman of the Tobacco Board.

Income tax rates for 1990-91

TAXABLE INCOME			RATES
			MARRIED
R 0	-	5 000	16% of each R1
R 5 000	-	10 000	R 800 + 18% of the amount over R 5 000
R10 000	-	15 000	R 1 700 + 20% " " " " R10 000
R15 000	-	20 000	R 2 700 + 22% " " " " R15 000
R20 000	-	25 000	R 3 800 + 24% " " " " R20 000
R25 000	-	30 000	R 5 000 + 27% " " " " R25 000
R30 000	-	35 000	R 6 350 + 30% " " " " R30 000
R35 000	-	40 000	R 7 850 + 33% " " " " R35 000
R40 000	-	45 000	R 9 500 + 36% " " " " R40 000
R45 000	-	50 000	R11 300 + 39% " " " " R45 000
R50 000	-	55 000	R13 250 + 40% " " " " R50 000
R55 000	-	60 000	R15 250 + 41% " " " " R55 000
R60 000	-	70 000	R17 300 + 42% " " " " R60 000
R70 000	-	80 000	R21 500 + 43% " " " " R70 000
R80 000	+		R25 800 + 44% " " " " R80 000
			UNMARRIED
R 0	-	4 000	15% of each R1
R 4 000	-	8 000	R 600 + 18% of the amount over R 4 000
R 8 000	-	12 000	R 1 320 + 21% " " " " R 8 000
R12 000	-	16 000	R 2 160 + 24% " " " " R12 000
R16 000	-	20 000	R 3 120 + 27% " " " " R16 000
R20 000	-	24 000	R 4 200 + 30% " " " " R20 000
R24 000	-	28 000	R 5 400 + 33% " " " " R24 000
R28 000	-	32 000	R 6 720 + 36% " " " " R28 000
R32 000	-	36 000	R 8 160 + 39% " " " " R32 000
R36 000	-	40 000	R 9 720 + 40% " " " " R36 000
R40 000	-	44 000	R11 320 + 41% " " " " R40 000
R44 000	-	48 000	R12 960 + 42% " " " " R44 000
R48 000	-	56 000	R14 640 + 43% " " " " R48 000
R56 000	+		R18 080 + 44% " " " " R56 000
			MARRIED WOMEN
R 0	-	4 000	15% of each R1
R 4 000	-	8 000	R 600 + 18% of the amount over R 4 000
R 8 000	-	12 000	R 1 320 + 21% " " " " R 8 000
R12 000	-	16 000	R 2 160 + 24% " " " " R12 000
R16 000	-	20 000	R 3 120 + 27% " " " " R16 000
R20 000	-	24 000	R 4 200 + 30% " " " " R20 000
R24 000	-	28 000	R 5 400 + 32% " " " " R24 000
R28 000	-	32 000	R 6 680 + 34% " " " " R28 000
R32 000	-	36 000	R 8 040 + 36% " " " " R32 000
R36 000	-	40 000	R 9 480 + 37% " " " " R36 000
R40 000	+		R10 960 + 38% " " " " R40 000

Namibia 'to keep financial links'

JOHANNESBURG. — The future Namibia intends continuing existing financial relations with SA by maintaining the rand as legal currency and retaining access to SA investment, capital markets and to foreign exchange markets.

This emerged in preliminary negotiations with the Swapo government-in-waiting, according to Mr Barend du Plessis's budget review.

Mr Du Plessis said that until Namibia made a formal decision on membership of the Common Monetary Area (CMA) it would be necessary to conclude a temporary agreement with SA. Should they decide to maintain the monetary relations as in the past, it could mean full membership of the CMA for the newly independent country. Discussions on the agreement had already reached an advanced stage.

Commonwealth studies SA

LONDON. — The Commonwealth has established a centre for the study of the South African economy and international finance.

A statement issued by the Commonwealth Secretariat said the purpose of the the centre was to study and report on all aspects of SA's international financial relations.

The statement said the London-based centre would bring together experts in economics and finance to "assess the current, evolving state of SA's international financial relations with a view to making them more transparent".

The statement said the centre would also examine the economic prospects for post-apartheid South Africa. — Sapa

Man denies leadership of rape, assault gang

A BELHAR man, on trial with three others for the repeated rape and sodomy of a woman, the sodomy of her male friend and the indecent assault of a second woman in a four-hour ordeal, yesterday denied in the Supreme Court he had been the gang's leader.

Mr Jerome Pienaar, 19, Mr Roderick Bock, Mr Steven Smith and a 16-year-old youth have pleaded guilty to some of the 15 charges against them.

These include kidnapping, robbery with aggravating circumstances, rape, indecent assault, attempted rape and assault, and attempted robbery with aggravating circumstances.

The state alleged the offences were committed between November 1 and 2, 1988 between Belhar, Kuils River, Muizenberg, Simon's Town and Bellville.

In his evidence-in-chief Mr Pienaar, alias Skillie, said he had been in custody since his arrest two days after the incidents and had been a member of the Genuine Naughty Boys gang.

During cross-examination by Mr Phillip Higgo, counsel for the accused youth, Mr Pienaar said the youth had given the order for the car keys to be taken when the women and the man stopped to ask for directions.

Questioned why he had taken the keys, Mr Pienaar said that when with friends and when asked to do something he would if he saw the person was serious. He would, however, not kill when ordered to do so.

He denied that he and Mr Bock had been the leaders who had planned the events that evening, but agreed that because he had driven the women's car they had stopped on occasions to allow him to attack the women.

Mr Pienaar said he had been the only person to sodomise the man. One of the women had been sodomised by Mr Smith and the youth.

He did not see the women and their friend being robbed in the car but had heard his accomplices demand money and jewellery.

He denied a submission by Mr Higgo that his version of events had been coloured to serve his purpose.

Mr Pieter Borman, for Mr Smith — who has denied having been with his co-accused that night, said his instructions had changed and Mr Smith would make formal admissions today.

The trial continues today.

Strikers accused of 'sabotage'

Cape Times 15/3/90

By CLAUDIA KING

SENIOR personnel at the University of Cape Town yesterday expressed grave concern for the welfare of patients at the city's strike-torn hospitals and urged the strikers to enter into negotiations with authorities.

The dean of the faculty of medicine, Professor J P van Niekerk, accused workers of failing to maintain the emergency services they had undertaken to and of intimidating workers who wished to return to work.

"Striking workers are also sabotaging work within the hospital — soup is being thrown in lifts and down toilets and drains to block them," he said in an interview yesterday.

He said he had received desperate calls from hospital superintendents requesting assistance from the students.

A spokesman for the Health Workers' Union said last night that "undisciplined behaviour of that sort goes against union policy" and that the matter would be thoroughly investigated.

Deputy dean Prof R P Colburn told the Cape Times that the strike was seriously affecting the well-being of the patients and said Groote Schuur was "a splattered white elephant".

When the strike first began, people waiting for the results of tests would have been regarded as emergencies but this was no longer so.

Grievances

"For instance, women waiting to hear if they have breast cancer will have to wait, subjecting them to incredible mental strain."

At a meeting of the board of the faculty of medicine on Tuesday night, it was decided that although the board acknowledged the validity of the strikers' grievances there was an urgent need for both parties to meet to implement acceptable solutions.

Medical students took part in a lunch-time demonstration in support of the striking workers yesterday.

Under the auspices of the Medical Faculty Students' Council, about 100 placard-bearing students marched from the medical school to De Waal Drive where they were joined by several hundred of the striking workers.

The demonstration marked a decision by the students to help render emergency services in the hospital "while still fully supporting the workers' demands".

The Health Workers' Union confirmed yesterday that they had sent an urgent letter to Administrator Mr Kobus Meiring, Minister of Health and Population Development Dr Rina Venter and Minister of Administration and Economic Co-ordination Dr Wim de Villiers asking that they negotiate with the union.

"It is in the state's hands to end the strike yet their delaying tactics are making the workers impatient and militant," a spokesman for the union said.

The workers have repeatedly refused to meet Mr Charles van Zyl, appointed by the province to hear grievances, saying that previous "messengers" had failed to convey their problems to the correct authorities and vowed to continue the strike until the relevant ministers came forward.

According to the administrator's office, the first interim report on representations made to Mr Van Zyl was received by Mr Meiring yesterday afternoon and in turn submitted to Mr Wim de Villiers.

To date, more than 5 500 workers in at least 14 provincial hospitals have joined the strike, which began 10 days ago.

SUPPORT FOR STRIKERS ... UCT medical students yesterday staged a demonstration in support of the striking hospital workers, but said they would be helping with emergency services at Groote Schuur.

Pictures: STEWART COLMAN

The dean of the faculty of medicine, Professor J P van Niekerk.

Maggie names new man for Tory cabinet

LONDON. — Prime Minister Mrs Margaret Thatcher, shaken by three cabinet resignations in five months and a minor revolt in parliament, yesterday repaired the latest breach in her line-up to fight Britain's next general election.

Mrs Thatcher named local government minister Mr David Hunt, 47, currently in charge of introducing the controversial new poll tax, to take over as Secretary of State for Wales in May.

A Thatcher aide said she was not proposing any further changes to the cabinet before the election, due by mid-1992.

The Tories suffered an embarrassing reverse on Tuesday when fellow Conservatives in the House of Commons joined the opposition Labour Party in a vote on welfare payments for the elderly. The vote was quickly reversed, but not before the damage was noted.

It was the first major setback since the 1987 general election for the government, which trails the opposition by up to 19 points in opinion polls and faces widespread protest over the poll tax.

Mrs Thatcher's cabinet was jolted earlier this month when Mr Peter Walker, one of only two ministers left from her original cabinet of 1979, announced he was leaving and would retire from politics at the next general election. — Sapa-Reuter

Poland to join German unity talks

BONN. — Foreign affairs officials from Britain, France, the Soviet Union, the United States and the two German states, holding their first unification talks in Bonn, agreed yesterday to include Poland in the conference, dubbed "two-plus four".

West German Foreign Minister Mr Hans-Dietrich Genscher, who met with the delegations, said: "The beginning of these talks is a moving event for Germans."

Foreign affairs director Mr Dieter Kastrup, who heads the West German delegation, said: "The participants agreed that Poland should be invited as soon as questions concerning its borders arise."

The Bonn government recently said a unified Germany would have to sign a border treaty with Poland, and said it would not seek to reclaim territories ceded to Poland after World War II. — Sapa-Reuter

Pik calls on UN to provide aid to Namibia

Cape Times 15/3/90

THE time had come for tangible assistance to be provided for an independent Namibia by the international community and the United Nations, Minister of Foreign Affairs Mr Pik Botha said yesterday.

Introducing the Recognition of the Independence of Namibia Bill, Mr Botha said Namibia had been an onerous financial burden on the taxpayer of South Africa.

The country's contribution to the budget of the territory, which in

years, been able to benefit from the vast, freely available technical knowledge of South Africa which had given rise to the territory's relatively sophisticated infrastructure.

"I would wish to make a serious appeal to the international community to recognise the need for tangible aid to Namibia as it joins the community of nations. It is now time for a commitment from the UN and the international community."

Mr Botha said he hoped that "what

[illegible] Namibia will serve

Hold-up son broke my heart — father

Court Reporter

THE weeping father of a Grassy Park man who has pleaded guilty to attempting to hold up an Athlone building society teller told the Wynberg Regional Court yesterday that his son had

News in Brief

Open civic centre vetoed

MOSSEL BAY municipality has rejected demands from church leaders to open the town's civic centre and central business district to all races.

Fraud: Undertaker guilty

DURBAN. — A Pinetown undertaker, Frank William Drennan, 47, who did not cremate six bodies after being paid to do so, was found guilty of six counts of fraud in Pinetown Magistrate's Court yesterday. He was sentenced to three months in prison on each count, suspended for five years, as well as a R500 fine (or three months) on each count.

Baby found on highway

'New' R20 notes

JOHANNESBURG. — The SA Reserve Bank announced yesterday that it would soon issue new R20 notes that differ only in the numbering system used.

Old notes can still be used as legal tender and will remain in circulation for a long time.

Women burned as witches

UMTATA. — Two elderly women from a village near the Wild Coast Sun were burned to death, police reported yesterday.

Police said the women, aged 60 and 67, had been suspected of witchcraft. They were dragged to the outskirts of the village where petrol and tyres were used to burn them.

A woman who did not join a recent strike at the hotel was fatally axed by a crowd of hotel workers and youths on Monday, police said.

Florentine strike

FLORENCE. — Six Africans on hunger strike in front of Florence cathedral, protesting against a police crackdown on immigrant street hawkers, were taken to hospital yesterday. The six, all Senegalese, were among 120 people who joined the hunger strike.

mitment of South Africa in the well-being of the territory and its people.

The territory had also, for many

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southern Africa to resolve the problems of the region in a peaceful manner". — Sapa

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[illegible] yer and the court at the start of proceedings.

Mr Stanley Martin, father of Michael Martin, 25, of Ninth Avenue, Grassy Park, was speaking in mitigation of his son.

Martin was found guilty of attempting to rob the teller in January. He threatened the teller with a firearm and demanded that she fill a bag with cash.

When the woman screamed, Martin became frightened and ran away without any money.

The trials of Martin and his two co-accused have been separated as they pleaded not guilty.

His father said that he was "very perturbed", and that "prison was not a place for my son", promising that he and the rest of Martin's family would be "spiritually supportive of him, pray for him and keep a close guard on him".

His son had been raised "in a truthful home and deeply regrets the incident".

The case continues today.

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found along the M3 highway outside Johannesburg on Wednesday. A woman picked up the baby after noticing a vehicle stopping and the passenger leaving a cardboard box at the side of the road.

Brazil visit

THE Deputy Minister of Foreign Affairs, Mr Leon Wessels, will attend the inauguration today of President Fernando Collor de Mello of Brazil.

Last Sunday Mr Wessels attended the inauguration of President Patricio Aylwin of Chile.

Heart transplant after mercy flight

Staff Reporter

IN a dramatic flight of hope, a private jet flew a donor heart and kidneys from Windhoek — and yesterday the heart was successfully transplanted into a 51-year-old man at Groote Schuur Hospital.

While staff at Windhoek State Hospital — unfamiliar with transplant procedures — liaised by telephone with Groote Schuur, a Rembrandt jet took off from D F Malan Airport at 9pm on Tuesday.

The D F Malan runway was specially kept open for the jet's return at 3.15am and the operation was completed by 7am.

The patient, who is from Natal, is in a stable condition. A hospital spokesman said he had waited for eight months for a new heart.

The flight was co-ordinated by the Organ Donor Foundation, which praised the staff of the Windhoek hospital.

The kidneys are to be transplanted into another patient "after the exhausted team has had some sleep", the spokesman said.

Djohar election endorsed

MORONI. — The Supreme Court of the Comoro Islands has endorsed the election of Mr Mohamed Said Djohar as president, ignoring charges of vote rigging from his opponent.

According to official results Mr Djohar, the interim president, won 55,1% of the vote in last Sunday's run-off poll against Mr Mohamed Taki, who got 44,1%.

Mr Taki complained that 25 000 names were added to the voters' roll between the first round of the election on March 4, in which eight candidates took part, and the run-off.

Mr Djohar, 70, became interim head of state following the assassination of President Ahmed Abdallah on November 26. He had previously been president of the Supreme Court.

President Abdallah was a conservative strongman apparently murdered by the white mercenaries who commanded his large bodyguard. — Sapa-Reuter

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Crossroads people march

CM Trips 15/3/90

Staff Reporter

MORE THAN 500 residents of New Crossroads marched to the rent offices in Nyanga East yesterday to hand over a list of demands, which included a call for a civic hall and a creche.

The residents, who marched behind an ANC flag, also demanded a swimming pool, the maintenance of homes, the disbanding of Ikapa Town Council and the replacement of "dangerous electrical boxes" by the municipality.

They also called for the release of political prisoners and the scrapping of political trials.

Louw to meet Cosatu, Nactu

Political Staff

SOUTH AFRICA'S two largest trade union federations, Cosatu and Nactu, are to meet the Minister of Manpower, Mr Eli Louw, in the city tomorrow afternoon.

This will be the first time that Cosatu and Nactu have met a Nationalist cabinet minister.

Mr Louw said last night that the fact that the two union federations were entering these important discussions could be "a positive step towards sounder labour relations". — Sapa

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Strike closes Katmandu

KATMANDU. — Shops and schools in Katmandu and at least seven other towns were shut down yesterday as opposition forces seeking multi-party democracy staged a third general nation-wide strike. There were also scattered reports of stone-throwing in the capital city.

Tornado devastates town

HESSTON, Kansas. — A tornado swept through town on Tuesday evening, killing at least one person and destroying up to 15 homes and businesses, authorities said. A man was killed when a chimney and fireplace collapsed into a basement where he and his family were huddled during the storm.

Bones 'fingerprinted'

LONDON. — The bones of a man said to be nazi death camp doctor Josef Mengele, known as the "Angel of Death", are to be flown to Britain next month for DNA genetic fingerprinting.

Soweto house sales boom

HOUSE OF ASSEMBLY. — Of the 72 521 houses offered for sale to people in Soweto, 46 470 had been sold, the Minister of Planning and Provincial Affairs, Mr Hernus Kriel, has said.

Sacked premier rehired

DAR ES SALAAM. — President Ali Hassan Mwinyi yesterday reappointed Mr Joseph Warioba as his Prime Minister, just two days after he fired him and all 25 other Tanzanian cabinet ministers. A radio report said Mr Mwinyi would name the rest of his new cabinet tomorrow.

CM Trips 15/3/90

Court restrains strikers

MMABATHO. — The Supreme Court here yesterday granted a temporary interdict against striking workers at the University of Bophuthatswana, restraining them from disrupting activities on the campus, inciting other staff to down tools or causing any damage to the university's assets.

2 new Wits councillors

JOHANNESBURG. — The University of the Witwatersrand has appointed Mr Derek Cooper and Mr Bobby Godsell to its Council. Mr Cooper is deputy chairman of Barlow Rand, and Mr Godsell is director of industrial relations and public affairs at Anglo American Corporation.

Reports by Staff Reporter, Own Correspondent, Sapa-Reuter-AP and UPI

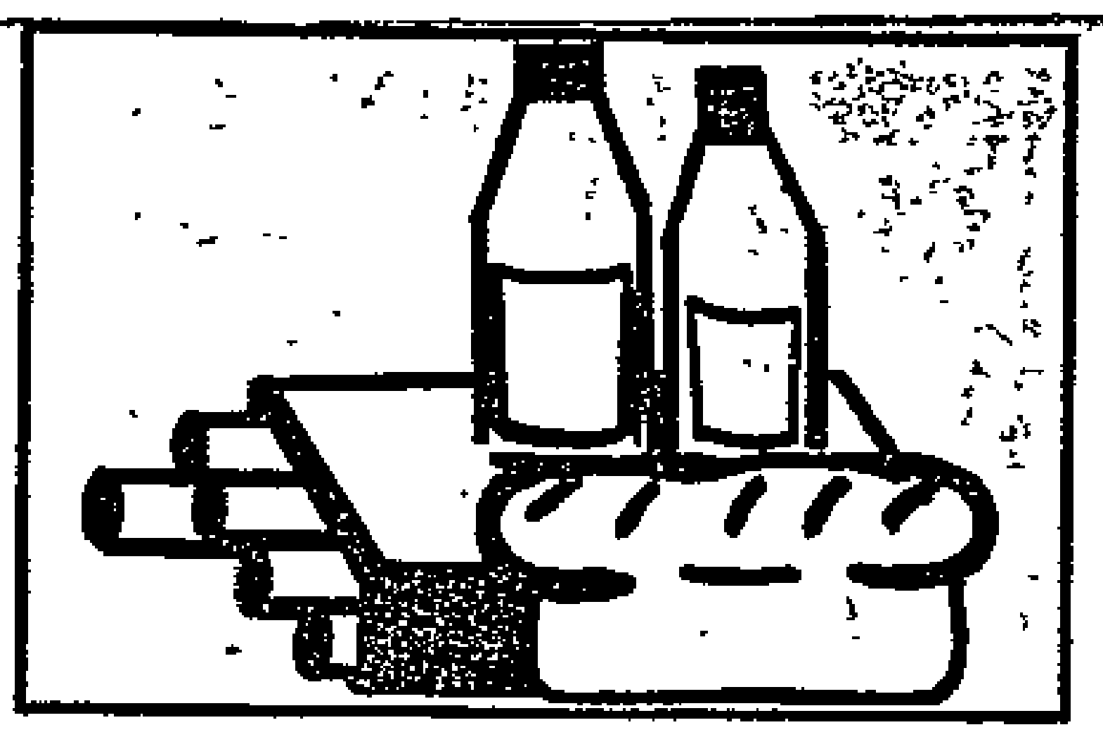
Shell taken from man's arm

BANGKOK. — Vietnamese army surgeons have removed the unexploded head of an M-79 rocket shell from a farmer's arm in "an extremely tense" operation, the official Vietnam News Agency, monitored here, said.

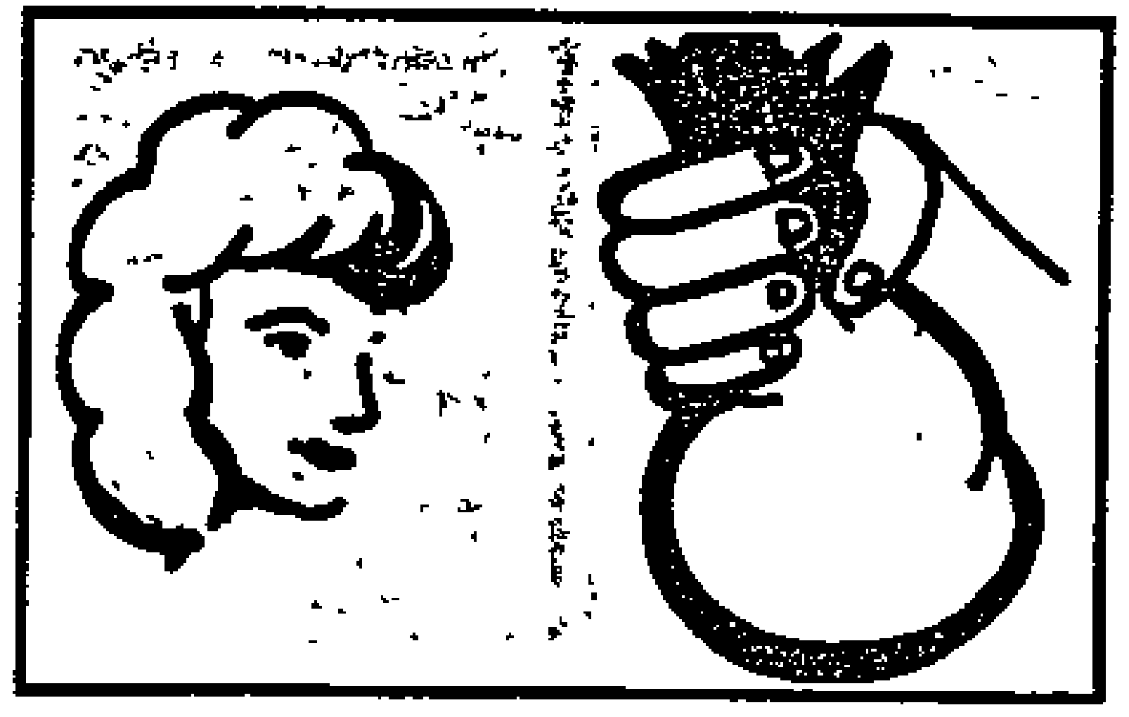
Mr Hoang Minh Son, 36, was working in a field in the central province of Thua Thien-Hue on February 22 when he hit the US-made shell with his hoe, detonating the propelling charge and sending the egg-size head into his left arm. The agency quoted explosive and ballistics experts as saying "it was too risky to tamper with the shell head as it might explode at the slightest displacement" and immediate surgery was required.

The agency said a makeshift operation theatre made up of banana leaves and enclosed with transparant sheeting was set up "to block fragments broken off from the shell head in case it exploded".

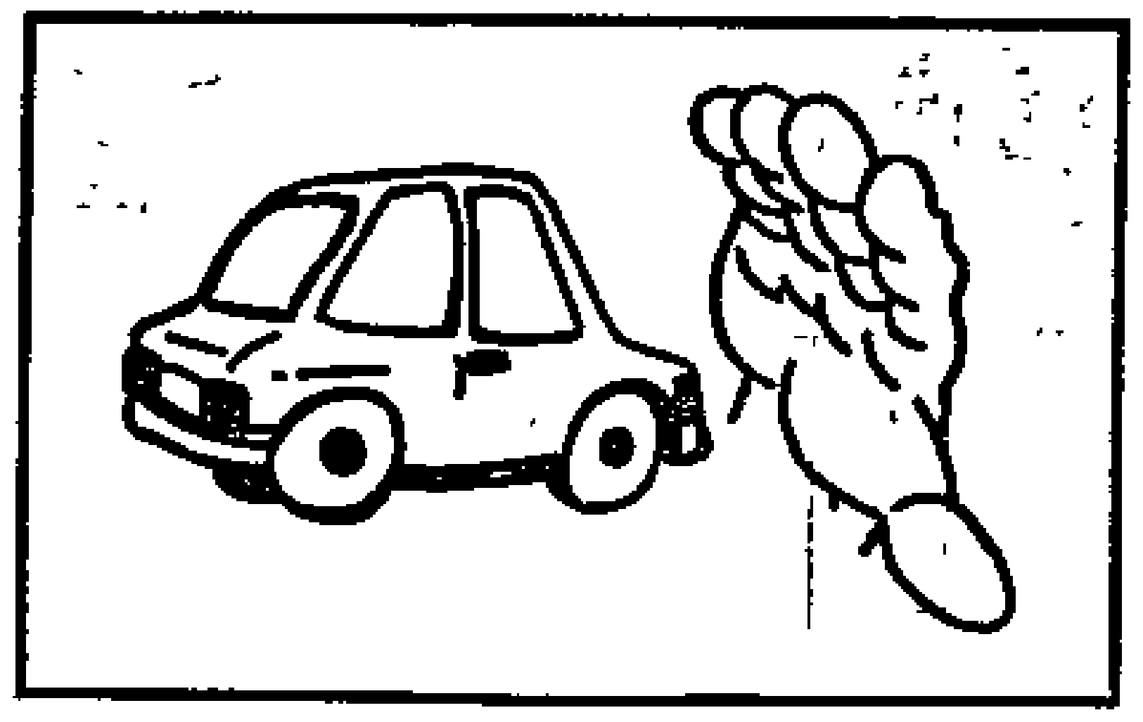
It said the operation lasted for more than five hours "in an extremely tense atmosphere" before the surgeon "skilfully took the shell out of the victim's arm". — Sapa-AP



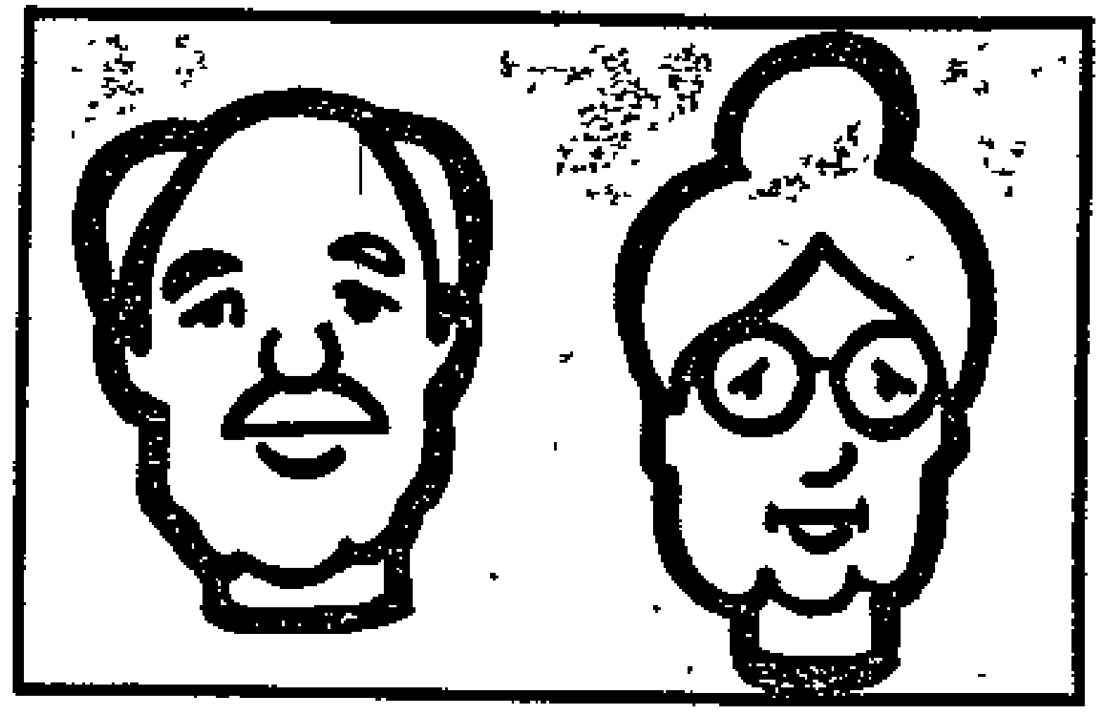
All to cost more



Some relief, especially for married women

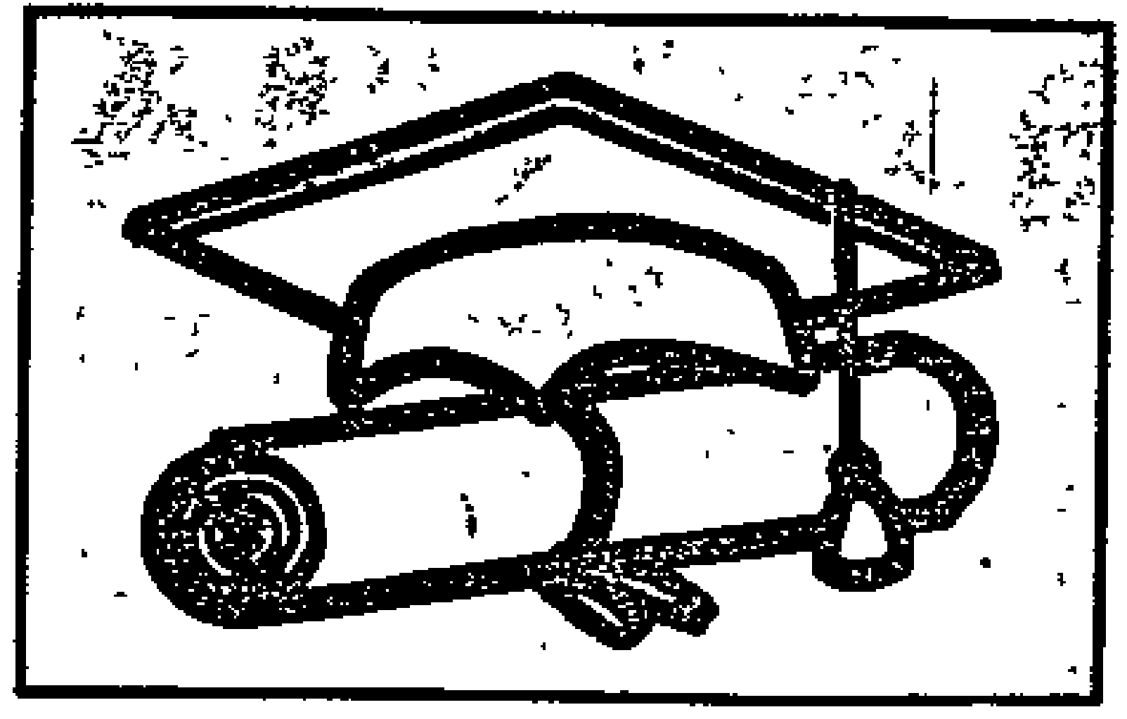


Tax on this fringe benefit up 50%



More rebates — and R25 per month increase

Education



R1,2-billion injection

Taxes are cut

Cpt Tms 15/3/90 (49)

The main points . . .

- Personal income tax relief of almost R4bn
- New tax package for mines
- Separate taxation for married women
- Double dividend taxation scrapped
- No capital-gains tax on shares held for 10 years
- Marketable securities tax to be phased out from next year
- Increase in fringe benefit taxation
- Import surcharge rates to be cut by one third
- Special R2bn fund for removal of economic inequality
- R3 bn for reduction of forward cover losses
- R1 bn to bale out government pension funds
- Bulk of total expenditure on education (19%)
- Total revenue up only 5,8% to R64,9 bn
- Total expenditure up 11,9% TO R72,9 bn
- Interest on public debt up 15,3% to R11,3 bn
- Deficit before borrowing up 110% to R7,99 bn
- Customs and excise duty up for beer (1c a pint), spirits (1c a tot), cigarettes (2c for 10), pipe tobacco and cigars (20c a kg), wine (1,8c a bottle), duty on jewellery abolished

Plan to beat the backlogs

A MAJOR government campaign, costing R4,5 billion, to eliminate backlogs among black communities in SA — including a special R2-billion fund — were revealed in the budget.

The campaign will also include R1,3 billion for housing, R112 million for unemployment training and job creation, R215 million for the Development Bank and R100 for development corporations and the Small Business Development Corporation.

The Minister of Finance, Mr Barend du Plessis, said the budget sought "to contribute to the relief of hardship".

- Full report — Page 5

Winners and the losers . . .

The winners

- **Individual taxpayers:** Tax cuts amounting to R3 122 billion.
- **Investors:** Dividend income exempt from tax.
- **Savers:** Exemption to individual taxpayers of the first R1 000 of interest income and building society dividends increased to R2 000.
- **Importers:** Import surcharges lower, then phased out.
- **Jewellers:** Duty of 20% ad valorem and excise abolished.
- **Married women:** All trading income to be separated from husband's.
- **Pensioners:** Additional rebates, social pensions up R25 a month.
- **Poor:** R4,5 billion on eliminating backlogs.

The losers

- **Drinkers:** Beer and spirits up.
- **Smokers:** Cigarettes and tobacco up.
- **Users of company cars:** Present value of tables to go up by 50%.
- **Taxpayers:** R1 billion to bolster government pension funds and R3 billion to Reserve Bank to pay back foreign exchange losses.

CELEBRATING . . . The Minister of Finance granted jewellers a windfall in the budget yesterday when he abolished the 20% ad valorem and excise tax. Celebrating in a city centre jeweller are Mrs Delphine Meiring (left) and Ms Dina Andrade.

Picture: RICHARD BELL

More on the budget inside . . .

- Budget at a glance — Page 4
- Education gets largest slice — Page 4
- Govt spending on states up — Page %
- R4,5bn to relieve hardship — Page 5
- Taxpayers squeezed — Page 6
- Married women helped — Page 7
- Defence budget cut — Page 7
- Reaction to the budget — Page 8
- JSE billions unlocked — Page 14

Barend's 'Robin Hood' budget

Cpt Tms 15/3/90 (49)

By AUDREY D'ANGELO
Financial Editor

THE Minister of Finance, Mr Barend du Plessis, presented a "Robin Hood" budget yesterday. The man in the street will give up less of his pay packet in income tax — which has been cut by more than R3,3 bn — although fiscal drag has not been eliminated completely.

And the benefit will be greater for the middle- and lower-income earners than for those in the top brackets.

The tax cuts reduce deductions in top brackets by hundreds of rands a month — but fail to eliminate fiscal drag and, in many cases, are offset by sharp increases in perks tax.

A remarkable feature of the budget's intended reallocation of resources is a R2-bn fund to start repairing the ravages of apartheid in disadvantaged communities, particularly those hit by job reservation and restrictions on property ownership.

The State President, Mr F W de Klerk, is expected to spell out more details on how it will be spent. A further R2,4bn has been devoted to eliminating

To page 2

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Cape Times 15/3/90 49

Income tax payable 1990-91: Married and under 61

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R	R	R	R	R	R	R
8 000	–	–	–	–	–	–	–	–	–	–	–	–
9 000	10	–	10	–	–	–	–	–	–	–	–	–
10 000	150	–	150	50	–	50	–	–	–	–	–	–
11 000	290	–	290	190	–	190	90	–	90	–	–	–
12 000	430	–	430	330	–	330	230	–	230	130	–	130
13 000	580	200	380	480	100	380	380	–	380	280	–	280
14 000	750	400	350	650	300	350	550	200	350	450	100	350
15 000	940	600	340	840	500	340	740	400	340	640	300	340
16 000	1 150	820	330	1 050	720	330	950	620	330	850	520	330
17 000	1 380	1 040	340	1 280	940	340	1 180	840	340	1 080	740	340
18 000	1 610	1 260	350	1 510	1 160	350	1 410	1 060	350	1 310	960	350
19 000	1 860	1 480	380	1 760	1 380	380	1 660	1 280	380	1 560	1 180	380
20 000	2 110	1 700	410	2 010	1 600	410	1 910	1 500	410	1 810	1 400	410
25 000	3 540	2 900	640	3 440	2 800	640	3 340	2 700	640	3 240	2 600	640
30 000	5 210	4 250	960	5 110	4 150	960	5 010	4 050	960	4 910	3 950	960
35 000	7 060	5 750	1 310	6 960	5 650	1 310	6 860	5 550	1 310	6 760	5 450	1 310
40 000	9 010	7 400	1 610	8 910	7 300	1 610	8 810	7 200	1 610	8 710	7 100	1 610
45 000	11 060	9 200	1 860	10 960	9 100	1 860	10 860	9 000	1 860	10 760	8 900	1 860
50 000	13 110	11 150	1 960	13 010	11 050	1 960	12 910	10 950	1 960	12 810	10 850	1 960
55 000	15 210	13 150	2 060	15 110	13 050	2 060	15 010	12 950	2 060	14 910	12 850	2 060
60 000	17 310	15 200	2 110	17 210	15 100	2 110	17 110	15 000	2 110	17 010	14 900	2 110
65 000	19 460	17 300	2 160	19 360	17 200	2 160	19 260	17 100	2 160	19 160	17 000	2 160
70 000	21 610	19 400	2 210	21 510	19 300	2 210	21 410	19 200	2 210	21 310	19 100	2 210
80 000	26 010	23 700	2 310	25 910	23 600	2 310	25 810	23 500	2 310	25 710	23 400	2 310
100 000	35 010	32 500	2 510	34 910	32 400	2 510	34 810	32 300	2 510	34 710	32 200	2 510
150 000	57 510	54 500	3 010	57 410	54 400	3 010	57 310	54 300	3 010	57 210	54 200	3 010

NB: The above amounts have been calculated on the basis that the taxpayer's wife has no income.

● An example of what tax you could pay. ● More tax tables — Page 4 total spending which,

State Fund will relieve

REDUCED relative spending on defence and increased spending on education, health, housing and pensions were announced by the Minister of Finance, Mr Barend Du Plessis,yesterday

Du Plessis said all social pensioners would get R25 a month more civil pensioners an adjustment of 10 percent=military pensioners also 10 percent, supplemented by adjustments regarding backlogs. Sowetan 15/3/90

Pensions for industrial illnesses would also rise by 10 percent, as well as provision being made for the elimination of disparities.

The printed total estimate of expenditure for 1990/91 gave a total of R71 546 billion, which was an increase of 11,8 percent compared with the budgeted expenditure of R64 017 billion, and a 9,8 percent on the revised estimate of expenditure of R65 181 billion, for 1989/90.

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Services

Estimated expenditure on capital services amounted to R5 113 billion, which was 7,1 percent below the revised figure for 1989/90.

Capital expenditure represented 7,1 percent of the budgeted expenditure level for 1990/91, compared with 8,4 percent in 1989/90.

Du Plessis said that, resulting from the cut in defence spending announced by the Government at the end of last year, the printed Estimates of Expenditure contained a significantly lower increase in defence spending than had been customary in recent years.

An amount of R10,071 billion was pro-

● To Page 30

Govt Fund will relieve misery

● From Page 23

vided for the SADF in 1990/91, which was only 1,3 percent higher than the budgeted amount of R9,938 billion (including Additional Appropriation) of 1989/90.

Even allowing for improved conditions of service, an appreciable real reduction was proposed.

As the full impact of the cut-back would obviously not be manifested during the first year, a clearer indication of the precise effect on expenditure priorities would become clear only after a few years.

The full economic impact was obviously determined by various other factors such as the effect of shortened conscription on the supply and the utilisation of trained manpower.

These results, as well as the release of funds previously used for defence purposes, should, as part of the resrtucturing programme, contribute to the socio-economic development problem being tackled with greater resources.

Du Plessis said the release of defence funds also provided an opportunity to do justice to the proper exercise of law and order.

Almost 40 percent of total expenditure in this budget would be on social services.

A total of R13,346 billion was allocated for education and training in the 1990/91 fiscal year -- an increase of 9,8 per cent against the revised estimate of R12,158 billion for 1989/90.

As the amount in the Budget for the announced 10 per cent salary increase for public servants had not yet been allocated, the actual percentage rise in expenditure on education would be higher.

This remained the service with the highest allocated amount -- 18,7 per cent of the total Budget.

The amount spent on education was, by international standards, exceptionally high, and could be considered an important investment in South African circumstances.

A total of R7,024 billion was earmarked for health services - an increase of eight percent over the revised estimates of R6,506 billion for the 1989/90 financial year.

The expenditure amounted to 9,8 percent of total expenditure for 1990/91.

Du Plessis said R1,456 billion was provided for housing in 1990/91.

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Funds

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Certain interest earnings and capital repayments also accrued to the various housing funds, bringing the gross estimate of expenditure on housing in the 1990/91 financial year to R1,9 billion.

If the reclassification of expenditure of the self-governing areas during the year was discounted, as well as interest losses and capital repayements, an increase of 15,8 percent above the revised estimate of R959 million for 1989/90 resulted.

This rise in expenditure was a reflection of the Government's commitment to addressing, as far as possible, the large housing backlog which still existed.

Du Plessis said R596,9 million was being allocated to social pensions; R7 million to civil pensions; R12,6 million to military pensions and R1,4 million to pensions for industrial illness.

An amount of R35 million was allocated for the Department of Manpower's training scheme for the unemployed and R75 million for the special short-term employment creation programme.

In view of financial problems currently being encountered by marginal mines, guidelines would be established in 1990/91 by a committee chaired by the Deputy Minister of Finance, Dr Org Marais, to facilitate consistency in state aid to the mineral industry.

Du Plessis said R2,223 billion was being made available for improved remuneration for State employees according to the already announced 10 percent non-pensionable increase [illegible]

DOWN

HERE is a summary of the Budget announced in Parliament by Finance Minister, Mr Barend du Plessis:

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- * Personal income tax
- * Tax on married women
- * Import surcharges
- * Excise duty on jewellery abolished

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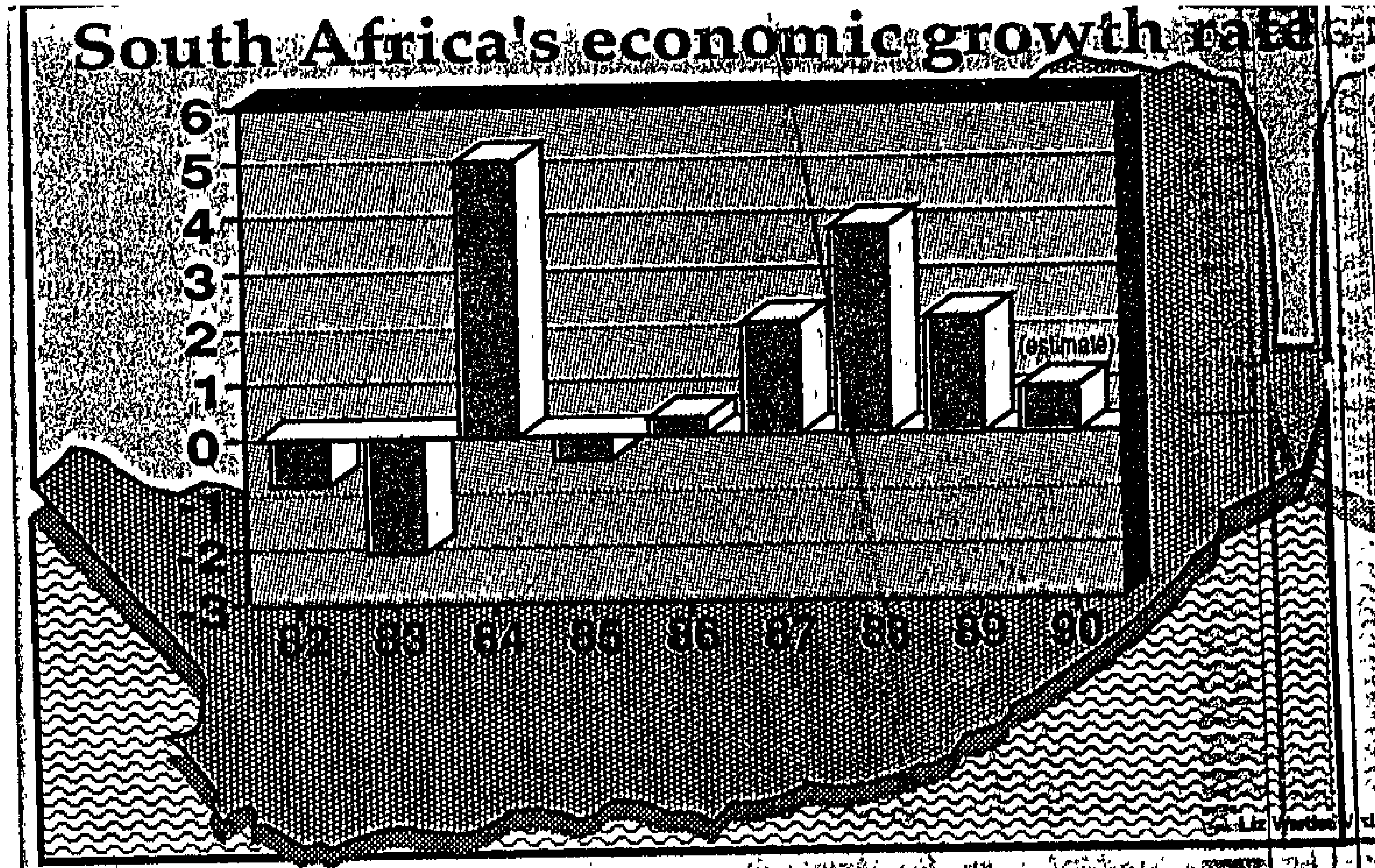
- * Exemption on interest income and building society dividends doubled to R2 000
- * Total tax exemption on other dividends

UP

- * Beer up 1c on a 375 ml bottle
- * Spirits up 1c a tot, or 25,2c a 750 ml bottle
- * Cigarettes up 2c per 10
- * Cigarette tobacco up 2c on 50 grams
- * Pipe tobacco and cigars up 20c a kilogram
- * Fortified wines and sparkling wines up 1,8 c a bottle
- * Effective company tax rate
- * Company car perks tax
- * Low-interest and interest free loans
- * Tax rebates and thresholds
- * Additional rebates for the elderly
- * Concessions to the mining industry



No quick economic fix seen

Star 13/3/90 (49)

SVEN LUNSCHE

THE BUDGET has been praised for setting SA on a new course since structural changes, when implemented, could lead to longer and steadier growth in years to come.

But economists do not expect an upswing to start before 1992 and until then they fear there will be hardly any growth whatsoever.

In his Budget speech Finance Minister Barend du Plessis admitted growth this year, as measured by changes in gross domestic product, would be no more than one percent and that the slowdown slowdown of the last few years would continue (see graph).

But TrustBank economist Nick Barnardt feels even that is an optimistic forecast.

"South Africa will be lucky to have any growth in 1990. TrustBank's economic model indicates a real gross domestic product (GDP) growth rate of zero to 0,5 percent and in 1991 of about one percent," he said at a Budget seminar this week.

He warned that SA would with "cold realism" have to make the necessary preparations to survive the business downswing of 1990-91, which would result result in virtually no growth and could lead to unemployment rising by 500 000 in the next two years.

Mr Barnardt said this would coincide with the smallest rise in consumer expenditure in five years, the first drop in private fixed investment in four years and the biggest drop in general inventory levels in five years.

Export volumes would be restrained by a strong exchange rate and the biggest drop in agricultural production in seven years.

But he said the downswing would restore the financial stability so necessary for sustainable long-term prosperity.

Lower imports would result in a build-up of a surplus on the balance of payments, making it possible to build up reserves despite debt repayments.

This would result in a stable rand which, together with the lower import surcharges, could lead to lower imported and domestic inflation.

Special fund marked for social services

POLITICAL CORRESPONDENT

Star 15/3/90

The Government will spend nearly 40 percent of the R72,9 billion 1990/91 Budget on social services and create a special fund to overcome the backlog in the socio-economic development of black people.

Details of the special fund to be financed from the loan surplus of 1989/90 are to be announced by President de Klerk later this week.

This was disclosed by Minister of Finance Mr Barend du Plessis when he presented a record R71,54 billion main Budget to Parliament yesterday.

Though he gave no figures, it seems that a loan surplus of more than R6 billion is available to finance the fund. This will be above the 40 percent of the Budget allocated to social spending — such as housing, health, education and welfare.

This represents about 10 percent of gross domestic product (GDP). However, the 40 percent refers to the Budget before the allocation for conditions of service is added.

The Budget Review said that one of the policy goals was "to contribute to the relief of hardship and to equip as many people as possible to grasp, on an equal basis, the opportunities the economy offers".

Over the past few years, steps had been taken to relieve the tax burden on the less privileged. 4-9

Little more could be done this year to decrease their tax. This Budget, therefore, aimed to help the less privileged through expenditure.

Social services are to get R27,853 billion — up 11 percent from last year. This compares to a 2 percent increase for protection services — to R15,3 billion.

DEFENCE DOWN

Within this category, the defence budget actually drops from R10,3 billion to R10,29 billion, while the police budget gets a 5,7 percent increase from R2,9 billion to R3,1 billion.

In the category of social services, housing goes up 51 percent to R1,455 billion, health spending rises 7 percent from R6,5 billion to R7,06 billion, education rises 9,7 percent from R12,1 billion to R13,3 billion, and welfare promotion increases 16 percent from R3,8 billion to R4,4 billion.

The pattern of State spending in the Budget reflected a shift in the Government's development role from the economic to the socio-economic sphere — but with a rightful place being given to law and order, according to Mr du Plessis's review.

Poverty, unemployment, housing shortages, inadequate training, illiteracy and health needs blocked the road to progress and prosperity, he said.

The figure of 40 percent on social services was much higher than might be expected of South Africa at this stage of its development — if one compared it internationally.

For the backlogs to be overcome within Budget constraints, the focus would have to be on correct spending priorities within individual social functions such as education, health, housing and welfare.

More State funds were also being poured into socio-economic development through institutions outside the public sector. These included the Development Bank of Southern Africa, the Small Business Development Corporation, development corporations in the self-governing territories and the South African Housing Trust.

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The Star Thursday March 15 1990 11

Concern over municipal budgets

By Louise Burgers,
Municipal Reporter

Local government has been restricted to a 13 percent increase in spending for 1990/91, prompting fears of large scale cutbacks when municipal budgets are tabled at mid-year.

The figure is well below the current inflation rate and does not keep pace with rising costs, thereby restricting growth, say council officials. It is also half a percent lower than the restrictions for the two previous years.

The leader of the Democratic Party in the Johannesburg City Council, Mr Ian Davidson, criticised the lack of differentiation between a major metropolis such as Johannesburg and a small town.

"We are faced with exactly the same problem as last year. It once again puts a damper on the type of capital expenditure required to revitalise certain inner city areas of Johannesburg".

The chairman of the Johannesburg Central Business District Association, Mr Nigel Mandy, said the situation was "serious".

"The scope municipalities have for cutting expenditure is not very large and this could result in a lowering of standards for maintainence and repair."

The chairman of the Randburg Town Council management committee, Mr Andre Jacobs, said the 13 percent restriction on spending was a "severe con straint" on Randburg's growth.

"Our growth has always been higher than the restriction figure."

The chairman of the Buccleuch/Kelvin Ratepayers and Residents Association, Mr Axel Joosting, said in Sandton there had been a gradual deterioration in financing of "any extras".

● Record provincial budgets with expenditure estimates totalling R10,4 billion were also tabled yesterday.

The largest, that of the Transvaal, provides for expenditure totalling R4,377 billion from the previous year's of R3,744 billion; the Cape Province R3,182 billion compared to R2,935 billion last year; Natal's expected expenditure in budgeted to rise by R89,1 million to R1,666 billion and the Orange Free State from R1,024 billion last year to R1,09 billion in the coming tax year.

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Education increase 'a drop in the ocean'

By Shehnaaz Bulbulia and Montshiwa Moroke

Leading educational organisations said yesterday that while they welcomed the national-education expenditure increase, it fell short of addressing the crisis facing black education.

Minister of Finance Barend du Plessis announced that R13,346 billion would be allocated for education and a further R150 million one-off payment would be used to help overcome the backlog in black education.

National Education Co-ordinating Committee (NECC) spokesman Mr Ihron van Rensburg said the expenditure rise was significant but should be seen against the backdrop of the crisis facing black education.

The R150 million set aside to deal with the black education backlog should be seen against the R21,2 billion one-off payment required to bring formal parity in education as a whole.

"The expenditure in education is significant. The actual increase is in the region of 26 percent and if inflation is discounted, it's a 13 percent increase. Also, it's a R510 million increase over the previous year."

Mr van Rensburg added that the NECC was waiting to see how the Government would spend R510 million in comparison with the billions needed for black educational resources.

The NECC had listed secondary education as a priority, he said.

While 210 white schools remained empty, there was a shortage of 200 schools in black areas, Mr van Rensburg said.

It would make sense for the Government to reactivate the closed white schools instead of building new black schools.

He said the breakdown of a R21,2 billion one-off payment required to redress the crisis facing black education, was, according to statistics from the University of the Witwatersrand's Education Policy Unit (EPU):

- R1,2 billion required for the construction of new schools at R8 000 per additional pupils.
- R1,25 billion for the training of 24 000 teachers at R52 300 per teacher.
- R19,7 billion for operating costs of schools at R2 000/pupil

He pointed out that Mr du Plessis's statement that "international comparisons indicate that South Africa's public expenditure on education is already high" could not be left unchallenged

Quoting EPU figures, Mr van Rensburg said the public expenditure on education in SA was 3,8 percent of the gross national product against 6,8 percent in the US, Zimbabwe's 8,1 percent, Kenya's 6,7 percent, Israel's 8,5 percent, Zambia's 5,4 percent and Botswana's 8,4 percent.

Union of Democratic University Staff Associations general secretary Dr Mike Morris said that as long as the Government did not make a sustained commitment to solving the black education crisis, one-off payments, while significant, would not solve the education crisis.

"A long-term programme is required to shift State resources towards black education. Further, the Government should have a policy to raise the education and skill levels of the total population," he said

A centralised, unified educational system was required, otherwise, "increasing the Budget allocation without cutting down the number of education departments did not necessarily mean a significant increase. Too much of the increase was swallowed up by the duplication of administrative work."

A Progressive Teachers League spokesman said the increase did not meet the needs of the crisis in education.

‘Not enough money for blacks’

Star 15/3/90

KD

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By Esmaré van der Merwe,
Political Reporter

Extra-parliamentary democratic organisations have welcomed the Budget increases on social spending, but said more funds should have been made available to address social backlogs in the black communities.

The United Democratic Front, aligned to the African National Congress, welcomed Finance Minister Mr Barend du Plessis's substantial allocations to housing, education, health services and welfare.

UDF publicity secretary Mr Patrick “Terror” Lekota, said the emphasis on social spending reflected the changing political objectives in society.

However, social spending was still “far too little to address the need of communities most disadvantaged by the last 40 years of apartheid rule”.

The country needed a speedily-negotiated political settlement and “a government which is capable of going further than these tentative steps”.

Said Mr Lekota, who is also a spokesman for the Mass Democratic Movement: “In the short term, the question is how much of the allocated expenditure will in fact meet the needs of black communities?”

The UDF welcomed the tax relief for married women, the aged and people in the low-income brackets.

Mr Cassim Saloojee, president of the Transvaal Indian Congress, said the allocation to social services might be impressive in money terms but would not go far towards putting blacks on a par with whites.

“One can only hope that the historical mistake will not yet again be made whereby most of the money goes towards social services of the small white minority.”

Mr Saloojee, also the director of the Johannesburg Institute of Social Services, said the historical discrimination against married women had not been wiped out completely by tax relief to people in this category.

“There should be no distinction between married and unmarried women or men in a non-sexist equal society.”

There was no comment from the Pan Africanist Congress.

Mr Patrick “Terror” Lekota . . . social spending still too little to address the need of disadvantaged communities.

Milking industry through nationalisation is not the answer

Star 15/1/90 (49) ~~48~~

Let people free themselves

NANCY SEIJAS, senior researcher at the Free Market Foundation, writes on the need for a free market plan to counter ANC calls for nationalisation.

Nationalisation of "key industries" like mining and banking, the ANC says, will bring "social justice": it will generate money for the post-apartheid government to pour into black education and housing.

Free marketeers say this plan won't work, and they are right. But we have yet to hear *their* plan. Here's one, offered for debate.

First, the criticism: mine nationalisation has never brought a country extra wealth to spread around. When English coal mines were nationalised in 1947, they were producing roughly 197 million tons a year. Twenty years later they were producing 20 million tons less. In 1959, the British government prohibited all imports of coal. In 1961 it slapped a duty on fuel oil, coal's competitor, and in 1967 forced the British electricity industry to start burning 6 million tons of coal a year, over and above what it actually needed.

Subsidies to the coal mines trebled in the early 1980s, and by 1985 it cost Britain three times as much to produce a ton of coal as it cost Australia, the United States or South Africa.

The Zambian copper mines were nationalised in 1969 when they were producing 750 000 tons a year. Now they are producing 400 000, or about half of what they produced 20 years ago. Between 1970 and 1985, when most of the nationalisatin and economic repression in independent southern Africa started, the region's share of world exports fell from 7 percent to 4 percent.

The Economist (December 9 last year) estimates that drop has cost southern Africa $10 billion (about R26 billion) a year, or about R130 billion in lost earnings.

Few economists blame governments alone for these economic disasters (world markets, the political environment and changing technology all played a role), but what is the fault of government alone is the economic controls that came with, or followed, nationalisation.

Milking an industry

Any government that attempts to milk an industry through nationalisation and redistribution of its profits is bound to resort to subsidies, controls on imports and other attempts at protection, once the milch cow starts to falter.

If the post-apartheid government wants "social justice", it would do much better to free the people, and let them bring justice to themselves. The people have always been better than the government at raising the welfare of the nation.

Research shows that in the Transvaal Republic under President Paul Kruger, 90 percent of white children attended school without any laws to force them to go, or government-funded schools.

Misleading statistics about school-age children convinced the British government of the 1800s to make schooling mandatory and to build public schools. The result: embarrassingly empty government schools.

To fill them, the government gave bigger and bigger subsidies to the public schools to help them lower their fees.

It wasn't long before the private schools could no longer compete with the subsidised low fees at government schools. As the competition withered away, standards at government schools began to drop.

After 100 years of this system, the British government is starting to reform education. Under new legislation, British schools can choose to "opt out" of government control, yet still be funded by government.

This kind of reform in South Africa would solve the problem of unequal education funding between races. We would simply take the education budget and divide it between the total number of pupils attending government schools.

It would depoliticise education, because parents would have the major responsibility for deciding what it taught in schools.

Th same is true of the housing shortage in South Africa: completely private control of land and housing will end the shortage. The major obstacle to affordable housing for all in South Africa is not poverty, although that plays a large role, but legislation.

We have a plethora of legislation that either directly prohibits black people from buying land or houses, or makes it prohibitively expensive for poor and middle-income people in general.

What black people need most is a system that protects property rights, and despite how their rights have been violated in the past, a post-apartheid government cannot afford to condone that by doing the same thing.

Privatising townships has been recommended and also handing to squatters government land on which squatters are living.

Free society

The kind of thing you find in a free society includes private initiatives to help the poor to provide "social justice". That is because there is an economic opportunity in it. There is a huge demand in South Africa for low-cost housing, low-cost medical care, job training and education.

Unfortunately, governments don't go out of business. The people, especially the poor, simply have to suffer under governments' inefficiency and injustice until they can win their freedom. In the post-apartheid South Africa, it is the people who should be in business — especially the business of social justice — not the government.

Govt moves 'a letdown' for most public servants

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By Dawn Barkhuizen

Public servants were generally disappointed by a budget which promised salary adjustments for nurses, police and other law enforcement personnel only, and undertook to investigate salary increases for the lowest-paid civil servants.

Hopes had been high for a further increase after the bitterly disappointing 10 percent pay rise announced earlier this year.

Protest action

Nurses and police — who were promised an adjustment but not told how much or when — were even more disillusioned than ever, representatives said.

SA Railways and Harbours Union (Sarhwu) vice-president, Mr Johnny Potgieter, warned that intensified protest action could result.

"We are very disappointed. We have 33 000 members. This could unleash frustrations that will be very hard to control. There seems to be no consideration by the government for public sector workers," he said.

The secretary-general of the 46 000-member, multiracial Public Servants' League, Mr Bernard Wentzel said:

"The Minister knows full well the demands and circumstances of public servants.

"Some people earn salaries that are totally unacceptable (R240 a month). People want their money now. We don't want investigations — we have told them about these below-the-breadline salaries for years."

National Medical and Dental Association spokesman, Dr Max Price said: "Many nurses have been holding on to their jobs in expectation of the Budget speech. Now, because no specific amounts were mentioned, we believe the salary adjustments will be similar to the 12 percent given to teachers earlier this year — which is four percent behind the inflation rate.

Salary adjustments

"Nurses are extremely badly paid — this will only make them more disillusioned. The nursing shortage is already critical, top nurses are resigning because they don't have enough staff. Why should they carry on when they can earn better money working as reps?"

The chairman of the Support Police Action Group, Mrs Avril Budd, said that at a time when morale was rock bottom and the rate of resignations higher than ever before, it was important to spell out salary adjustments.

"The situation is not satisfactory at present and it cannot be left for another six months. We suggest a minimum increase of 66 percent and say that immediate attention needs to be given to overtime."

Junior constables earned R870 a month with a R41 annual increase. A sergeant in his 19th year was paid R2 136 a month.

Public Servants' Association president, Dr Colin Cameron, who is negotiating for increased salaries after warning of a show of force earlier this year, said he had not expected increases.

He was pleased to note the increase in pensions and the fact that additional funds had been made available for adjustment of lower income salary groups.

'Police should have received more'

By Craig Kotze

Star 15/3/90 (49) [illegible]

The South African Defence Force should, considering strategic realities and the need to curb Government spending, be satisfied with yesterday's Budget, but more money should have been given to cope with the present police crisis.

South Africa's defence capability would be kept essentially intact with its R10 070 million budget, although with the emphasis on the lessening of the military role, the police should have been a greater priority, said Professor Mike Hough, strategic studies expert of Pretoria University.

Police received only R2 927 million this year, as opposed to R2 496 million last year — which could solve pay grievances, give more for essential running costs and equipment, improve service conditions and provide for the expansion of the SAP.

Policemen had been leaving the force in droves recently, and insufficient pay is the reason cited by most.

Yesterday's military budget had lessened defence spending in 1990 from 15,4 percent of last year's budget to 13,9 percent of this year's R72,9 billion budget. This year's military budget as a percentage of the Gross National Product had also dropped, said Professor Hough.

"The defence budget is nominally higher this year but not in real terms. Considering an inflation rate of about 15 percent, it did not keep pace.

"The actual money available for defence this year is also reduced because military pensions, previously paid by another department, have been included in the defence budget," said Professor Hough.

He said the Budget as a whole indicated that security considerations had moved from the narrow definition of "military" into the social sphere and the SADF realised that socio-economic factors influenced security.

The defence budget could also be interpreted as indicative of the Government's resolve to maintain security while reforming.

On how the budget would affect the way the SADF used funds allocated, Professor Hough said much would have to be spent on improving conditions of service and for retaining existing skills and personnel. Another burden would be the incentives paid out to junior officers in the short-service scheme introduced after national service was reduced to one year from two.

"In terms of the new strategic situation and the ending of the war in Namibia and the need to curb spending, the Defence Force should be satisfied with what they received," Professor Hough said.

Race cash gap hasn't been closed in 'new' SA

Star 15/3/90 (49)

By Stan Hlophe and Monica Nicolson

Mr Syd Eckley, the director of the National Council for the Aged, last night said he was disappointed at the R25 across-the-board increase granted to all pensioners following Minister Mr Barend du Plessis' Budget speech in Parliament yesterday.

Mr Eckley said the pensioners had been given a raw deal and said the increase would not close the monetary gap between the race groups. He said the R25 increase was too little, taking into consideration the high cost of living.

"Minister du Plessis made a comment about a new South Africa and he should start by giving pensioners of all races the same pay.

"Everybody has to pay the same price for meat, milk and other necessities," he said.

Mr Eckley said he had asked the Minister for higher pensions for over-65s not living in institutions. People who lived on their own should receive more than those who were subsidised.

Black pensioners last night described the 16 percent increase from R150 to R175 as "still not enough".

In spite of their acceptance of "anything" offered, they pointed out that it would be "eaten up" by inflation.

Mrs Christinah Langa (65), of Dlamini, Soweto, who has seven children, said it was "too little too late". If it was R250 at least it would make a little difference, she said.

"Pensioners are not exempt from paying GST at most shops and we have to contend with the high cost of living like everybody else."

Mrs Eveyln Maringa (80), of Chiawelo, has six grandchildren dependent on her. Mrs Maringa said the R25 increase would not alleviate the hunger she was facing.

Mrs Veronica Baloyi (69), said there were no black, coloured, or white shops. "They are just shops charging the same prices for all," she said.

White pensioners also expressed their disappointment.

Pensioners interviewed at Jan Hofmeyr council houses in Brixton, Johannesburg, said the Government was not doing enough for old people who relied solely on their pensions and were struggling to survive.

"Pensions have been lagging far behind the inflation rate for so many years. They need to increase pensions far more to bring them into line with the cost of living," said Mrs E Parkinson.

Her neighbour, Mrs E van Zyl, lives on a disability pension and described the increases as useless. "Once you have paid rent, water, electricity and the telephone, there is nothing left - how are we supposed to live?"

Health allocation is 'misleading'

Star 15/3/90 (49/85)

By Toni Younghusband,
Medical Reporter

The 8,6 percent "increase" in the health budget announced by Finance Minister Mr Barend du Plessis yesterday was misleading as health expenditure per capita had in real terms come down by almost 10 percent, Dr Max Price of the National Medical and Dental Association said.

Although the health budget had gone up from R6,5 billion to R7,06 billion, the 16 percent inflation rate and the approximately 2,5 percent increase in population growth meant there was less money to spend on health.

"Given the current crisis in hospitals, this is very dangerous," Dr Price said.

He criticised the Minister's "vague" announcement of pay increases for nurses. "They were told that a long time ago and many of them have been hanging on to their jobs waiting for a real figure to be announced with the Budget. It is an insult not to say exactly what they'll be getting," said Dr Price.

Mr Rob Speedie, the executive director of the Representative Association of Medical Aid Schemes, was "disappointed".

"It is generally accepted that in the health sector the inflation rate is about 20 percent and an 8,6 percent increase just isn't adequate to keep up," he said.

He said population growth exacerbated the problem. "From the private sector's point of view I foresee a bigger load on the shoulders of employers and medical schemes," he said.

However, he did not believe any additional increases in medical aid fees would result as medical schemes had already presented their budgets for the year.

LARGER BURDEN

One noticeable feature of the budget was that the gap between private and public sector health expenditure was narrowing. "The private sector is going to be carrying a larger section of the burden," said Mr Speedie.

He said the 8,6 percent increase would not go very far unless accompanied by very effective cost savings through increased efficiency in State health care. He foresaw a certain amount of privatisation in 1990.

Dr Price said the 11 percent overall increase in social services spending was still 5 percent below the inflation rate and would in real terms be less than the 1989 budget, for a larger population group.

The chairman of the Federal Council of the Medical Association of South Africa (Masa), Dr Bernard Mandell, said that the budgeted 40 percent increase for social services compared to last year's 29 percent of the total budget was encouraging.

He said there was no doubt that South Africa's priorities for the future must be to make adequate provision for health, education and housing to ensure the total well-being of all people.

"South Africa's expenditure of 5,4 percent of the Gross National Product on health is in line with the World Health Organisation target. However, there is no doubt that services are under tremendous pressure and that the needs of a large section of the population are still not being met".

The MEC for Hospital Services in the Transvaal, Mr Fanie Ferreira, said 8,6 percent was quite a substantial increase. For Transvaal health services this would alleviate certain areas of the provincial budget which was experiencing a considerable deficit.

Action at last, says ecologist

Star 15/3/90

By Jacqueline Myburgh

(49)

The chief of the Ecology Party, Mr Colin Slater, has described the increase in the Environment Affairs budget as "good, but we could do with more".

Commenting on the almost 10 percent increase from last year's R160,6 million to R177,9 million allocated for environment affairs, Professor Richard Fuggle, professor in Environmental Studies at the University of Cape Town, said it was the first time he had seen some "action" in terms of an increased environment budget. He would be interested to see how the money would be allocated.

Star
15/3/90 [illegible] (49)

Extra R25 'won't help pensioners flee poverty'

By Winnie Graham

The R25-a-month increase in pension for all social pensioners, coupled with the Government's decision to spend 40 percent of the Budget on social services, brought mixed reaction yesterday.

The immediate response of Dr Ntatho Motlana, Soweto's prominent civic leader who is also chairman of the Get Ahead Foundation, was: "Let's hope the Government will wake up at last and spend the money wisely."

The problem with South Africa, he said, was not a shortage of money but a misallocation of resources.

"That is why there are classrooms for 300 000 white children standing empty and millions of blacks pupils with no roof over their heads."

Housing, education and health were the three main priorities, he stressed. People desperately needed homes, and hospitals urgently needed to be upgraded. Handouts were not the answer, but skills training was needed if jobs were to be created.

CHAOTIC

The Black Sash, which yesterday protested in Johannesburg against the "chaotic state" of black pensions, is not satisfied with the increases announced in the Budget.

Mr Barend du Plessis said all social pensioners would get R25 a month more; civil pensioners an adjustment of 10 percent; military pensioners also 10 percent, supplemented by adjustments regarding backlogs. Pensions for industrial illnesses would also rise by 10 percent, as well as provision being made for the elimination of disparities.

A statement by the Black Sash said that with inflation running at 15 percent, the increase was not enough to help pensioners "break out of a downward spiral of poverty".

Star 15/3/90 (49)

Savings to be encouraged with a higher tax ceiling

By Sven Lünsche

The Government has finally grasped the seriousness of the persistent dissaving of the last few years.

In his Budget speech to Parliament yesterday Finance Minister Barend du Plessis announced a number of important steps to promote individual savings.

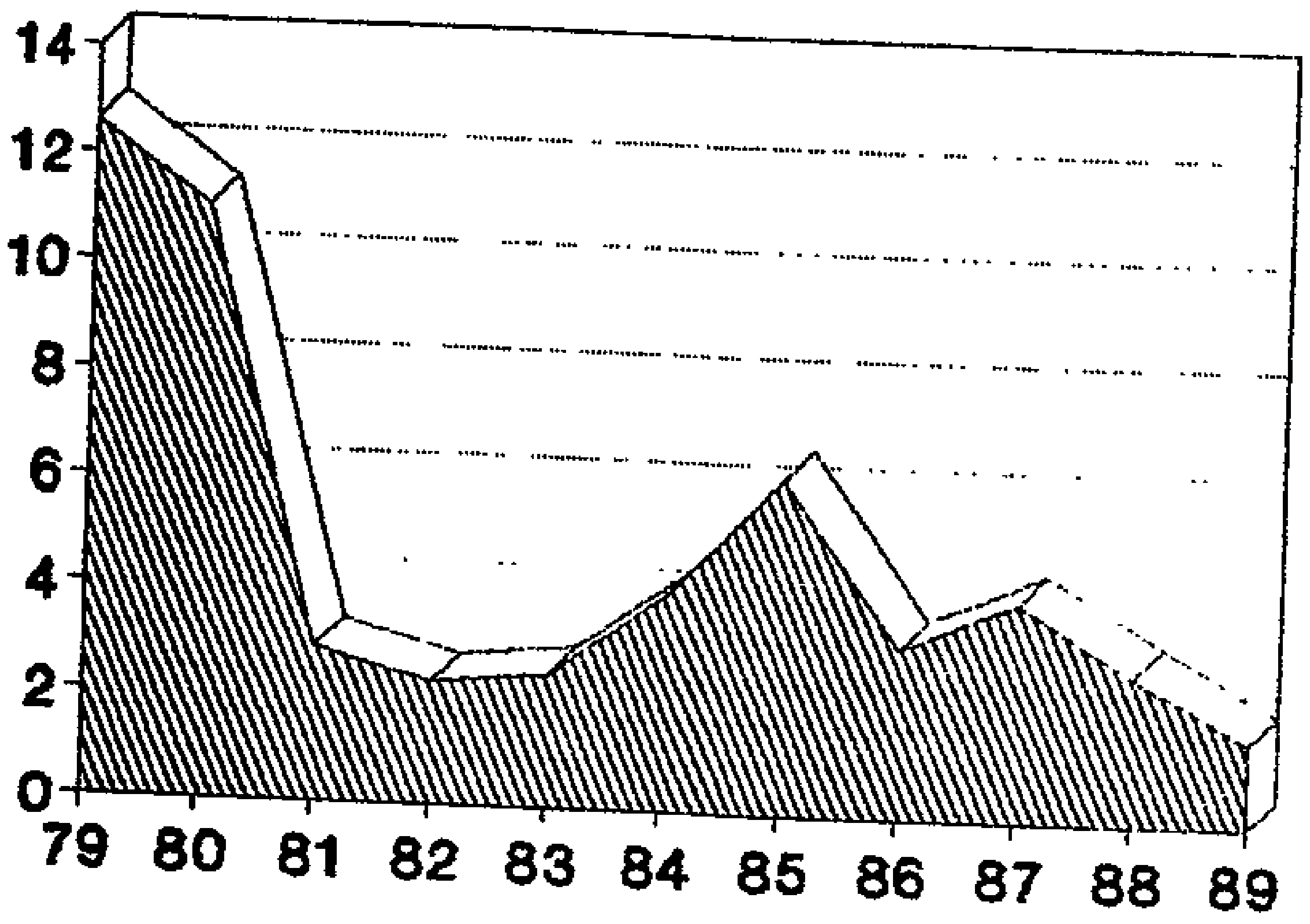
On the subject of individual income tax, he said it was of the utmost importance for the promotion of economic growth that discretionary personal savings be encouraged where possible.

For this purpose he recommended that the present exemption to individual taxpayers of the first R1 000 of interest and building society dividends be doubled to R2 000.

Other dividend income will be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of such dividends.

These measures should boost personal savings by about R650 million in the 1990/91 fiscal year, Mr du Plessis said.

The tax incentives to individuals, to the tune of R4,5 billion, should also prove a significant boon to savings.



Personal savings as percentage of disposable income

The measures have come at just the right moment.

Personal propensity to save (Personal Savings as a percentage of Personal Disposable Income) in 1989 fell to 1,6 percent last year — its lowest level in years.

In the late 70s, this figure was running at a healthy 13 percent (see graph).

In nominal terms personal savings declined for the second year in succession, according to figures released in the statistical bulletin accompanying the Budget.

From R4,133 billion in 1987, they fell to R3,151 billion in 1988 and to R2,059 billion in 1989.

Renumeration of employees at current prices increased by 18,4 percent in 1989, against 16,7 percent in the previous year.

Despite this, and including sharp increase in transfers from abroad, current income rose by only 16,2 percent in 1989 (17,5 percent).

Since direct taxes as a percentage of current income remained virtually the same, personal disposable income increased by 16,2 percent.

Although the increase of 17,6 percent in private consumption expenditure in 1989 was lower than in 1988, personal savings declined for the second year in succession, the bulletin says.

Commenting on the savings proposal, United Bank MD Nellie Bosman said scrapping tax on individual dividend income was welcome and would boost savings at building societies in particular.

He added, however, that at current interest rates of about 18 percent on wholesale deposits "it does not take huge amounts of savings to push up interest income above R2 000.

"We certainly had expected more on this front."

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Why wasn't levy lifted, asks farmer

Star 15/3/90

By Monica Nicolson

It was disappointing that the surcharge on essential capital equipment and spares intended for agricultural production had not been phased out, Mr Nico Kotze, president of the South African Agricultural Union said yesterday.

Mr Kotze described the Budget as reasonably well balanced and said it would benefit the average person, particularly the less well-off.

"To the extent that the proclaimed measures will promote economic growth, agriculture as an integral part of the economy will also benefit from them," he said.

Mr Kotze also expressed the hope that agriculture, as an important employer, would receive a fair share of the considerable sums that have been earmarked for social and socio-economic upliftment.

An amount of R302 million was allocated to agriculture, R14 million more than last year.

High revenue an 'embarrassment'

Str 15/3/90 (149)

By MAGNUS HEYSTEK

The Government suffered from an embarrassment of riches during the 1989/90 financial year as revenue collections, from individuals in particular, raced far ahead of estimates.

Total tax revenue for the 1989/90 financial year exceeded the budgeted estimate by no less than R6,3 billion, rising to R61,385 billion.

Tax collections from income tax on individuals are estimated to have exceeded the budgeted amount by R2,190 billion, or no less than 36,6 percent.

Several factors contributed to this flood of money.

Higher salaries

Salary adjustments in the private sector were higher than predicted, which, together with the effects of fiscal drag, resulted in an avalanche of revenue which surprised most commentators. More than R3 billion of this surplus will now be used to reduce the losses on forward cover transactions.

Another factor was that tax collections were much more effective as a result of the introduction of SITE, which greatly improved cash flow to the Receiver of Revenue.

Good profit performance from companies in 1988 continued into 1989 and this, along with the third provisional tax payments for the 1989/90 year, resulted in an increase in the estimated revenue from non-mining companies of R1,5 billion over the budgeted amount.

The import surcharge, announced in August 1988 and revised in May last year, also boosted Government's income. An original amount of R1,3 billion was estimated but the continued high levels of imports saw Government rake in an additional R1,3 billion.

Government also raked in R240 million more than estimated as a result of higher fuel consumption, a result of the buoyant state of the economy.

Other noteworthy increases above the budgeted amounts are to be found in stamp duties and fees (R109 million), marketable securities tax (R120 million), departmental operations R232 million) and interest and dividends.

Although described by officials of the Department of Finance as "exceptional circumstances", which were unlikely to be repeated during the current financial year, it nevertheless increased the total tax burden.

Total tax collections during 1989/90 increased to 24,9 percent of gross domestic product (GDP). This is significantly higher than the average ratio of 18,8 percent in the 1970's and the average of 21,4 percent in the 1980's.

Another disquieting figure is the sharp rise in the relative contribution to overall Government revenue made by individual taxpayers and non-mining companies.

In the 1970's the contribution to total tax was 23,1 percent and 23,4 percent respectively. This situation changed drastically in the 1980's individuals' average contribution in those years was 27,2 percent as against 17,6 percent by non-mining companies.

Individuals taxed more

Since 1983/84 income tax from individuals has invariably been over 28 percent of total tax revenue and for 1989/90 it is estimated at close to 31 percent.

In the case of non-mining companies the position is the reverse: since 1983/84 their income tax was always less than 17 percent of total tax revenue, although for 1989/90 it rose marginally to 18 percent.

For all companies the average contribution to total tax revenue in the 1970's was 32,5 percent, as against 27,3 percent in the 1980's. Since 1987/88 it has been below 25 percent and for 1990 it is estimated to be as low as 21,8 percent.

Tax on fringe benefit cars goes up sharply

Star, 15/3/90 49

By Derek Tommey

Recipients of company "perks" will pay more tax. The Minister of Finance has sharply increased the amount which users of company cars and recipients of low interest or no-interest loans have to pay to the Treasury.

He has increased the determined value of a fringe-benefit cars by 50 percent for tax purposes. But even at the new rates, most people will think a company car still worth having.

The determined value is the sum on which tax has to be paid. An individual in the maximum marginal tax bracket, would have to pay the Receiver 44 percent of this figure.

The determined monthly value of a R25 000 two-litre car will be raised from May 1 from R238 to R357 and that of a R50 000 three-litre car will go up from R411 to R616. The determined monthly value of a R100 000 car bigger than three litres will increase from R675 to R1012,50.

Tax experts say that in spite of the latest increase in determined value the figures are well below the true value. However, the Government is following the Margo Commission's recommendation that these values be adjusted annually until "more realistic" values are achieved.

Mr Bert Wessels, chief executive officer of Toyota South Africa, said he was most disappointed by the move.

A major factor in the development of the South African car industry had been the demand for company cars.

The increase in the determined values was not welcome at a time when the industry was making heavy capital investments to meet the new local content requirements.

Mr du Plessis also increased the taxable benefit of low-interest or interest-free company loans from 16 to 19 percent.

This means that the taxable value of a R100 000 housing loan will be lifted from R16 000 to R19 000 and will raise the tax on an individual in the maximum bracket by about R1 320 a year.

Mr du Plessis announced two minor tax changes. The rebate for the over-64s is to be increased from R1 450 to R2 100, which should help pensiones.

On the other hand, he is phasing out the R120 rebate for taxpayers between 60 and 64. The withdrawl of the rebate for people in this age group suggests that the official retiring age could be on the point of being lifted from 60 to 65.

Budget at a glance

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(49)

Up

- Beer 1c on a 375 ml bottle.
- Spirits 1c a tot, or 25,2c for a 750 ml bottle.
- Cigarettes 2c per 10.
- Cigarette tobacco 2c per 50 g.
- Pipe tobacco and cigars 20c per kg.
- Fortified wines and sparkling wines 1,8c per bottle.
- Effective company tax rate.
- Company car perks tax.
- Low interest and interest-free loans.
- Tax rebates and thresholds.
- Additional rebates for elderly.
- Concessions to the mining industry.

Down

- Personal income tax.
- Tax on married women.
- Import surcharges.
- Excise duty on jewellery abolished.
- Exemption on interest income and building society dividends doubled to R2 000.
- Total tax exemption on other dividends.

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R4,5-bn cutback in tax bills welcomed

Well done, Barend – experts

By Michael Chester

Economists and tax experts have hailed the announcement of R4,5 billion cutbacks in tax bills over the next 12 months as the first significant move towards reform of the entire taxation system in more than a decade.

They also welcomed pledges by Finance Minister Mr Barend du Plessis that the package launched the initial salvo in a five-year programme of a complete tax overhaul.

Joining the applause was Mr Justice Cecil Margo, head of the Margo Commission of Inquiry into tax reform.

"The Minister of Finance has done extremely well," he said. "There has not yet been time to study the Budget in detail, but the outline looks very good.

"It follows a lot of the recommendations of our commission, especially with its lower income tax, relief from bracket creep and more emphasis on indirect rather than direct taxation.

"The tax improvements for married women, abolition of tax on modest dividend income and the stress on social services are all points to be welcomed."

Dr Azar Jammine, director of the Econometrix research unit, said the concessions marked the first recorded attack on the remorseless increase in tax burdens caused by fiscal drag.

In the past, he said, tax promises always turned out to be myths. "All of a sudden, the tax cuts look really genuine.

"We're flabbergasted that he has finally acted in such a positive way."

The moves had cut a threatened climb in total personal income tax from 24,3 percent to no more than about 4,3 percent in the 1990/91 tax year.

All in all, according to the Minister, overall tax revenue would now increase from R61,4 billion to less than R65 billion — rather than soar to the almost R69,5 billion which had been projected by the Department of Finance.

Tax bonus

"In fact", said Dr Jammine, "the Minister has gone even further than merely counter-balance the insidious effect of fiscal drag — he has virtually added a bonus with the promise of no more than a 5,8 percent increase in total tax revenue."

New tax tables illustrated actual tax cuts in several income brackets by a combination of higher thresholds before wage-earners started paying income tax, lower marginal brackets and improved rebates.

Dr Jammine quoted the example set out by the Minister, showing the position of a married couple who last year paid an average of 17,9 percent in income tax on the combination of R30 000 earned by the husband and R20 000 earned by the wife.

Allowing for pay increases of 12 percent, they would have paid 19,5 percent of their joint incomes in tax in 1990/91. Now the they will pay 16,7 percent.

New tax tables — see Pages 3, 4 and 5 of Budget Supplement.

The new tax tables showed how the bulk of benefits promised to flow to wage-earners in the lower and middle-income groups, Dr Jammine said.

Tax on an income of R20 000 earned by a married person with two children looked set to be cut by 21,5 percent, from R1 910 last year to R1 500.

On an income of R40 000 his tax bill would be trimmed back from R8 810 last year to R7 200 — a reduction of 18,3 percent.

The tax reduction on an income of R100 000 a year would shrink to little above 7 percent.

Dr Jammine said the test now was whether taxpayers would plough their savings in tax bills into cutting their debt obligations or into intelligent investments, or whether the cuts would be frittered away.

"And taxpayers should be reminded," he added, "that the tables assume a static income between 1989/90 and 1990/91.

"In fact, making allowance for reasonable pay increases, most of us will still be paying out more rands in tax bills. The saving grace is that the tax bills look likely to be much lower than they had threatened to be."

Tax expert Mr Costa Divaris was enthusiastic about the new tax package.

Cooler reception

"For the first time in years and years, there are real tax cuts on the cards — rather than a parcel of fantasies aimed at making suckers of us all when the tax bill finally arrives."

There was a cooler reception among tax advisers for certain other measures — not least the new pinch on fringe benefits.

The tax valuation on company cars jumps from 50 to 75 percent. And the taxable portion of low-interest or interest-free loans from employers goes up from 16 to 19 percent.

The Minister said rebates affecting interest on building society investments, undistributed profits, married women and the aged as well as adjusted tax rates for lower and middle-income groups alone would cost about R3,122 billion.

Turning to individual income tax, Mr du Plessis said it was of the utmost importance for the promotion of economic growth that discretionary personal savings be encouraged.

For this purpose he recommended that the present exemption to individual taxpayers on the first R1 000 of interest and building society dividends be doubled to R2 000 and that other dividend income be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of such dividends.

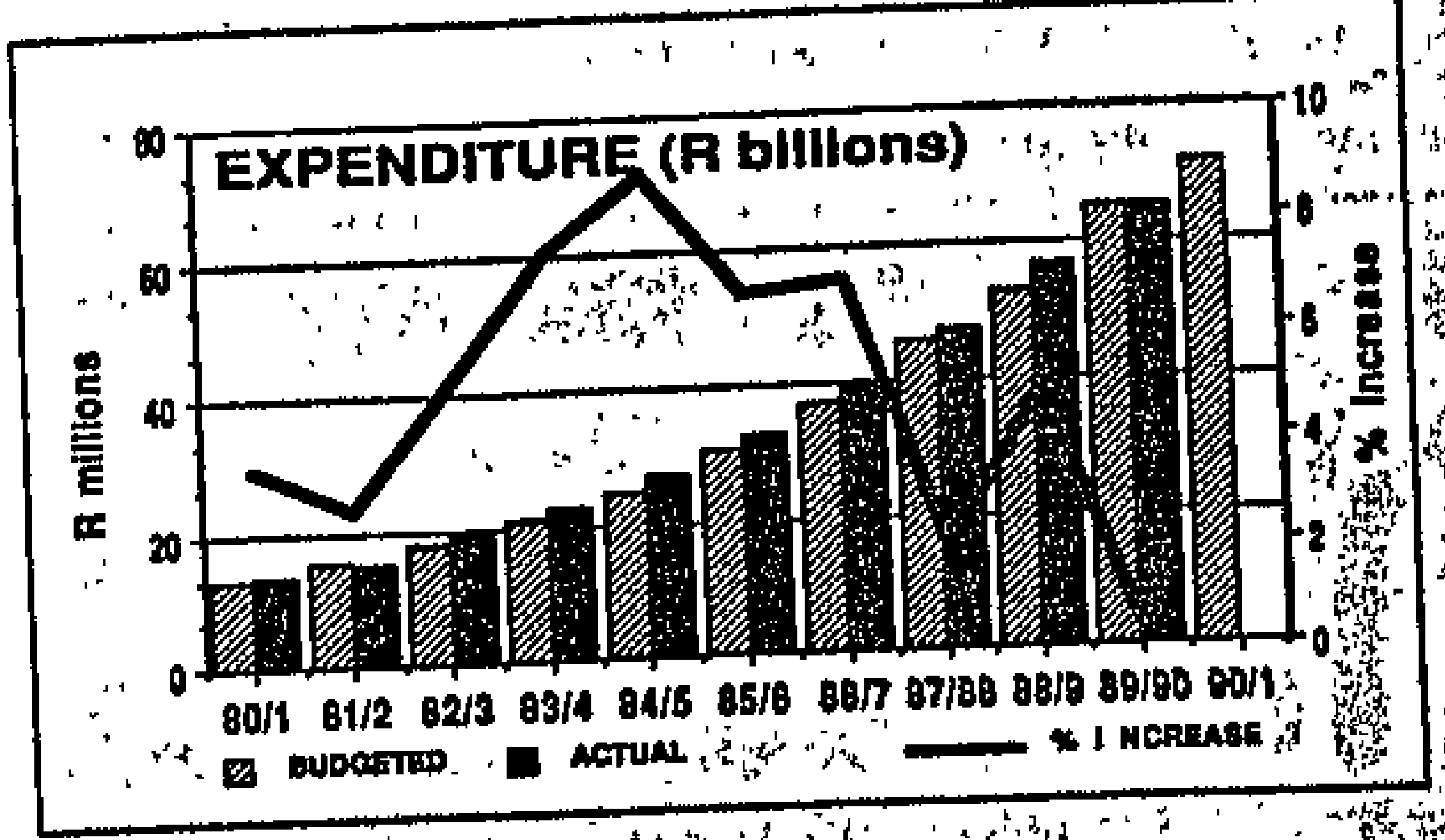
While married women on the SITE system were taxed separately on their net remuneration, investment income and certain trading income of women not subject to SITE was taxed in her husband's hands.

To take separate tax a step further, it was proposed that all trading income of a married woman, including salary and income from a business or profession, be taxed separately.

It was also proposed that rates of tax for married women be adjusted to gradually align them with that of single people.

Du Plessis guides SA on new economic path

Star 15/3/90 (19)



By Sven Lünsche

The Budget for the 1990-91 tax year has restored the credibility of fiscal policy.

For the first time in years the Government has put the emphasis firmly on curbing its own spending while at the same time launching the initial salvo in a five-year programme of a complete tax overhaul.

Finance Minister Barend du Plessis, with the evident backing of the full Cabinet, yesterday presented a Budget which marks a welcome shift in the Government's approach to the economy.

In the process he has managed to guide the economy on the right course towards achieving a longer-term restructuring and higher and more consistent growth patterns.

In the short-term, however, the emphasis is to continue with the slowdown of the economy into a period of consolidation, and Mr du Plessis warns that a growth rate of only one percent should be expected this year.

A fundamental part of the restructuring involves the drastic reduction in inflation and reversing the the dissavings trend of the last few years.

By limiting the government expenditure increase to 9,7 percent, the outcome is likely to be restrictive on consumer price increases, while substantial tax concessions, coupled with direct savings boosting measures, should lift the average South Africans propensity to save from its current dismal lows.

The cornerstone of this new approach was laid in 1989-90.

The deficit before borrowing fell to 1,5 percent of gross domestic product (GDP), the lowest in many years and well below all estimates. The actual deficit totalled R3,77 billion, more than R6,1 billion lower than the budgeted figure of R9,9 billion.

The deficit before borrowing the 1990-91 has been budgeted at a more conservative R7,994 billion or 2,8 percent of estimated GDP.

Mr du Plessis said government expenditure in 1990-91 was budgeted to rise by 9,7 percent to R71,5 billion, while revenue income was budgeted at R64,9 billion — 7,3 percent up on the R60,5 billion received in 1989-90.

The decline in the deficit is stunning. Only a few days ago most economists estimated the deficit could total between 2,5 and 3 percent of GDP. This in itself would have been regarded as an achievement, as it represented a substantial drop from the 1988-89 deficit of 4,4 percent and the 1987-88 deficit of 6 percent.

It gives an indication of the seriousness with which the Government is seeking to reduce its role in the economy — Mr du Plessis has laid down a policy target of an average 3 percent in its long-term economic strategy.

The sharp decline in the deficit follows on the stringent control of spending and the higher than expected surge in revenue.

The expenditure overrun was only 0,3 percent on the original budget estimate of R65,017 billion.

Total estimated government expenditure in 1989-90 amounted to R65,181 billion, which was 16,5 percent higher than in the previous financial year. Expressed as a percentage of GDP it showed a decline from 26,7 percent in 1988-89 to 26,5 percent. In each of the two previous fiscal years, government expenditure had increased by 18 percent.

On the revenue front, Mr du Plessis said tax income was R6,32 billion more than the budgeted R54,2 billion. Compared with the 1988-89 figure revenue soared by 27,7 percent.

Of the total revenue Budget of R64,9 billion in 1990-91, 23,5 billion is budgeted to come from individ ual income tax, R18,5 billion from GST and R13 billion from company taxes.

Economy 'has been set off in a new direction'

By Peter Fabricius,
Political Correspondent

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CAPE TOWN — The Budget presented yesterday has been widely welcomed as "a fresh breeze" which has set the economy off in a new direction.

Democratic Party spokesman Mr Harry Schwarz said the budget fitted in with President F W de Klerk's approach to the new South Africa at the opening of Parliament.

The DP welcomed the fresh approach to fiscal policy and congratulated Finance Minister Mr Barend du Plessis — though it felt he should have gone farther.

The Budget had credibility because of the open admission of past errors such as racial discrimination and because of the low 0,3 percent increase over last year's Budget.

Unacceptably low

However Conservative Party finance spokesman Mr Casper Uys, while welcoming the increase in social services spending, criticised the tax breaks and pension increases as unacceptably low.

He said Mr du Plessis had admitted before the budget that South Africans were overtaxed and this was still largely true.

He deplored the fact that the income level at which the maximum marginal rate applied was still R80 000 per year.

This should have risen to at least R105 000.

Mr Uys said the slight increase in overall spending had to be seen against the base from which it was measured.

Government spending was already 23 percent of gross domestic product while it had been 57 percent in the 1970s.

Mr Uys also questioned the Government's generosity with the R6 billion loan surplus from last year's Budget — which was to be used for such purposes as funding a socio-economic development fund and repaying foreign exchange insurance losses.

"We used to talk about a deficit before borrowing, now we talk of a surplus after borrow ing," he scoffed.

Mr Schwarz praised the social objectives of the Budget, especially the extra funds for socio-economic upliftment.

Though the budget had shown a decrease in real terms, the DP would have liked to have seen a target for the state's share of the economy in future.

Mr Schwarz warned against comparing expenditure with previous years as so many accounting changes had taken place. The DP supported the start made towards relieving individual tax burdens, including that of married women.

But it was disappointed at the "inadequate" increases in social, disability and military pensions.

The DP did not approve of the way the surplus from last year was being used.

It was also concerned that growth in GDP was still negative per capita, that inflation was still a major problem, that the increase in the money supply was too high, incentives to save were still too low and that no details were provided about pay increases for nurses and policemen and about the proposed minimum tax.

"Despite this we regard this budget as a whole as a fresh breeze in the South Sfrican scene and trust that new approaches to politics and finance will be pursued and will result in a stable and better-off country in which all its citizens will have not only opportunity but a share."

Solidarity spokesman on finance Mr Kisten Moodley welcomed the budget because it addressed socio-economic problems.

He was disappointed that pensioners would get only R25. He welcomed the 19 percent allocated to education, the R1,9 billion given to housing and the doubling of amounts exempt from tax in building society savings.

He also welcomed the fact that business and professional women were now also to be taxed separately.

Other votes

DP black education spokesman Mr Ken Andrew warned that the apparent 26 percent increase in spending on black education was false as 20,42 percent was the result of transfers of expenditure from other votes.

The net increase of R110 million or 5,72 percent was much less than the total of 15 percent inflation and 5 percent growth in pupil numbers.

But it was impossible to assess the budget's impact on black education on available figures.

And it was not clear if education would get any of the R2 billion from the special fund for overcoming socio-economic backlogs.

DP pensions spokesman Mr Brian Goodall said the pension increases were small but welcomed them as better than nothing.

However some pensioners would be worse off in real terms after the increase.

Economists applaud spending cut

CAt 15/3/90 (49)

By Claire Gebhardt

Economists have welcomed the long-term contractionary effects of the Budget, but fear that Mr du Plessis's tax relief may be too generous in the short term.

Also of concern is the fact that Mr du Plessis may have been over-optimistic as far as cuts in government expenditure are concerned.

All, however, praise the Minister's efforts to restrict state spending and gradually roll back government intervention.

Head of the Department of Economics at Unisa, Professor Phillip Mohr, says one has only to view the expected 11,9 percent increase against last year's expenditure increase of 16,5 percent to be a little sceptical.

He believes the Budget over the full year is contractionary if the cutbacks on the expenditure side are realised.

"But the tax cuts will mean that a lot of people will have cash in their pockets and, though they may repay debt, they may equally well go out and spend.

"So the pressure of looking after the balance of payments will still be the responsibility of the Reserve Bank.

Rand Merchant Bank economist Rudolph Gouws says the basic approach of the Budget cannot be faulted.

"The Budget will do what it has set out to do because it is a solid supply side budget which reduces government intervention, encourages saving and reduces tax.

"This will result in faster private fixed investment and will stimulate job creation."

He cautions, however, that the substantial tax cuts could lead to too much stimulus on the demand side and result in interest rates having to stay at present levels for that much longer.

JD Anderson's Dr Piet van Schaik says Mr du Plessis has presented a very clever Budget by going the supply-side route in an attempt to lower inflation and increase productivity.

"The R6,3 billion, or two percent of GDP, which is being pumped into the economy can be seen as too stimulatory, but Mr du Plessis is reducing the Government's stake in the economy to the tune of that percentage.

"There is going to be a gradual redeployment of spending towards social and security from police and defence and one gets the impression that politics and economics, as far as Exchequer spending is concerned, will go hand in glove.

"The deficit before borrowing is not very high, certainly under the magic three percent, but above the magic 2,5 percent. But it is a pity Mr du Plessis is still funding R2,9 billion of current spending by issuing loans of one kind or another.

"If capital expenditure is R5,1 billion and the total deficit R7,8 billion, the difference is obviously spending of a current type of nature," he says.

Volkskas's Adam Jacobs says the concessions made to individuals repreent a real lowering in tax and are welcomed.

"However, we were only expecting tax relief of R2,5 billion and we hope people will not go on a spending spree."

United's Dr Hans Falkena says the increase in the tax-free portion of interest income from R1 000 to R2 000 is too low and will not give a stimulus to savings.

He also believes the 10-year period to qualify for capital exemption is too long.

Southern Life's Mike Daly says the Budget is going in the right direction structurally.

"It is not only a good Budget for the man-in-the street, but it will also give a boost to the unit trust industry.

Senbank's Dr Johann du Pisane says if one looks at the expenditure side it is a contractionary Budget as government expenditure is part of total domestic expenditure and Mr du Plessis is budgeting a decrease in real terms.

"On the other hand, looking at the tax cuts, consumption expenditure could be stimulated as more disposable income is left in the hands of the individual.

But he believes it will be a popular Budget holding something for the poor as well as for the wealthy.

"For the poor there is a substantial increase in social services, including education, while the reduction of income tax will be concentrated on the lower- and middle-income groups. The wealthy will benefit from the reduction of tax on interest and the abolition of the tax on dividends."

He sees the creation of a state fund dedicated to the removal of socio-economic backlogs as supporting monetary policy.

"In terms of stabilisation the transfer of R6 billion from the 1989/90 surplus means this amount will be sterilised.

"This will maintain interest rates at the present high level until we can be sure that our foreign reserves are well-protected. In terms of an anti-inflation policy this is the correct thing to do."

Big welcome for

Star 15/3/90 (49)

Staff Reporters

Minister of Finance Barend du Plessis's R72,9 billion Budget has been generally welcomed as a long-awaited start to relieving the tax burden on individuals and cutting Government expenditure.

The Budget also marked a move away from increasing defence expenditure.

The armed services have been restricted to a 1,3 percent increase — accounting for 13,9 percent of the Budget — while social services now take up 40 percent, with an extra R2 billion fund which will be launched to try to overcome the backlog in black socio-economic services.

Total Government expenditure in the Budget announced yesterday was up 11 percent.

Mr du Plessis announced tax cuts for the individual, married women, savers and the elderly.

Not as welcome, but expected, were increases in the price of alcohol and cigarettes.

Beer is up 1c a "pint" (375 ml), spirits up 1c a tot, cigarettes up 2c for 10, cigarette tobacco up 2c for 50 g, pipe tobacco and cigars up 20c a kilogram and fortified wines and sparkling wines up 1,8c a bottle.

For the individual taxpayers — whose burden was nearing crippling proportions — Mr du Plessis announced that R4,53 billion had been allocated as relief.

Tax brackets have been changed to lower the tax rate, rebates have been increased and tax thresholds have been raised so that more people will not pay any tax. Married women will be taxed separately, which will reduce their tax.

Mr du Plessis said the aim was to restore the balance in favour of the individual whose burden had increased substantially in relation to that of companies.

Mr du Plessis announced that:

- The primary rebate for married persons goes up from R1 250 to R2 100; and for an unmarried person from R850 to R1 800.
- The rebate for married women is decreased from R1 075 to R700. But they will not pay more tax as their basic tax rates will decrease.

The thresholds for unmarried persons over the age of 65 will rise from R14 782 to R18 889, for those between 61 and 64 they will rise from R6 928 to R10 858 and for those under 61 from R6 071 to R10 286.

For married persons over 65 the tax threshold rises from R17 304 to R21 667, for those between 61 and 64 it rises from R9 785 to R12 601 and for those under 61 from R8 928 to R12 001. For married women it rises from R4 300 to R4 556.

Savings encouraged

Saving is to be encouraged by increasing the tax-free portion of interest income and building society dividends from R1 000 to R2 000.

The rebate for those over 65 will be increased from R1 450 to R2 100. However, the additional rebate for those between 60 and 64 is to be phased out by raising the qualifying age by one year every year.

The new tax rates mean that a married person with two children earning R50 000 taxable income will now pay R10 950, a saving of R1 960.

Some perks taxes will rise. On company cars the value for tax purposes rises from 50 to 75 percent. The taxable portion of low interest or interest-free loans from employers rises from 16 to 19 percent.

Mr du Plessis also announced:

- The introduction of a "safe haven" of shares listed on the JSE for more than 10 years. Profits from the sale of these are to be exempt from income tax.
- The phasing out of the 1,5 percent tax on marketable securities over three years, starting in the next financial year (1992/3).
- The phasing out of tax expenditure. The tax allowance for employee training is to be withdrawn and replaced with a direct subsidy by the Government.

Mr du Plessis said all social pensioners would get an increase of R25 a month; civil pensioners an adjustment of 10 percent; and military pensioners 10 percent. Pensions for industrial illnesses would rise by 10 percent.

The Budget represented a disappointment for public servants hoping for a further pay rise. Salary adjustments for nurses, police and other law-enforcement personnel were promised, but they were not told by how much, or when, their salaries would rise.

Although 40 percent of the Budget was taken up on "social upliftment", extra-parliamentary organisations said more funds should have been made available.

United Democratic Front publicity secretary Mr Patrick "Terror" Lekota said the emphasis on social spending reflected the changing political objectives in society. However, social spending was still "far too little to address the need of disadvantaged communities".

Mr Clive Knobbs, vice-president of the Chamber of Mines, said: "There has been an encouraging reshuffling of priorities with emphasis being placed on the upliftment of the less privileged members of our society."

The champion triumphs . . . Brian Mitchell slugs it out with challenger Jackie during last night's WBA junior-lightweight fight. ● Picture by Associated

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Secretary: Ms. Pamela Stein

Tribute to late

49

Sowetan 15/3/90

De Kock

THE Minister of Finance, Mr Barend du Plessis, yesterday paid tribute to the former Governor of the Reserve Bank, Dr Gerhard de Kock, who died last year.

Concluding his Budget Speech to Parliament, he said: "We sorely miss him as an adviser, a friend and a gracious man of many parts, who, as an internationally respected central banker and economist, rendered his country outstanding service.

"He would, I am sure, have found the budgetary achievements of the recent past most gratifying, and have wholeheartedly supported today's Budget."

Exemption on share profits after 10 years

Budget unlocks billions from JSE

CAPE TIMES 15/3/90 (49)

Own Correspondent

JOHANNESBURG. — The creation of a 10-year tax-free safe haven for shares listed on the JSE, which will release massive funds, was hailed as tremendously important for the equities market by JSE president Tony Norton.

He was commenting on Finance Minister Barend du Plessis' statement that profits realised from shares listed on the JSE that have been kept for more than 10 years would be exempted from income tax under certain conditions, effective immediately.

Norton said huge funds would pass from the hands of the financiers into the hands of the "money engineers".

He estimated that at least R13bn would be released from the share coffers of the mining houses, which would now sell surplus stock held over many years.

This would mean a tremendous boost to the JSE's liquidity, said Norton.

However, Norton expressed some disappointment that the period of tax-free release could not have been shorter, as hoped for by the JSE.

Uncertainties about the distinction between capital and income were an important reason for the low turnover on the JSE and the phenomenon that large financial investments were not released for application in other fields of investment, according to Du Plessis.

Norton also hailed the phasing out of marketable securities tax (MST) over three years, starting next year, as a boost for the JSE. He said both measures indicated government was taking capital investment seriously.

Overall, Norton considered the Budget as an "extremely competent balance of exercise of interest", based on sound economic principles of fiscal strength and economic development.

Both measures would oil the wheels of the JSE to the benefit of unit trusts, which cater for the small investor, said UAL Management Co MD Clive Turner.

A more liquid market and tax exemption of dividends to individuals would encourage funds from the small investor to flow into unit trusts, Turner said.

In order to encourage discretionary personal savings the Budget proposes dividend income be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of dividends. Previously only a third of dividend income was tax-exempt.

Turner said the phasing out of MST meant that the pricing of unit trusts would be marginally lower as MST was a built-in factor in the price of units.

He said the measures were obviously aimed at encouraging savings and that unit trusts, as the man in the street's door into the equities market, would benefit from a greater inflow of funds.

However, in line with Norton, he expressed a measure of disappointment about a 10-year tax haven in view of previous expectations that profits from shares would be tax-exempt for a reasonably short period, thereby releasing more funds for development.

A more low-key view of the effects of the Budget on the immediate investment outlook was taken by Old Mutual senior portfolio manager Rowland Chute.

Although he welcomed the encouragement of realisation of investments and the freeing of funds for new development, he said there were no announcements in the Budget which were likely to significantly alter any investor's outlook for the next 12 months.

Overall, the slowdown in the economy looked set to continue with the resultant declining growth rate in corporate profits.

However, the partial relaxation of the ring fencing and further implementation of the Marais Commission should prove positive for mining companies in the longer term, said Chute.

The intention to phase out MST should be welcomed as it would significantly reduce transaction costs, hopefully increasing the turnover of the market and creating greater liquidity, said Chute.

He welcomed the abolition of tax on dividends in the hands of individuals although he felt it would, at best, have a marginal influence on the market.

In general, Chute believed the Budget indicated the government was moving in the right direction to stimulate economic development over the longer term.

Questions for new SA

South 15/3-21/3/90

(49)

By TONY KARON

THE collapse of socialism in Eastern Europe has left many comrades demoralised.

Many of our ideas about national democratic states and socialism are out of date. After 70 years, the Soviet Union is telling us that they are struggling to build socialism and that they have made major mistakes which we should not repeat.

They have abandoned the idea of building a separate socialist world system.

Instead, they speak of an integrated world economy, spanning the different social systems, and are seeking to make their economies competitive in a world capitalist market.

Socialist-orientated countries such as Angola, Mozambique, Nicaragua and Vietnam are all reassessing that path.

The values of socialism — a society which empowers working people in all spheres of life, and abolishes exploitation — are still widely held.

But all previous ideas on how to realise those values are up for debate.

In the light of this fast-changing world, our own thinking cannot simply proceed unchanged. If we are imprisoned by our own rhetoric and dogmatism, we will paralyse ourselves politically.

What then are the consequences and implications of Eastern Europe

Gorbachev's Perestroika and the resulting changes in Eastern Europe present major challenges to traditional ideas about socialism — also those espoused for a future South Africa. TONY KARON looks at what this means for a future South African economy. SALEEM BADAT asks what the Mass Democratic Movement can learn for its political approach and practice from the events in Eastern Europe:

The firm support traditionally offered to the ANC by the communist party governments of Eastern Europe is now backfiring somewhat.

Those communist parties were so unpopular with their people that none of their policies are automatically acceptable by the new democratic governments.

It is not clear, for example, whether the education and training facilities used by the ANC in Eastern Europe will be maintained.

There may be further diplomatic set-backs of the Hungarian type, and the ANC will have to do extensive diplomatic work to rebuild support in Eastern Europe.

Another immediate consequence

Mikhail Gorbachev, whose perestroika changed the fortunes of socialism.

funding of organisations and service groups in South Africa.

Where the centrality of the South African issue in the mid-'80s en-

Western funders, Eastern Europe is now their major focus, and will be for the next decade.

A democratic South Africa will

cost the lives of millions of peasants in the process of forced collectivisation;

- massive socialist foreign aid, as in the case of Cuba (whose level of industrial development is still limited;
- capitalist development.

The first path is morally and politically invalid. The second is no longer a practical possibility, because of the economic crisis in the socialist countries.

Traditionally, it has been argued that national democratic states could avoid the necessity of capitalism development by assuming the path of "socialist orientation".

They could develop their economies with investment and technological assistance from the socialist countries, and engage in more equal trade relations with those countries.

Competitive

But the socialist-orientated national democratic states failed to achieve adequate levels of development, and are seeking new ways to generate capital in their economies — by allowing greater private enterprise, and by attracting Western investment.

All over the socialist world, therefore, there is a move towards becoming economically viable within an international market dominated by capital.

South African socialists cannot ignore these developments, for they challenge a number of traditional ideas. Today, a country faces the choice of "socialist poverty", or to become competitive in a world capitalist market.

In South Africa, we will have to

Democratic culture needed

By SALEEM BADAT ㊾

THE events in Eastern Europe challenge ideas about the inevitability of capitalism's collapse, and the irreversibility of socialism. South 15/3 - 21/3/90

Capitalism has survived long beyond its expected demise, and is even on the offensive in Eastern Europe.

The experiences of Eastern Europe and even countries such as Angola, Mozambique and Nicaragua show there is no simple one-way progression from capitalism to socialism.

While we must assert the social and moral superiority of a democratic socialism, we must banish from our thinking notions of inevitability and irreversibility.

In essence, socialist and socialist-orientated countries have been one-party states — bureaucratic, elitist, often guilty of mismanagement and corruption.

Ever since the Russian Revolution, there has been a tendency among socialists to dismiss multi-party parliamentary democracy as bourgeois.

There is no doubt that we need more than parliamentary democracy if we are to genuinely empower our people. But that does not mean we don't need it.

The South African working class has fought long and hard for the right to vote for a government, exercise universal freedoms, form organisations and be protected against the arbitrary exercise of power.

We cannot dismiss these struggles or these rights. If people's rights to vote for or against a government or social system are taken away, an illegitimate structure which can never successfully build socialism is created.

Our task will be to convince the majority — who are not members of our organisations — to support the path of national democracy and socialism.

The other implication of accepting the need for a multi-party democracy is that we should seriously rethink hostile attitudes to other political forces.

The communist parties of Eastern Europe made the mistake of behav- as if they were the only relevant political force. This arrogance alienated the people to the point where they were overthrown.

No party can assume the moral right to govern — it has to constantly win and reaffirm the support of the majority.

We also need to be more honest about the state of our mass organisations.

In its January 8 statement, the ANC noted "the truth is that many of these continue to show obvious weaknesses in terms of how the membership is organised, the uneven level of consciousness, the strength and cohesion of the leadership structures and their accountability of the membership as well as the contact of these formations with the masses of the people".

Despite this situation, comrades often find no difficulty in believing their organisations are representative of all students, all residents or all women.

When organisations decide something, we cannot say "the people have decided".

If people are not in our organisations, we cannot assume that we represent their views — we have to go out and convince them of our line.

The relationship between mass organisations and a vanguard movement such as the ANC is also a complex one.

Today, some comrades talk of collapsing all mass structures into the ANC. This issue requires extensive debate.

We have to consider questions of the need for autonomous mass organisations, accountability to membership and representing the aspirations of constituencies.

Is there really an open, democratic culture in our mass organisations? Are there not weaknesses and failures that we gloss over and try to bury?

Do we not sometimes resort to bureaucratic, manipulative procedures which stifle questioning, debate and creativity?

We cannot generate a creative environment if anyone questioning policies we have adopted up to now is marginalised as a dissident, revisionist or ultra-leftist.

We must beware of alienating bright young comrades with a lot of potential simply because they raise questions about the theory of Colonialism of a Special Type or other aspects of our programme.

We must ensure discussion and debate is constructive and democratic, and that security is respected.

At the same time, we cannot abuse these concerns to stifle criticism and debate.

For many years we shouted: "Swapo is the people; the people are Swapo!" Yet, in the election, Swapo could not win a two-thirds majority.

Slogans have their place, but we must never make the mistake of believing our own propaganda.

It is to our advantage that the events in Eastern Europe have come at an exciting time in our own struggle. To facilitate making maximum advance, we needed to debate carefully the lessons we can draw from them.

Capital

Eastern Europe also offers capitalists highly-skilled and educated cheap labour; housing, health and social conditions are guaranteed — in contrast to South Africa's increasingly militant, underskilled and impoverished working class.

It may be asked why we even concerned about capital. Surely we are trying to get rid of foreign capital and orientate ourselves towards socialism?

Perestroika and Eastern Europe, however, throw up a major challenge to traditional ideas about the road to socialism in developing countries.

Karl Marx originally argued that socialism would arise on the basis of the technology and abundance created by capitalism — in the most advanced capitalist states.

The international experience of socialism has underlined the fact that to build the industrial base for the new social system, capital is required.

This capital has traditionally been created in three ways:

● "primitive socialist accumulation", as in the Soviet Union, which nance to be able to maintain economic growth at the same time as improving living standards.

This funding can come from only two sources: aid from governments (in the form of loans and credits) and direct investment by multi-national corporations.

In both cases, we will be disadvantaged by the changes in Eastern Europe. Economic aid and investment will be heading east rather than south.

The economic crisis in the socialist countries means that it would be unrealistic to expect significant economic assistance from them for decades to come.

All the economies of Eastern Europe, and the Soviet Union, will be re-tooled over the next 10 years, and this will be with capitalist technology.

to generate the resources to improve the living standards of our people, and pursue the social goals of the Freedom Charter.

Growth

South Africa is very poorly placed in the world economy. We will not be able to wave the ANC flag like a magic wand, and suddenly have the resources to implement the Freedom Charter and create jobs, decent housing, education and comfort for all.

We will inherit the economic crisis of the present regime, which has been struggling for 15 years to make South Africa's economy internationally competitive.

The challenge of maintaining high levels of growth and improving living standards demands that we examine many of our assumptions about the future economy.

If growth is the objective, then capital will have an important role to play. A mixed economy which achieves this will leave far more than the corner shop and the barber in private hands.

Guidelines

A very significant portion of the economy will probably have to remain in private hands.

The challenge will be to find mechanisms to realise the objectives of the ANC's constitutional guidelines which states the "private sector of the economy shall be obliged to cooperate with the state in realising the objectives of the Freedom Charter in promoting social well-being".

If we are to have a mixed economy with economic growth, we will have to create conditions which attract investors, both local and foreign.

Of course, we do not abandon our goals. Our objective is the realisation of the Freedom Charter.

But we must begin to pursue these goals in the context of that is actually possible, not simply what we would like to be possible.

(Adapted from the political journal "New Era")

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Strike rights — or anarchy

The law should guarantee certain basic strike rights in the interests of better industrial relations, EBRAHIM PATEL, education officer of the South African Clothing and Textile Workers' Union, argued in a talk delivered at a recent industrial relations workshop. Here is an edited version of the talk:

THE right to strike is fundamental to sound industrial relations.

The right and capacity of a trade union to bring workers out on strike may ultimately be the only reason why a manager seeks genuine agreement with organised labour.

Without the right to strike, trade unions become pathetic, powerless bodies, and the rule of management is absolute.

The right to strike requires more than freedom to withdraw labour. It requires job protection as well.

While such a right does interfere with the entrepreneur's right to manage his enterprise as he sees fit, guaranteeing the right to strike is in society's interests.

To ignore the need for labour legislation and allow any individual to do as s/he likes in order to advance his economic interests is to invite anarchy.

It is the sort of belief which invites and legitimises the smashing of machines and the burning of factories.

If there are no laws to protect strikers, then there is no need to strike according to rules. This would be untenable to enterprises that rely on skilled labour — the industries vital to a strong and modern economy.

Finally, the right to strike is vital to any system of free collective bargaining, necessary to ensure the fair distribution of economic wealth and an organised and relatively orderly industrial process.

The interests of capital are protected by a range of laws. If rules exist to protect the interests of property, why not protect labour?

The right to strike provides a fair balance between the many legal protections which an employer enjoys and the very basic rights which workers require to have effective trade unions.

It is not enough to merely have the right to strike.

Workers should be able to strike without fear of dismissal.

It is often argued that a strike for an indefinite period means employers face two choices: to close down the business or take on a replacement workforce.

If an employer says s/he has no alternative but to recruit an alternative permanent workforce, s/he should have to prove this.

The right to physical reinstatement would act as a powerful deterrent on employers and would limit dismissal to those instances where there is genuinely no alternative.

There has been much discussion about the rights of workers to protection in "primary," "secondary" and "sympathy" strikes.

Normally a primary strike involves the legal form of a registered company.

This encourages the fragmentation of an operation into a series of separate companies.

A textile mill with spinning, weaving and finishing operations, producing a single product, may easily be broken into three separate companies.

This means that the employers can avoid the power of combination by the workers.

In the case of industry-wide strikes, are companies who are members of an employers' association in the industrial council the primary employer and the only target for strike action?

Ebrahim Patel

If this were so, it would be a powerful incentive for employers to resign from employer associations — leading to unions being forced to negotiate separately tens of thousands of agreements separately.

A large corporation can use all its resources to sit out a strike at one plant indefinitely. It can transfer production to strike-free factories.

This undermines completely the notion that a subsidiary company is the primary employer.

A business has many risks, one of which is a secondary strike — an additional pressure on the employer to settle the dispute.

Sympathy strikes involve workers with no direct interest in a particular dispute.

It is difficult to define direct interest.

At an absurd level, any strike against the dismissal of a fellow-worker is a sympathy strike because the action was not done directly to us.

The crucial test whether a strike should enjoy protection is whether the strike is directly aimed at employers who are part of a dispute or can affect the outcome of a dispute — be they customers, suppliers, associated companies or employers in the same industry.

During a strike, an employer is free to recruit temporary replacement Strikers should have an equal right to prevent recruitment.

This is why strikers want picket facilities.

Not only is the right to picket a basic freedom of assembly. Workers will protest whether it is legal or not.

Denying picket facilities does not reduce violence. It merely drives strikers from the open factory area to the bus stops, trains and townships where trade unions are unable


NUM general secretary, Cyril Ramaphosa and trade unionists demand worker's rights

should accept the strength of corporations and not be allowed to exploit their weaknesses.

Secondary strikes are seen as those with no direct relationship with the plant where the dispute arose initially.

They normally involve the customers or suppliers of a strike-hit establishment.

Employers say such action hurts an uninvolved party.

Why should a secondary operator be morally exempt from industrial action when he profits from his relationship with the strike-hit company?

The lack of proper picket rights and facilities invites and encourages illegal acts and violence.

More broadly, if unions are powerless and rightless, industrial conflict will not go away — it simply takes on less controllable and predictable forms.

A further point for employers to consider is that the increasing attempts to break up centralised bargaining forums and adopt the limited "let's look at the balance sheet" approach removes important opportunities for a joint labour-management dispensation to emerge, leaving workers to turn to the state to regulate matters.

Apartheid in the Holy Land

South 15/3 - 21/3/90.

Three months into its third year, the Palestinian intifada (struggle for statehood) shows no sign of abating. Violence exacts huge costs. But the press — and the world — say little. American journalist, MELISSA BAUMANN, recently returned from two months in Israel/Palestine reports:

ISRAEL, South Africa. Not a popular comparison. In her tasteful flat in Jerusalem's German Colony, an Israeli leftist — a former South African, a declared Zionist — balks at the analogy.

"Superficial, offensive, dangerous," she says, citing in Israel's defence its place in the bible and history. Zionism is not racism, she insist.

Yet contradictions intrude: her tale of an Israeli client who disinfects his hand after greeting an Arab; her rationale for phasing out of the Israeli peace movement.

Perhaps she is right: the comparison is unfair — to South Africa.

Apartheid is still in place, but at least the government recognises how politically obsolete and morally indefensible it is.

The ANC and other democratic organisations have been "legitimised", and negotiations — among representative parties — are brewing.

In Israel, however, war — and that state's version of apartheid — continue. Israeli leaders remain intransigent and Palestinian resistance steady.

Most Israelis have never crossed the Green Line into the West Bank and Gaza. Most Israelis encountered by Palestinians in refugee camps are soldiers.

Almost nightly on the Mount of Olives in Arab East Jerusalem, soldiers fire teargas and live ammunition.

Amid many sacred shrines — symbols of coexistence —in the Old City, Jews are stoned, shops are sacked and tension is thick.

Miscellaneous reports from the Territories flock in: four shebab (Palestinian youth) killed in Nablus by soldiers disguised as Palestinian women; a Ramallah youth is gunned down in the street by a member of the Israeli intelligence working with a collaborator.

Another Palestinian collaborator appears on Israeli television one night, narrating how he sliced his victims to pieces.

To the outsider, the conditions of the Palestinians' lives seem intolerable: direct and often fatal attacks, imprisonment, administrative and other forms of harassment, closed schools or — ultimately deportation.

"But we are hopeful," assures a doctor from Ramallah near Jerusalem.

"The balance of forces in the world is changing — in our favour. With Eastern Europe and the Arab states becoming democratised, the US will eventually shift its support away from Israel. It won't be such a strategic asset any more."

Even in Gaza, site of much of the uprising's violence, residents have faith that the intifada will bring about its desired end.

A prominent political spokesperson speaks about role of the US: "The US position is crucial; its attitude towards Palestine is hostile.

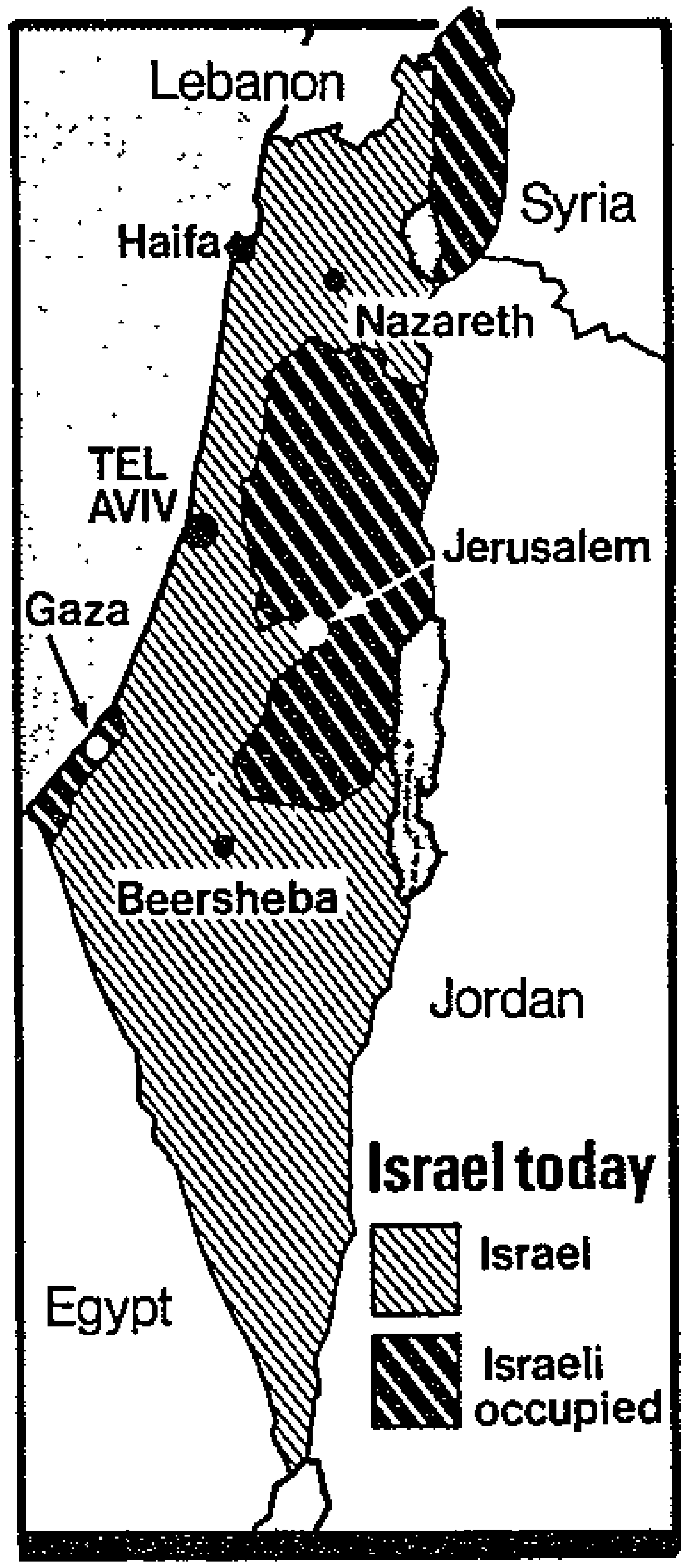
"The Arab governments' stand is long overdue. Egypt and Saudi Arabia, particularly, are not doing what they can. They are closest to the US and should approach it more firmly on this issue."

Israel is showing it is not interested in peace, he says.

Of course, some Israelis are. Several dozen organisations within the Israeli Peace Movement continue their work in protest, solidarity and material aid for the Palestinians.

But Israelis remain divided over the Palestinians, he says. "We have 53 percent who favour dialogue with the PLO, and 55 percent who favour deporting all 1,8 million Palestinians!"

Few on either side have a long-term scenario. Just as time will prove fatal to apartheid, Israel's occupation of Palestine — its "homelands" in Gaza and the West Bank — will prove untenable.



South 15/3 - 21/3/90

An exposition of political economic issues of SA

THE POLITICAL ECONOMY OF SA (OUP)

"THE Political Economy of South Africa" is a non-technical, concise yet scholarly exposition of political economic issues.

The contributors are specialists in their respective fields, as consistently high academic standards are maintained in the various chapters.

The book starts by tracing key political and ideological developments since 1910.

Isolating 1984 as the beginning of the final phase of apartheid, some speculative comments on the transition to a non-racial social democracy are offered.

A thoroughly consistent argument for the adoption of a social democracy as the only pragmatic and viable alternative facing South Africa is put forward.

A chilling comment: "Those whites willing to fight to the bitter end because they fear a one-party Marxist state will be creating the conditions under which such a state is most likely to emerge."

An emphasis is placed on the role of both the state and the market mechanism to accommodate key political and economic imperatives and demands.

The fallacy of "separate development" with its ethnic homelands and governments, and the need to categorise South Africa as a typical Third World country is eloquently stressed.

An entertaining and radical view of bantustans argues the need to regard them as more than just puppets of Pretoria. There is much mention of the bantustans which is embarrassing to the South African government.

A chapter on the early years of the independent trade union movement is very incisive, and an understanding is gained as to why unions may radically alter their policies and abandon strongly-held ideological positions that run counter to the concrete organisational requirements of the day.

The enthusiasm for the informal sector as a solution to the prevailing poverty and unemployment is cautioned against.

Other chapters include thoughts on black wages, unemployment and labour market issues, apartheid and economic growth, the migrant labour system, urbanisation and the housing policy, the state and redistribution, education and the economy, a choice of trade strategy, sanctions and capital goods, and appropriate technology.

The issues the book is concerned with are poverty, inequality, unemployment, the provision of basic needs and appropriate and just welfare planning.

As the need to discuss economic issues becomes increasingly urgent, this book should serve as an aid to the serious student and the interested lay person.

—*Suleiman Gool*

No scope for relaxation — Stals

(49)

Budget set to keep interest rates high

B/Day 16/3/90.

LESLEY LAMBERT

CAPE TOWN — Interest rates would remain at current or even higher levels for longer than expected if fiscal measures introduced in the 1990/'91 Budget had an expansionary effect, top finance officials said yesterday.

The officials, from the Department of Finance and the Reserve Bank, were speaking at a Budget forum arranged by the Old Mutual and Nedbank.

Reserve Bank Economic Department head Jaap Meijer said he believed the overall effect of the Budget, which provided tax relief of R4,5bn, would be expansionary and that Reserve Bank governor Chris Stals welcomed this. But, given the Reserve Bank's strict and persistent anti-inflationary stance, it meant interest rates would probably be sustained at present levels for slightly longer than had been expected.

● STALS

In Pretoria, Stals told a Junior Chamber of Commerce and Industry seminar the Budget left no scope for a relaxation of tight monetary policy.

NEIL YORKE-SMITH reports that Stals said Finance Minister Barend du Plessis had allowed for the option of further government stock issues to soak up excessive liquidity should the Reserve Bank deem it necessary.

Funds raised via stock issues could then be "neutralised" by placement in government's stabilisation account.

The Reserve Bank viewed the Budget as very positive, Stals said, especially in its emphasis on curbing spending and re-establishing normal economic conditions in SA. These moves would help in the battle against inflation.

However, Stals warned that funds released via tax reductions could generate inflationary pressure, especially if money was spent on consumer goods.

He was particularly supportive of the Budget's increased emphasis on social requirements.

"Steps taken to encourage savings and reduce government involvement in the economy are also very positive.

"Even if increased disposable incomes are used to reduce outstanding debts, this will have a positive impact," Stals said.

In Cape Town, Finance director-general Gerhard Croeser said if consumers interpreted the fiscal measures as being expansionary, and were not deterred from spending more by the high interest rates, the consequent stress on monetary policy would demand a "relatively high level of interest rates for a while".

The major aim of the Budget was to encourage growth by way of tax cuts and higher levels of saving and to begin the long-term economic restructuring necessary to improve long-term growth potential and the living conditions of the majority of South Africans.

Perm MD Bob Tucker said the trend in savings, which were a vital factor in promoting economic growth, would change significantly as a result of the exemption from taxation of dividends and the likely

☐ To Page 2

Interest rates

B/Day 16/3/90

(49)

☐ From Page 1

introduction of a low rate of withholding tax on interest.

Personal savings, which had been encouraged towards the life offices and pension funds by high inflation and tax on interest, were likely to swing to banks and building societies as a result of these relief measures, he said.

He felt the shift in the savings pattern would fulfil at least one of the Budget's aims, by providing a deliberate route to stimulate the grassroots economy.

In an earlier response to the Budget, the life industry expressed disappointment that the exemption of dividends was not applied to their business.

Du Plessis confirmed in his Budget speech that life offices would continue to pay tax on two-thirds of dividend income as well as on behalf of their policyholders.

As far as economic structuring and the increased emphasis on social spending were concerned, Croeser said government's intention was to bring about a major re-emphasis in its spending priorities, but only over a number of years.

It was too early to say whether the special fund to remove "backlogs" caused by restrictive job reservation and land-ownership legislation would become a permanent feature, Croeser said.

"It will be increasingly easy for us to place more emphasis on social spending, but there is a limit to what we can spend. We need to promote growth."

● See Page 3

Higher deficit will not lead to huge borrowings — govt

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BDay 16/3/90

GRETA STEYN

CAPE TOWN — Government has allayed the capital market's fears that its higher deficit will translate into huge new borrowings.

Finance Director General Gerhard Croeser said yesterday government would need only about R3bn from the private capital market. "And this has effectively been borrowed already in the form of a roll-over."

The financing requirement — deficit plus loan redemptions — doubled to about R12bn in the 1990/91 Budget from R6bn the previous year. This doubling initially caused a negative reaction in the gilts market which had expected virtually no borrowing.

Rates retained their upward bias yesterday on the belief that short-term interest rates would remain high. There was little change in rates between yesterday and Wednesday (E168 at about 15,34%).

The fact that borrowings would be low did not dispel fears that the Budget might prove to be too expansionary.

Of the R12bn borrowing requirement, about R2bn has already been borrowed and the Public Investment Commissioners (PIC) are expected to invest more than R6bn in government stock.

The PIC's cash flow consists mainly of government's pension funds. Its huge contribution will be the main reason why government's need to borrow from the private capital market will be limited.

But in a break from previous years, the PIC's specific contribution to financing the borrowing requirement is not shown in the Budget. This is a significant move signalling a change in the way the PIC is to be handled and could have radical implications for the SA investment scene.

Reforms

Government is preparing to rely less on the cash flow from its pension funds and more on private investors in future.

The Budget hints at major reforms of the state pension funds that could eventually see them invest heavily in JSE equities rather than government stock. The PIC's annual cash flow of R6bn would have an enormous effect on the JSE, and freeing of these funds is likely to be a gradual process.

The Budget Review says the PIC will no longer be treated as a fully "captive" investor in government stock "and will thus not be separately identified with regard to budget financing".

"Following the abolition of prescribed investment requirements, it has been decided that, within the limits of the Public Investment Commissioner Act, greater investment freedom should in future be allowed the Government Service Pension Fund."

The fund, which has an actuarial deficit of about R23bn, currently invests only in government stock. The constraint on investment is one factor behind the huge shortfall between assets and liabilities, and as long as it continues, little progress will be made in addressing the problem.

However, investment in equities will not be possible until the Act is changed. It is understood government is considering introducing legislation to free the PIC from the current investment constraints, but official confirmation could not be obtained.

Freeing government's pension funds would reduce the shortfall in the funds through better returns on investments. The Sats fund has already taken that route. The pension fund deficits have emerged as a major obstacle to privatisation, giving a sense of urgency to their funding.

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B/Day 16/3/90

Why black people want redistribution not market benefits

WALTER SISULU

WE NEED to employ the powers of a democratic state to bring about a planned redistribution of income and wealth in favour of the people as a whole, and the reduction and ultimate abolition of the inequalities ruling over our people.

Unfortunately it appears the energy and resources of the business sector are being directed into a campaign which aims to pre-empt a democratic SA from pursuing economic policies which redress inequalities through a planned redirection of resources.

The campaign seeks to propagate the alleged virtues of the free enterprise system, its supposed efficiency and its ability to generate economic growth and wealth without government intervention or public ownership of productive assets.

The campaign, virulent in its opposition to nationalisation of some key economic sectors and other forms of state intervention, has obscured the central economic and social inequalities in our country. It merely assumes that these problems will disappear as a result of the economic growth it claims will result from "free enterprise" policies.

What needs to be emphasised is this: we neither possess the time nor a popular willingness to wait. Our people's patience has been repeatedly tested against promises which have seldom been implemented.

The ANC desires a good working relationship with the business sector, based on a mutual understanding aimed at developing a serious and productive dialogue about the policies required to secure the future of our country and its economy.

We are obliged to draw your attention to certain key material facts which bear a critical influence on our thinking and indeed on our judgment about what constitutes the economic reality of our country.

For most of this century the SA state has been the agent for the enforcement of what we consider to be the systematic economic deprivation of the black majority. In our view, what you would call "private enterprise" has done a lot to shape the basic structures of apartheid.

Apartheid stands on the pillars of private capital which have been heavily protected by the state. When Nelson Mandela speaks of nationalisation, he is not lost in some time warp or simply uttering allegedly discredited ANC positions; he is keeping faith with the black masses who see the system of labour migrancy and cheap labour as the profitable tool of mining monopolies and other conglomerates which dominate the economy.

We in the ANC are seeking new approaches and solutions to overcome the gross inequalities we have inherited, to transform a society presently characterised by such extremes of poverty and wealth that conflict is almost inevitable.

The business community must recognise that black people are no longer the inert mass that once formed the object of pure business calculations; nor are they the willing forces of labour as determined by law and government edict.

A new way to oveome the crisis must begin with a recognition by the business sector that unquenchable expectations by the people have to be satisfied now:

☐ A living wage which guarantees for every worker and his family a decent diet and an adequate shelter;

☐ The extension to all our people of the basic requirements of social security, medical facilities and a safety net for the unemployed; and

☐ Free and equal education for all, with facilities for adult polytechnical training.

Satisfying these expectations raises questions which go to the heart of the problem of how to construct the democratic post-apartheid economy. Whatever the rate of growth of the economy, there must be a substantial increase in the flow of the nation's output towards meeting these expectations.

This may result in a loss of profits, and even in a lowering of white incomes. If we are to secure the conditions for peace, renewed economic stability and growth, we must be prepared to make sacrifices.

How are these shifts in the flow and direction of income, and the satisfaction of the expectations of our people, to be managed? Here we have some elemental difficulties in reaching an understanding with the business sector.

The representatives of business we have met, as well as spokesmen of the major conglomerates, all hold the view that what is broadly called economic growth will more or less solve the problems.

The point we make needs to be answered, that the history of our country has been marked by a grotesque sense of social irresponsibility on the part of the business sector towards black people. This leads us to believe that the remedies we seek will not be met by a post-apartheid state whose government refrains from intervening in the economy.

What flows from this belief is that the post-apartheid democratic state will have to pursue an activist economic programme. One aspect will be using resources released by the abolition of duplicate apartheid institutions and structures, and mobilising other income sources, to foster redistribution of income in favour of the people as a whole.

The state in a post-apartheid SA cannot cannot be satisfied by mere adjustments in fiscal and monetary policy to achieve the key conditions of economic democracy. Some of the options we are exploring are:

☐ To curb monopoly power through legislation and the dismemberment of some key conglomerates to bring industry and its development closer to the workforce and the people who make up the market. Such a course cannot be pursued mindlessly. The size of certain corporations is necessary if they are to remain profitable; where it would be uneconomic to break up a monopoly, the state would be justified in acquiring a controlling position in the public interest.

☐ A greater diffusion of power in industry through the spread of ownership. Through this and through legislation to involve the workforce, the state, local authorities and, where necessary, consumers on the boards of companies in such industries. The involvement of the state would be critical in influencing the flow of investment, the distribution of income between wages and profits, and the direction of the economy.

Many parastatal corporations were created with the support of private capital for providing employment to the poor white group since the 1930s; so today the democratic state will be obliged to consider renationalising privatised parastatals not only to maintain the developed industrial and service infrastructure, but also to secure the beginnings of movement towards a redistribution of wealth.

☐ The democratic state will have a duty to secure legislative powers to enable it to steer the economy in directions which not only satisfy the requirements of internal and external equilibrium and of income redistribution, but develop infrastructures for a growing population.

All these requirements of a democratic SA fall within what we call a "mixed economy". Many if not all of the elements we propose for transforming our economy are to be found in the economic policies of the countries of Europe, and indeed of North America.

What is new for us is that these changes in policy are preconditioned upon the ending of the system of white domination, and its replacement by a government representative of all the people of a united SA.

I would call upon all of you to put aside your fears and preconceived notions and join us in finding ways of addressing the real and pressing needs of all our people.

☐ Sisulu is ANC secretary general. This is an excerpt from his address to businessmen at the Wits Business School last week.

☐ IN Simon Barber's column on Tuesday it was incorrectly reported that Philip Hare, legal adviser to the SA embassy in Washington, was paid $360 000 a year. He is paid $180 000. Business Day regrets the error and apologises for it.

LETTERS

Dear Sir.

B/Day 16/3/90

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Transfer of hospitals and resorts ups 'white' budget

MIKE ROBERTSON

CAPE TOWN — Government's decision to treat provincial hospitals and resorts as an own affair was a major factor contributing to a 23% hike in a R8,1bn budget tabled by Assembly Budget Minister Amie Venter yesterday.

Venter said in his budget speech that the chief reasons for the increase, which exceeds the inflation rate by about eight percentage points, was the transfer of provincial hospitals and resorts to his department, the provision of funds for employer's contributions to pension funds and the Civil Pensions Stabilisation Account, the improvement of conditions of service, an increase in social pensions and the carry through costs of salary increases.

Together these factors resulted in increases of R1,4bn.

The individual increases were:

☐ Transfer of resorts — R9,4m;
☐ Transfer of hospitals — R243m;
☐ Employers contributions to pension funds and the stabilisation account — R491m;
☐ Improvement in service conditions — R242m;
☐ Improvements in social pensions — R58m; and
☐ Carry through costs of salary improvements — R339m;

Education

The largest allocations in the Budget went to education and culture (R5,3bn), welfare (R1bn), agricultural development (R665 615m), health services (R432 545m), local government, housing and works (R331 531) and improvement of conditions of service (R250 668).

Spending on education and culture was up by R931m, or 21%.

This increase was due to improvements to conditions of service (R339m), employers contributions to pension funds (R443m) and an escalation of continuation costs (R149m).

The welfare vote was up by R69m and health services jumped 166% due to the provincial hospitals transfer.

☐ House of Delegates Budget and Auxillary Services Minister Raman Bhana yesterday presented a budget of R1,2bn for the 1990/91 financial year — up by 21,3%, Sapa reports.

☐ House of Representatives Budget Minister Miley Richards presented a R3,4bn budget yesterday.

The coloured community had a historical backlog in all spheres in which State services were rendered, he said.

But, he said, they would follow suit if the "economic ship went down" and thus the inability to address backlogs would have to be accepted for now.

Pension rises

Workers left out, says NUM

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Sowetan Corresponent

THE Budget contains nothing for workers, other than a clear indication that they will have to fight harder for pay rises this year, says the National Union of Mineworkers.

Sowetan 16/3/90

Commenting on the creation of a fund to redress socio-economic backlogs, announced in the Budget speech, the NUM said the major backlog for black workers was "deeply discriminatory" wage levels.

This was not recognised by Finance Minister Mr Barend du Plessis, who blamed inflation on wage rises and called for increases below the inflation rate.

"There is no call on businessmen to limit price rises, or distribute profits to workers," the union said.

"Black workers' wages need to rise in real terms so that they may address all the backlogs identified by the Minister. But the Minister wants real wages to fall."

INVESTMENT FM 16/3/90

Bright side

[redacted] (49)

JSE president Tony Norton told the Italian-SA Chamber of Trade & Industries that growth could average 4%-5% a year for the first half of the Nineties and 7%-9% for the second.

He believes this is attainable "considering

FM 16/3/90 [redacted] (49)

we can still grow at 2% a year, despite being at the nadir of our economy and starved of capital, skills and management."

He adds that, far from teetering on the edge of an abyss, SA is a stable society. "We have just seen a minority handing over power voluntarily for the first time in history. The sanities are returning. When Nelson Mandela came out of jail his every utterance took 2% off the JSE board, but he is talking rationally now and gives the impression he's a man of goodwill, peace and sense."

Norton says sanctions and mismanagement of the economy are ending. Instead of industrial relations blowing the lid off society they are teaching South Africans to negotiate and settle their differences.

Socialism, communism and capitalism haven't worked in Africa "but since the Fifties, an endless stream of balanced people have predicted our end. They've all been proved wrong. We're still here and we're a society looking for a solution.

"No one here wants to see the destruction of wealth. Everyone wants to see it created and distributed better." ■

FM 16/3/90

[redacted] 49 [redacted]

Lessons across a border

There are some who will say it is one of life's rich ironies. Others will claim the superiority of practical experience over theory. But the fact is that on the very day the ANC's ageing Walter Sisulu was threatening businessmen in Johannesburg with "creative nationalisation," the PM of Mozambique — a younger but wiser man — was saying exactly the opposite in Maputo.

"If the ANC were to ask me," Mario Machungo told the *FM*, "I would tell them that nationalisation is not the right way to go." Both he and Finance Minister Magid Osman made very clear that they would welcome private investment — especially in the area of financial services — and that they regard a strong, democratic and well-managed SA as vital to the prosperity of the southern African region.

Hardly a week goes by nowadays without some leftwing intellectual or trade union leader here proclaiming that a post-apartheid SA will need to be centrally planned into prosperity: from a low-wage high-cost economy into a high-wage, low-cost economy. Precisely what that means requires an arcane insight not vouchsafed to ordinary business folk.

The reasoning seems to be that not only will nationalisation and central planning bring prosperity, it will redistribute wealth more equitably and bring about a society somehow less harsh than capitalism. It is a proposition that has no basis either in rational theory or practical experience.

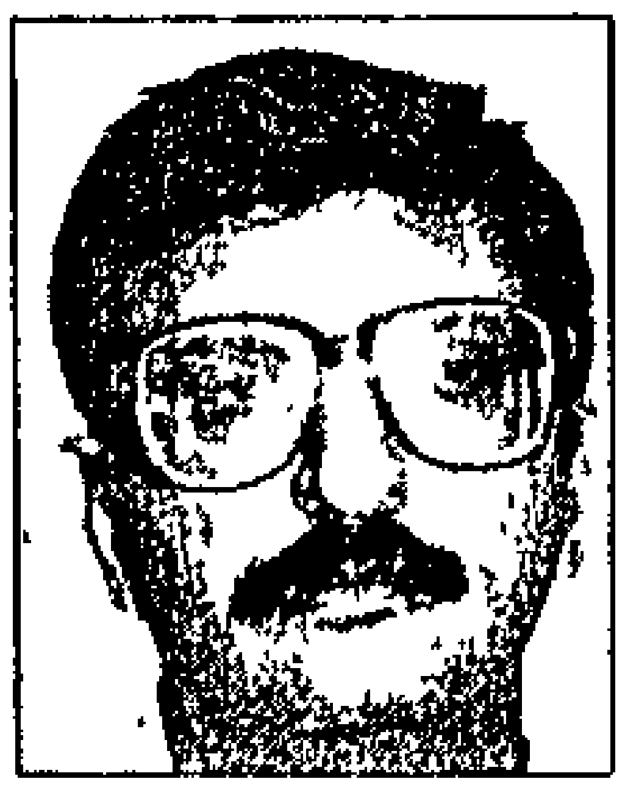
Five years ago, there were those who could have argued with greater credibility that socialism brought about less prosperous but more equitable societies than those in free enterprise countries. But even that has proven wrong. Socialist countries in eastern Europe, Asia and Africa have failed to produce the basic necessities of life (such as food and shelter) and has given rise to authoritarian regimes whose human conduct has made the so-called harshness of capitalism pale by comparison.

As the London *Financial Times* said last week: "The argument about the limits of communism is over." Whatever elements of it are retained in any society will not soften capitalism but reinforce tendencies towards authoritarianism and circumscribe prosperity. Socialism is not an egalitarian luxury to be enjoyed by only the prosperous nations. It is a system of providing the basics of life that has failed and will fail in any society.

Our neighbour, Mozambique, has been through it all: revolution, nationalisation, central planning, authoritarianism (with social engineering projects far worse than apartheid), brigandage and, finally, destitution. It has come to the conclusion that it is far more socially beneficial to create wealth in a country where elections are free and private ownership is restored than to try and redistribute resources that its own socialist policies are eroding.

Osman makes it very clear that redistribution of wealth in the new, reconstituted Mozambique will be through fiscal means. "We will use the tax system to do it," he told the *FM*.

Mozambique, of course, did not have to nationalise very much. The threat was sufficient to cause the majority of small businessmen to abandon their assets and flee — a process that the ANC's nationalisation threats has already started in this country. Having effectively destroyed the small business sector — the very sector with the potential to create the most jobs — Frelimo found itself having to allow the larger companies to continue to produce what were very quickly seen to be essential goods and services.


Osman


Machungo

So the Marxists were forced to horse trade. They did special deals with those companies they felt they needed. Lonrho was one of them. And their agreements with government exclude them from the vagaries of some laws and regulations. That appears to be what Sisulu has in mind when he refers to "creative" nationalisation here. So much for equity and egalitarianism.

On its knees

The ANC does not have to go to eastern Europe or Asia to see the folly of what it is proposing for this country. Mozambique is only a half-hour flight away. It is a country on its knees. It lives on foreign aid; it cannot provide sufficient food for its peoples despite its rich agricultural potential; law and order is uncertain. There are strikes, shortages, corruption and disease. As the *FM* pointed out on March 2, it is a disaster almost entirely man-made — by Frelimo and its collectivist preoccupation.

Frelimo today has had the courage and wisdom to change its mind. The young men in key minsterial posts now have not learnt the new policies they are implementing — with the help of the World Bank — from text books alone. They have themselves experienced the grinding poverty and degradation of collectivism.

And, despite the enormous constraints of the Renamo war, they are making progress, slowly, hampered often by their own inability to shrug off entirely the sentiments of their rejected ideology. The process of reform is painfully slow. The GDP will rise by only 4% this year. But the new rulers are sufficiently magnanimous to negotiate with companies willing to return who want their abandoned assets back. They will welcome back, too, those who fled after the revolution provided they feel they have something to offer a sovereign country.

What the ANC, with Mozambique in mind, should be doing now is not threaten nationalisation and central planning — the harm that does is potentially as destructive as the fact — but probe ways of redistributing the country's wealth without dissipating it. It is not the issue of ownership of productive assets which will accomplish that task.

It is the wisdom of a sovereign government that has a claim on the fruits of that ownership.

Budget extremely political - Azapo

THE Budget was extremely political and reflected the current schizophrenia of the government of the day, Azapo vice-president (Finance) Mr P C Jones said in Cape Town yesterday.

While acknowledging the major emphasis of the Budget on the creation of a State Fund to remove socio-economic backlog was a major departure from the traditional emphasis of strengthening the defence forces and other protective measures of white interests, he pointed out the government was "trying to satisfy too many fundamentally contradictory interest groups". Sowetan 16/3/90

"The lack of definition of the beneficiaries of the State Fund is clearly also directed at white fears that their impoverishment would be made worse by the government's current concerns for black problems," he said.

"The Budget is extremely political," he said.- Sapa

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RESERVES FM 16/3/90 (49)

Going our way

Another significant increase in February reserves has economists cautiously predicting an upward trend. Total reserves rose R250m (US$99m) to more than R5,9bn ($2,3bn), up from R5,7bn ($2,2bn) in January.

Gold holdings increased by R446m ($174m) to almost R3,4bn ($1,3bn), despite a drop in the February price to R949,17/oz ($371) from January's R962,04 ($376). The jump was the result of 500 000 oz being added to the Reserve Bank's holdings, for a total of 3,5m oz. Forex reserves fell R196m ($77m) to R2,6bn from just under R2,8bn ($1,1bn) in January.

The rise was a result of a continued (and rising) BoP surplus and strong short-term capital inflows caused by a stable rand and falling dollar.

Old Mutual's Rian le Roux says: "The trend is definitely in the right direction but we still have a long way to go." Reserves equal to about three months' imports are considered adequate. Imports in the three months to January cost R10,4bn, compared to reserves of only R5,7bn — just 1,6 months' imports. It is also significant that the inflow of short-term capital will, by definition, have to be repaid within the next year.

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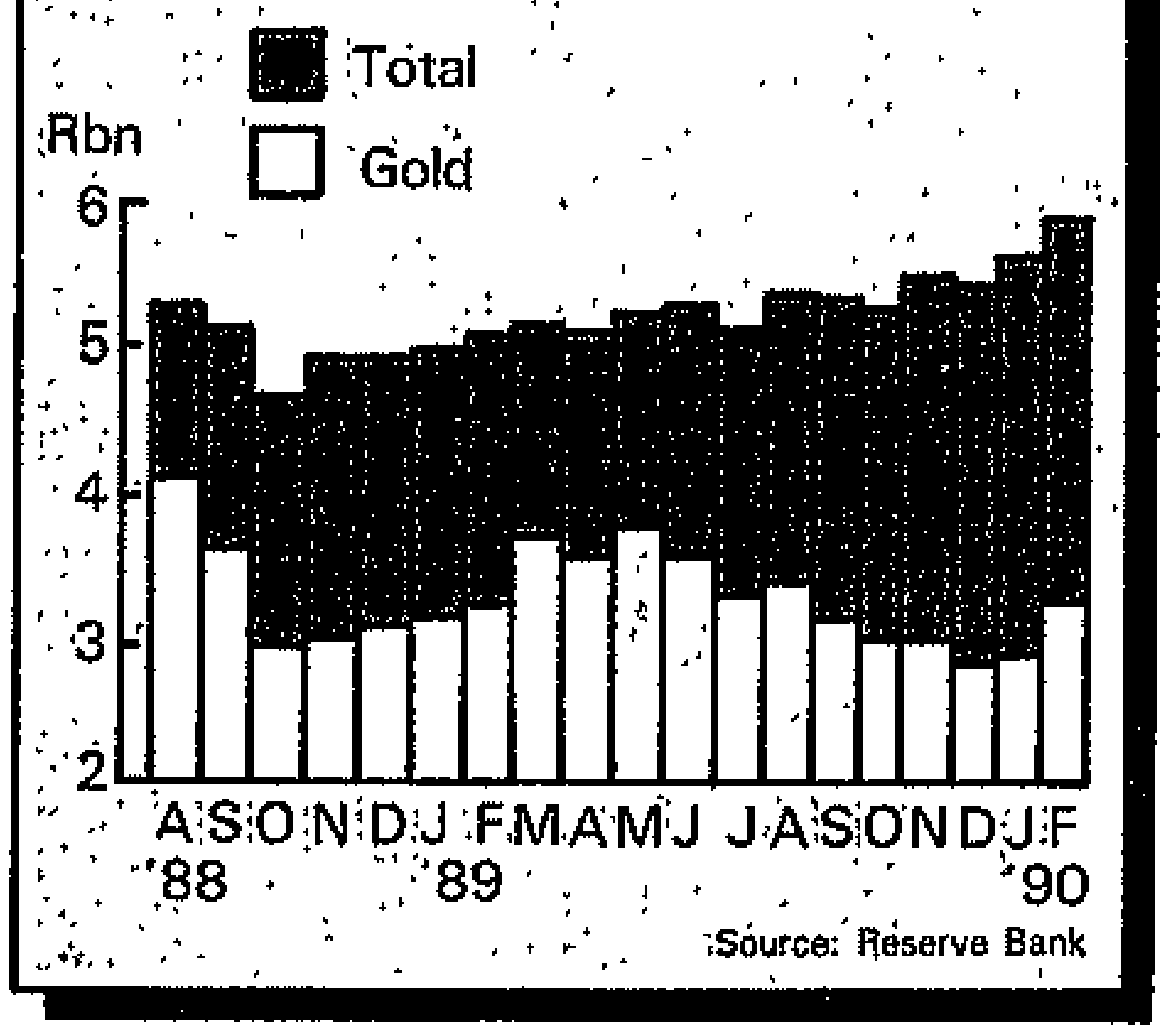
Filling up

Value of gold and forex reserves



Source: Reserve Bank

In addition, the dollar value of reserves is well below the 1980 high of $9bn. The dollar itself has lost about 50% of its value to inflation in the past decade — so reserves have declined even more sharply in real terms than the figures show.

Econometrix chief economist Azar Jammine says the figures are an indication of an improved political climate and an easing of foreign hostility, resulting in an increased inflow of short-term capital. "Increased foreign involvement could add half a percentage point to GDP growth this year," he says, "but the main thrust will not come until we regain access to long-term capital."

The increase in gold relative to forex could also be "indicative of the stronger BoP," says Trustbank economist Nick Barnardt. "If there were a BoP deficit, the Bank would have to sell gold to obtain dollars." The Bank may also be keeping gold off the market to stabilise a vulnerable price and prevent excessive strengthening of the rand-dollar rate. ■

FINANCIAL MAIL MARCH 16 1990

The Star
Finance

Budget helps restore State's credibility in financial markets

Star 16/3/90 (49)

By Magnus Heystek

The Budget proposals will go a long way to restoring the Government's credibility in South Africa's financial markets.

This is conducive to long-term economic growth and planning and is also the start in redressing serious structural deficiencies that have developed in the past decade under the rule of former State President PW Botha.

Analysts pointed out after the Budget speech that the new-found discipline over governmment spending lies at the heart of the long-term success of government fiscal and monetary policy.

Finance Minister Barend du Plessis is equally aware of this.

In his Budget speech he said: "Should doubt exist on the credibility of Government's fiscal policy stance, then today's Budget will come short of its goals."

Serious structural problems beset the South African economy, with the high inflation rate a major and central problem. As Mr du Plessis himself puts it: "The sustained rate of inflation has become institutionalised, it is a structural problem itself."

In the balance of payments dimension it surfaces in the deteriorating competitive position of our producers, on both the local and international markets.

To the extent that poor export performance causes exchange rate depreciation, inflation is exacerbated by rising costs springing in particular from the import of capital and intermediate goods.

The paralysing grip of inflation and other price-distorting factors on economic growth and employment is reflected in the course of several important economic ratios, such as what is known as the capital-output ratio and several key savings ratios.

Structural high inflation over the past 15 years, combined with political uncertainty and economic mismanagement, have resulted in drastic changes in domestic savings ratios.

A major thrust of this year's Budget is the attempt to change these important ratios.

Company savings

Although company savings as a proportion of gross domestic product (GDP) has grown fairly sharply from the 1970s to the 1980s, an increasing portion of the country's available capital funds have had to be applied to the maintenance of existing assets.

The increase of company savings has been to the detriment of gross domestic fixed investment and ultimately job creation. Elsewhere in the Budget speech it was estimated that more than one million jobs were lost during the 1980s.

The utilisation of capital has similarly has shown a drastic decline — by over 33 percent since the mid 1960s. This sharp drop in the average output per unit of capital invested was not only accompanied by a sharp increase in capital intensity in the economy but was probably also largely its consequence.

Simply put, South Africa was not using its available capital efficiently.

In the same manner the availability of skilled and suitably trained workers forms a serious bottleneck for economic growth and employment.

The relation of technically trained to academically qualified manpower is virtually the inverse of that found in fast growing countries.

As to the demand for goods and services, the South African environment is still characterised by great differences in development between regions, groups and communities.

Low living standards and absolute poverty live cheek by jowl withwealth and extravagance.

The solution to these problems through job creation and the provision of equal opportunities clearly demands a growing economy.

Structural problems in the SA economy also surface in a comparitively high import propensity and in the fact that the balance of payments and the exchange rate come under pressure once economic growth increases beyond the average levels of the preceding few years.

Should the foregoing trends continue, the growth performance of the economy will in all likelihood fall further, to below the average rate for the 1980s of about 1,6 percent.

In these circumstances, the economy will not be able to meet the demand for work and rising standards of living.

Budget sets a poser for life assurers

St 16/3/90 (49)

By Derek Tommey

Minister of Finance Barend du Plessis may have wrought more than he realised in Wednesday's Budget. Or he may have known perfectly well all along.

Among the foreseen or unforeseen consequences of his decision to abolish tax on dividends is one that threatens the life assurance industry and makes things more difficult for top executives participating in share-incentive schemes.

Investment attraction

Investment advisers say the abolition of the tax has greatly reduced the investment attraction of many insurance policies.

Before the Budget they only way an investor could accummulate a capital sum without paying tax was to invest his money in a 10-year-endowment policy.

But with dividends no longer taxable, the need to invest in an endowment policy to accummulate a tax-free capital sum falls away.

An investor can get the same or an even better return by investing in unit trusts and re-investing the dividends in them. He could do the same with a managed portfolio or with his own portfolio.

Speaking in Cape Town yesterday, Bob Tucker, head of the Perm, said the abolition of the tax would have a major impact on the flow of savings. He expected them to move away from life offices to banks and building societies.

Mike Hyslop of the Board of Executors said the ruling meant investors who wanted long-term capital appreciation and did not want life cover were likely to chose some other route than buying an insurance policy.

Insurance policies had the attraction of offering the nervous investor a guaranteed growth, usually limited to four percent a year.

But this was low compared with the 27,3 percent average annual growth achieved by shares on the JSE in the 10 years to 1988.

An accountant said yesterday that Mr du Plessis, by abolishing the tax on dividends and increasing the notional rate of interest from 16 percent to 19 percent on interest-free or partly-interest-free loans, had seriously discomforted a number of senior executives.

These are the ones who have received interest-free loans from their companies to participate in share-incentive schemes.

Tax dodges

By using all the available tax dodges, these share schemes were (until Wednesday) usually contrived to ensure that they were self-financing and that the the executive was exempt from tax payments as long as the dividend rate on the shares was three percent or more.

This is about the average dividend yield on most quality shares.

But as a result of the Budget, these tax dodges have disappeared since many of the schemes are self-financing only when the dividend rate exceeds eight percent.

If the dividend yield is less than this figure, the executive could be liable for tax.

Experts warn on use of R2-bn fund

(49)

By Esmaré van der Merwe,
Political Reporter

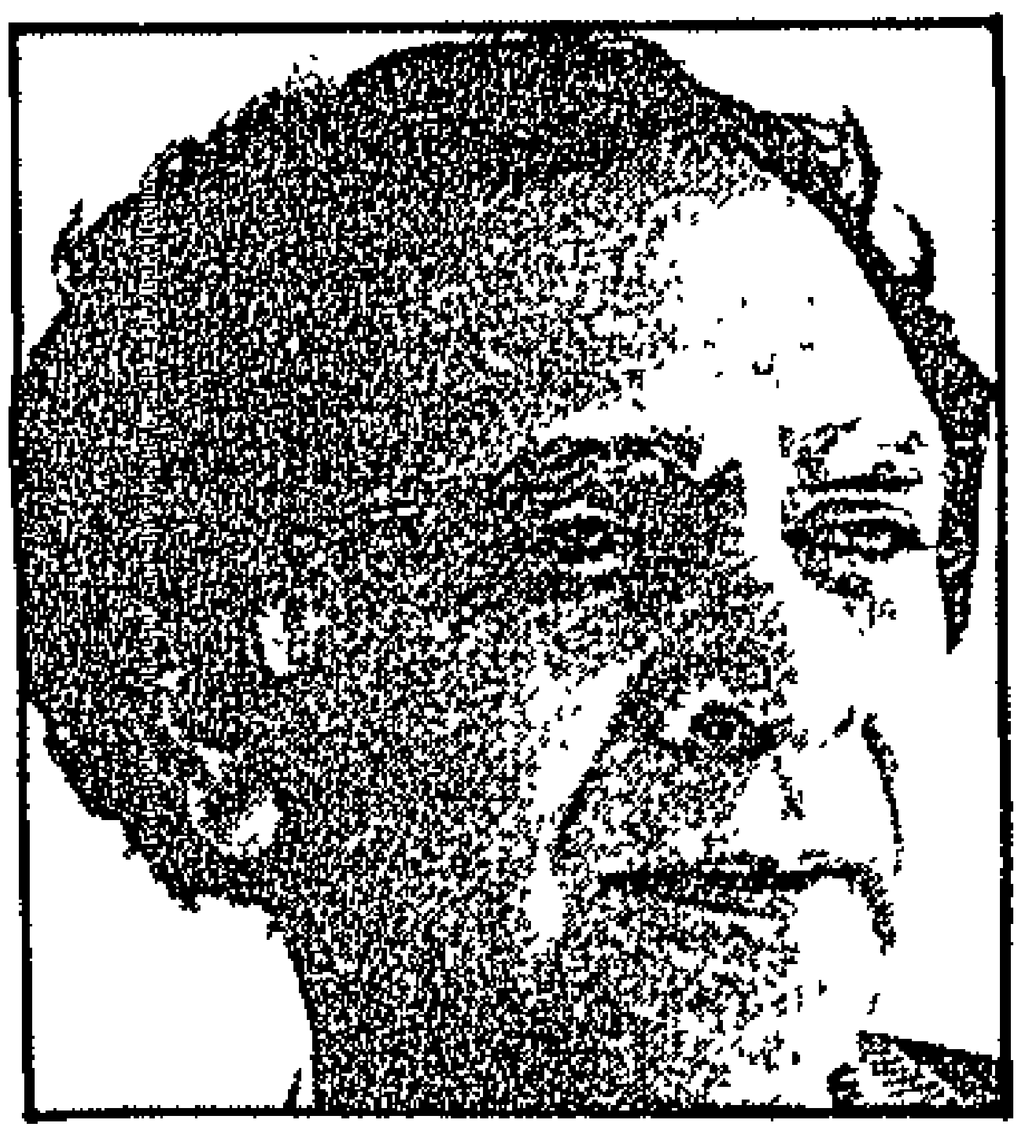
Star 16/3/90

The Government's new R2-billion special fund for alleviating social backlogs has been widely welcomed as an important initiative to address the political wrongs of the past.

But community organisations, politicians and development organisations have warned that projects would have to be selected carefully to ensure that the money was channelled effectively.

Commented Mr Sonny Tarr, general manager, development services at the Small Business Development Corporation: "You've got to make the money work. It should not be once-off donations."

And, said Mr George Pappas of World Vision, an organisation which has been involved in community projects for 22 years: "It is easy for that kind of money to go down the drain. It should be channelled through organisations with a track record of acceptability, credibility and experience."



Mr Cassim Saloojee ... community organisations should be approached collectively.

Mr Cassim Saloojee, president of the Transvaal Indian Congress and a director of the Johannesburg Institute of Social Services, said there was a vast network of community organisations as well as subsidised development organisations which could be utilised.

"The crucial point is that all these organisations should be approached collectively to ensure community participation in the projects. Without them this could become a massive exercise in futility. People should become actively involved in the decision-making on how resources should be utilised."

Mr Mark Swilling at the Centre for Policy Studies at Wits agreed that community organisations should be directly involved in negotiations with the state on how the money should be allocated.

He gave examples of community projects which could not have been implemented before because of a lack of funds.

- The Soweto People's Delegation (SPD) has for over a year negotiated with the Development Bank of Southern Africa, Escom and the Transvaal Provincial Administration on ways in which the Soweto rent boycott could be solved.

Sophisticated proposals have been drawn up on how Johannesburg and Soweto can be integrated into one, non-racial city.

- The Port Elizabeth Black Civic Association has proposed a scheme for the electrification of townships in the area. Currently only 25 percent of township households have electricity.
- The Uitenhage Residents' Civic Association has suggested that Langa township, from where people were forcibly removed some years ago to kwaNobuhle, be developed as a free settlement area.
- The Alexandra Residents' Organisation has been negotiating with the Sandton Town Council, the Transvaal Provincial Administration and the Development Bank on a design plan to address the township's socio-economic problems.

Mr Swilling said: "R2-billion can go far if spent wisely. What counts is not how much money is available, but how the cents are used.

"The historic trap which has to be avoided is that the money be channelled through big white business without the consultation of the communities for which the projects are designed.

"This may be an opportunity to negotiate with communities' development funds which are locally specific and shaped by local interests and aspirations."

The experts emphasised that a system should be established whereby the Government could effectively monitor projects.

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Financial Mail

THE BUDGET FIM 16/3/90 ㊾

Fiscal good faith

The first national Budget of the De Klerk administration is more than a radical statement of intent to set the economy on a path of sound and sustainable economic recovery. It is, for the most part, a frank admission of past shortcomings and begins modestly — but purposefully — to impose the fiscal disciplines and supply-side measures that will stabilise prices and restore prosperity.

There are those who will see it as the economic version of President F W de Klerk's freeing of political prisoners — especially Nelson Mandela — and unbanning of black political organisations. And that is not too far from the truth. Certainly, Finance Minister Barend du Plessis went much further in curbing State spending and reducing taxes than we had expected.

Apart from the measures announced, which are examined in greater detail in the following pages, there was a subtle but important change in philosophical approach that has not been evident in his previous Budgets, some of which contained more rhetoric than substance.

In particular, there is a strong commitment to a private enterprise economy and, through deregulation and privatisation, to restructure it so that the opportunity to acquire wealth is more equitably spread over all sectors of the population. He is more specific than he has been in the past over the use of privatisation not only to gain revenue for government but to create wider ownership of shares.

This is reinforced by tax measures which will, in addition to stimulating share ownership, lead directly to increased investment in gold mining, a vital sector of the economy that has come under increasing cost pressures. Its prosperity needs to be restored so that it can, through adequate prospecting and technological advance, regain the position of world dominance.

In addition, a more widespread shareholder population, and increased savings, will be fostered by the exemption of dividends in the hands of individuals and close corporations from normal tax; further moves towards separate taxation of married women; phasing out of the marketable securities tax; and creation of greater tax certainty by introducing a "safe haven" for shares held for more than 10 years.

Lower taxes always lead eventually to increased savings and investment which in turn foster growth that increases the tax base. So in the end, government revenues inevitably increase. Du Plessis' determination to follow this sensible path — declared before but not adequately acted upon — is given greater credence in this Budget, not only by the effective cuts in tax, but by a firm commitment to slash income and company taxes over the next five years.

The tight hold that Du Plessis has on spending, both in the past fiscal year and in the current one, is the first time in 12 years that government has been seen significantly to reduce its share of total spending in the economy. This is enormously encouraging. Had spending last year not been kept in check, his estimates of expenditure this year would have had little credibility.

In the event, he has come up trumps and must be given credit for a Budget that is not only well tailored to our reduced circumstances but one that will bring about a sound recovery. He has wisely avoided measures that could be calculated to bring about a quick political fix that would prove ephemeral.

Spending restraints now will give government in the years ahead the wherewithal to provide additional social services, such as education and health, and begin significantly to make up for the shortcomings of abandoned social policies.

However, the thrust of government spending in this Budget and disposal of windfall gains indicate that government is serious about bringing about the social changes it now advocates. The increase in spending on black education (up 26%) and *de facto* reduction in real Defence spending are encouraging indications.

Defence has been cut dramatically. Savings from the economies in this fiscal year will flow through more strongly in the years immediately ahead. The shorter national service, the need in consequence to retain higher and more professional levels of leadership skills in the Permanent Force and the costs of laying off close to 10 000 people in the defence industry have all added to immediate Defence costs.

If last year's Defence spending of R9,9bn were grossed up for inflation at 15%, and the costs of pensions and taxes, which from this year the Defence department will have to pay added, it would have risen close to R12bn. In the event the new Defence budget has been trimmed to R10bn, a reduction in real terms of around R1,9bn.

Since 1976, Defence spending has been fairly constant. As a percentage of GDP it's down from 4,2% last fiscal year to an expected 3,7% this year. That compares to 4,4% in Britain, 5,9% in the US, 7,3% in Zimbabwe and 13,7% in Israel. Since 1983, operating spending in the Defence Force has declined from 70% of the total to 56% this year.

It is a pity that there was not greater tax relief in view of the near 30% increase in company tax last year, after the summary removal of all sorts of allowances, and more for personal taxpayers after years of fiscal drag.

There were one or two lapses from the economic philosophy spelt out: the maintenance of exchange controls, the minimum company tax and the failure to remove the import surcharge completely all contradict what Du Plessis says he is trying to do.

But perhaps that was too much to hope for in one Budget. Sufficient has been done to raise the expectations of investors both here and abroad. For this Budget certainly does have the mark of an intellectual appreciation of what needs to be done and has a content that suggests government is serious in bringing about the economic reforms necessary in the foreseeable future. ■

FM 16|3|90 (49)

happy state of affairs may be short-lived.

But at least in the corporate sector, Du Plessis' estimate of the revenue to be raised from tax changes could be underestimated.

Pim Goldby partner Peter Backwell points out that companies have considered the Lifo reserve a permanent timing difference and provided no deferred tax. To make the reserve taxable over 10 years will hit the bottom line and cash flow of many companies. He knows of a number that have Lifo reserves of more than R100m, suggesting that the minister has underestimated the tax to be collected (R50m estimated for 1990-1991).

Backwell also says that the most recently published financial statements of six listed construction companies reflect construction work-in-progress of R912m. At these levels, that amendment should collect additional tax of R91m a year for the next five years from these alone (on the assumption they do not incur assessed losses). Here too the estimate of tax to be collected in 1990-1991 appears to be an understatement.

The proposed tax on consumable stores reverses the policy implemented in Practice Note 6 issued in 1987 — which provided that consumable stores and maintenance spares were to be phased *out* over a three-year period, from September 16 1985. Here too Backwell thinks collections are substantially underestimated.

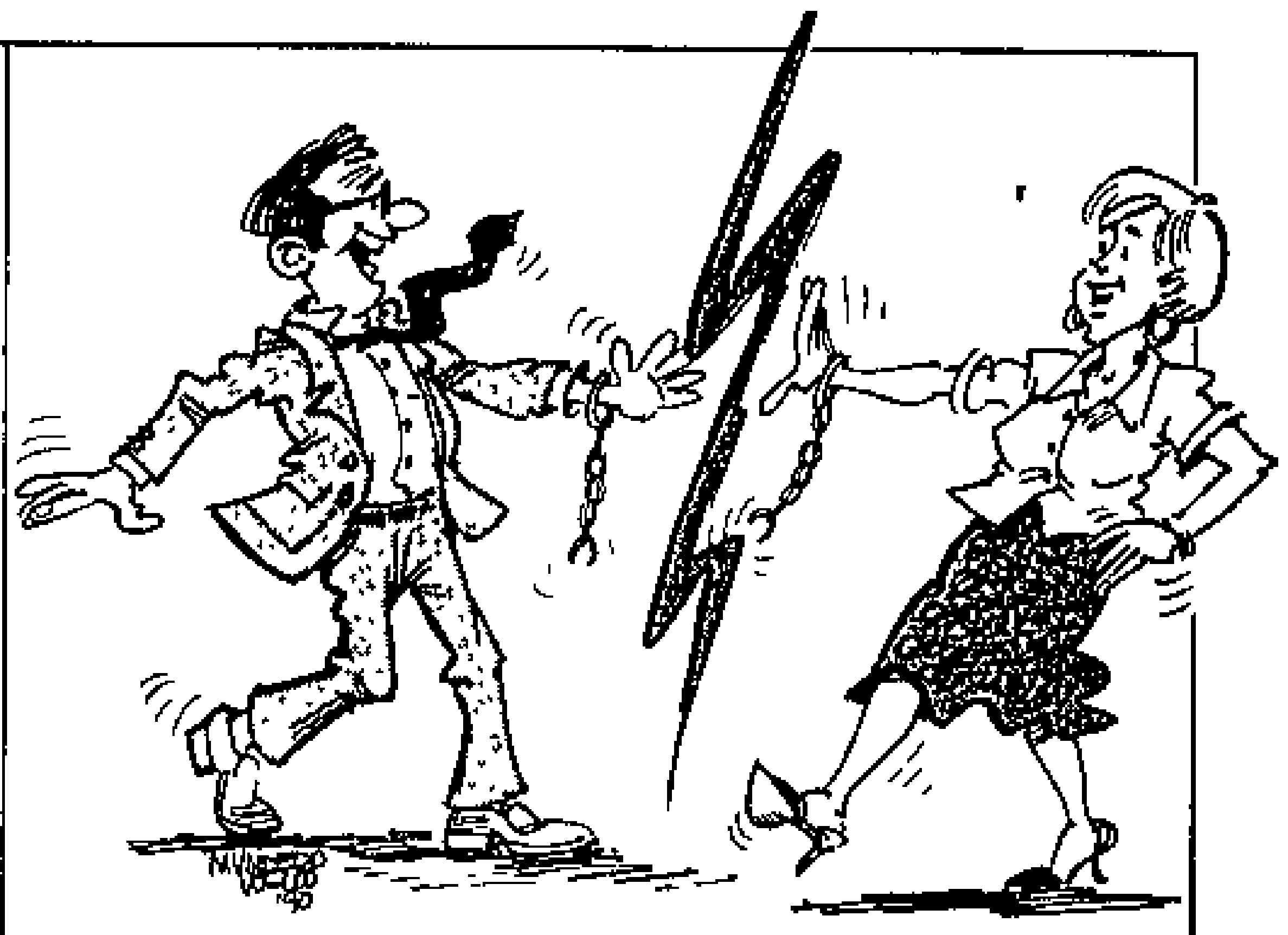
Not that all corporate sectors will end up worse than they started.

Significant concessions have been made to mining, in evident recognition both of recommendations by the Margo Commission and, in the case at least of gold mines, of recent adverse economic trends.

Anglo American group tax consultant Marius van Blerck is particularly pleased that the "capital allowance" — an additional item allowed on the unredeemed balance of capital expenditure for new gold mines — has been raised from 10% to 12%. In effect, the extra allowance provides partially for the much increased capital costs of new mines caused by the high inflation rate. The lower formula tax will also help.

On the other hand, he's disappointed that so-called "ring fencing" has been relaxed only to the extent of 25% of taxable income. He does not believe this will give any significant impetus to the development of new mines. A mine wishing to take advantage of the concession must still apply to both the minister of finance and the minister of mineral & energy affairs.

Of course, only a profitable mine can take advantage of the relaxation of ring fencing. Martin & Co director Lloyd Pengilly suggests that only Driefontein, Hartes, Vaal Reefs, Freegold, Kloof and Western Deep offer a significant tax base at the present gold price. And it's not clear whether the ring fencing concession is available if a mining company goes outside its original field of endeavour in a new project.



Mining houses at large have also complained increasingly that being treated as sharedealers has sterilised their portfolios. They have understandably been reluctant to sell shares held for decades, often with only nominal book values, and see almost half the proceeds go in tax. The 10-year "safe haven" will allow them to sell off existing holdings to private investors, making the market in ex-

THE TWO-BREADWINNER FAMILY

Income Tax payable: 1990 and 1991

Married under 61

Salary		Site/Paye 1991		Final tax payable		
Husband	Wife	Husband*	Wife	1990	1991	Difference
20 000	10 000	1 700	1 740	3 536	3 440	96
	20 000	1 700	4 200	6 036	5 900	136
	30 000	1 700	7 360	8 996	9 060	64
40 000	10 000	7 400	1 740	10 436	9 140	1 296
	20 000	7 400	4 200	12 936	11 600	1 336
	30 000	7 400	7 360	15 896	14 760	1 136
60 000	10 000	15 200	1 740	18 736	16 940	1 796
	20 000	15 200	4 200	21 236	19 400	1 836
	30 000	15 200	7 360	24 196	22 560	1 636
80 000	10 000	23 700	1 740	27 436	25 440	1 996
	20 000	23 700	4 200	29 936	27 900	2 036
	30 000	23 700	7 360	32 896	31 060	1 836

Note:
* These amounts have been calculated on the basis that the taxpayer is a married person with no children and after rebates.

(49)

THE ONE-BREADWINNER FAMILY

Income Tax payable: 1990 and 1991

Married under 61

	No children			1 child			2 children		
Income	1990	1991	Reduction	1990	1991	Reduction	1990	1991	Reduction
12 000	—	430	430	330	—	330	230	—	230
14 000	750	400	350	650	300	350	550	200	350
16 000	1 150	820	330	1 050	720	330	950	620	330
18 000	1 610	1 260	350	1 510	1 160	350	1 410	1 060	350
20 000	2 110	1 700	410	2 010	1 600	410	1 910	1 500	410
25 000	3 540	2 900	640	3 440	2 800	640	3 340	2 700	640
30 000	5 210	4 250	960	5 110	4 150	960	5 010	4 050	960
35 000	7 060	5 750	1 310	6 960	5 650	1 310	6 860	5 550	1 310
40 000	9 010	7 400	1 610	8 910	7 300	1 610	8 810	7 200	1 610
45 000	11 060	9 200	1 860	10 960	9 100	1 860	10 860	9 000	1 860
50 000	13 110	11 150	1 960	13 010	11 050	1 960	12 910	10 950	1 960
55 000	15 210	13 150	2 060	15 110	13 050	2 060	15 010	12 950	2 060
60 000	17 310	15 200	2 110	17 210	15 100	2 110	17 110	15 000	2 110
65 000	19 460	17 300	2 160	19 360	17 200	2 160	19 260	17 100	2 160
70 000	21 610	19 400	2 210	21 510	19 300	2 210	21 410	19 200	2 210
80 000	26 010	23 700	2 310	25 910	23 600	2 310	25 810	23 500	2 310
100 000	35 010	32 500	2 510	34 910	32 400	2 510	34 810	32 300	2 510
150 000	57 510	54 500	3 010	57 410	54 400	3 010	57 310	54 300	3 010

NB:
The above amounts have been calculated on the basis that the taxpayer's wife has no income, that he has no other dependants and after rebates.

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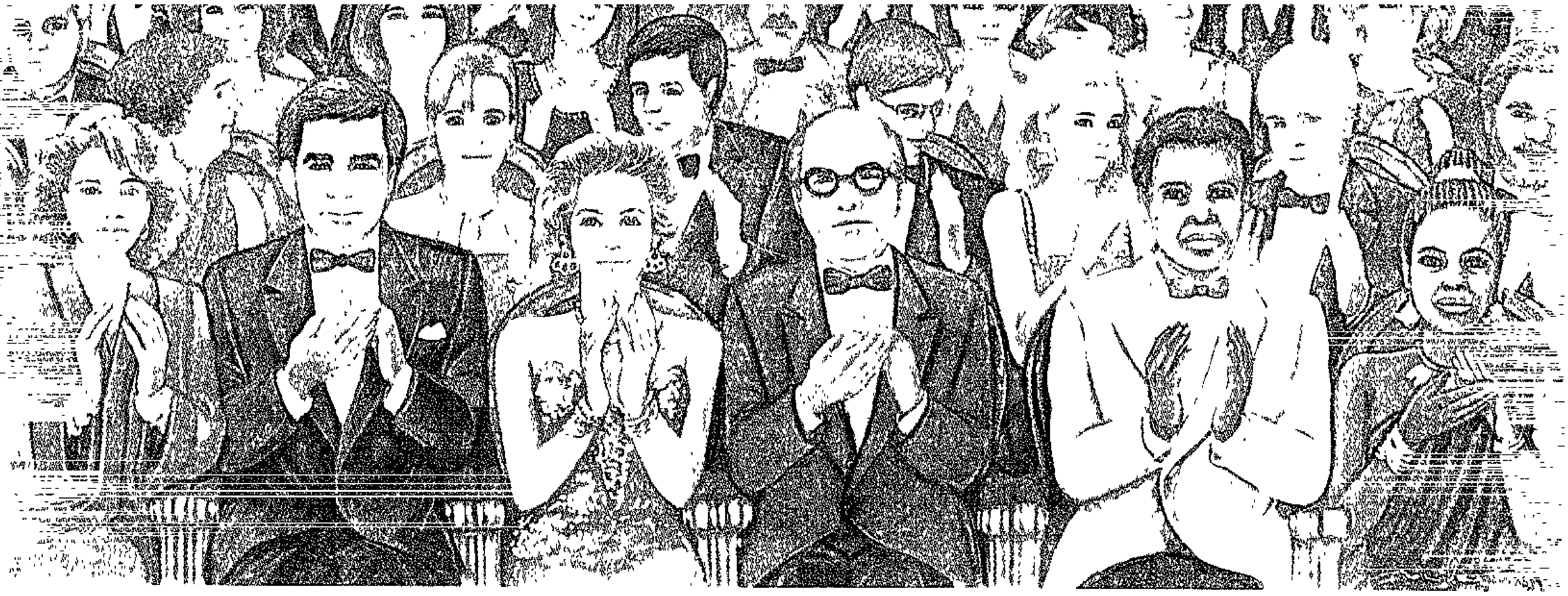

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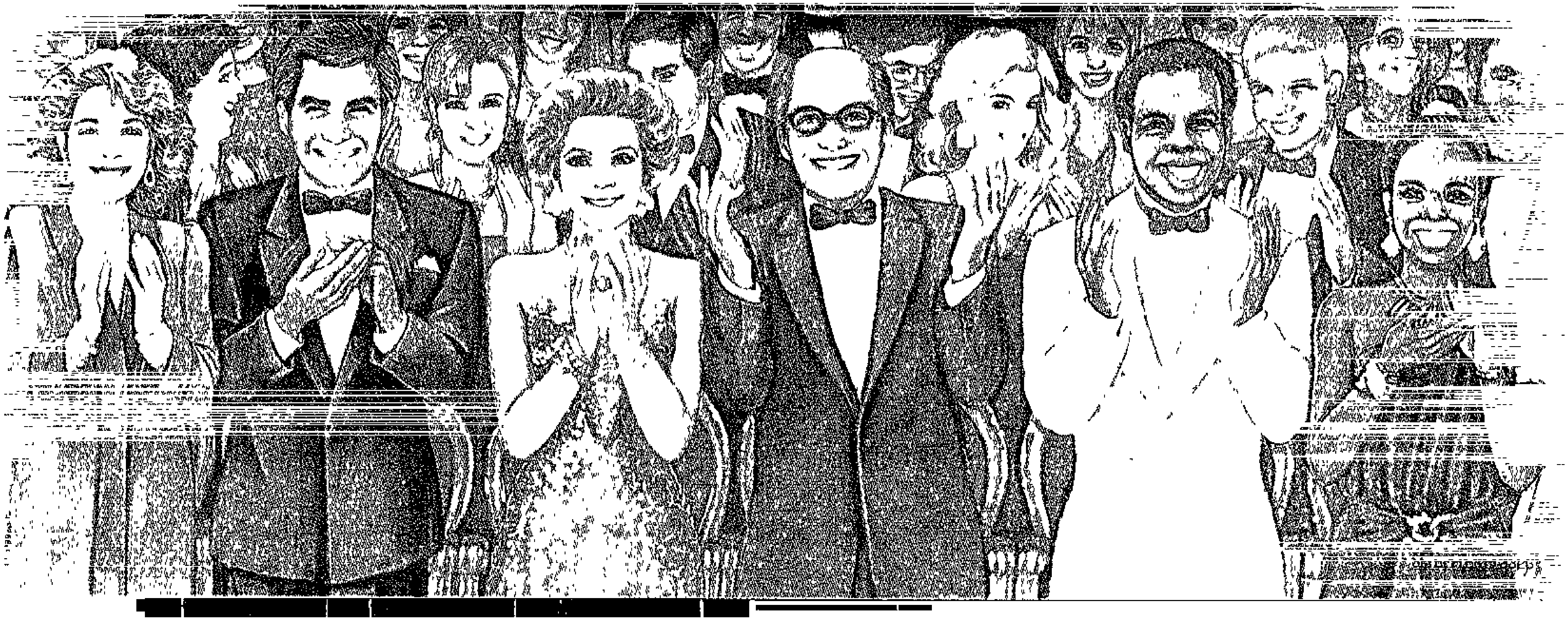

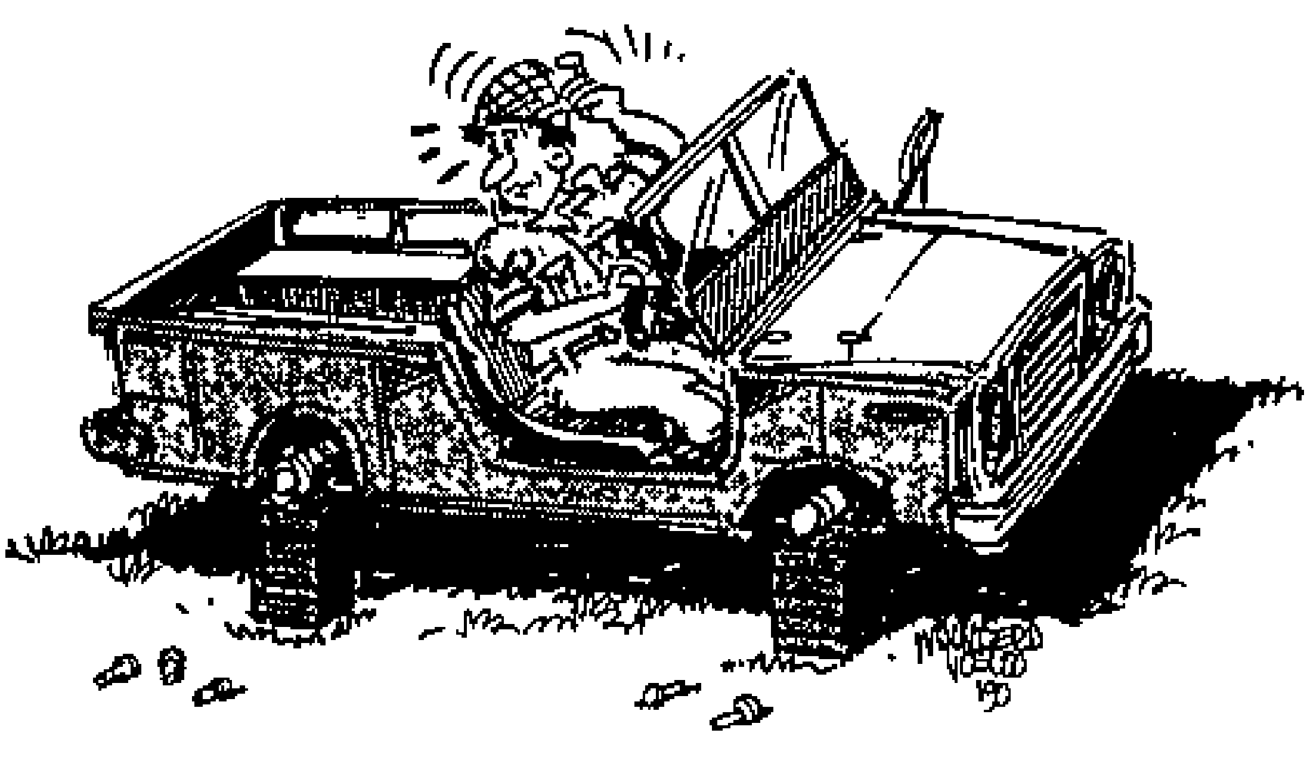

do the upper-income groups gain least, they will also be hit hardest by the increased perks tax. On the other hand, they will also benefit most from the exemption of dividend income from tax, and the R408m gain from this is 20 times the cost of the perks tax extension.

Moreover, the concept of equity also suggests that employment benefit packages worth a certain amount should bear the same tax, irrespective of how they're arranged.

Beneficiaries of interest income concessions and the greater separation of women's tax are less easy to establish, but here too the upper-income groups may well do best.

Mazansky points out that eliminating tax on dividends not only solves the perennial problem of effective double taxation of company profits but dividends from foreign companies will apparently also be exempt (which is not what Margo recommended).

Trevor McGlashan, associate director of Deloittes, Haskins & Sells, notes that relief to a wife who works for her husband presumably also means that the working wife's earnings allowance will disappear, as will another minor anomaly concerning taxation of a travel allowance.

Moreover, though a wife's investment income is still taxed in her husband's hands, Pim Goldby's Peter Backwell says the only such income remaining is interest; tax on that too will disappear in 1991 when interest becomes subject to a final withholding tax at source, as announced by Du Plessis.

But, as former Nactu general secretary Phiroshaw Camay comments, married women are still not equal, lacking independent access to medical aid and housing loans.

It must be said that there's little specific in the Budget that will do anything about the inflation rate. Du Plessis refers to the need for continued deregulation and privatisation and emphasises that government's task must be to make things easier for the private sector — which he concedes is the ultimate source of wealth — but this is all very much more of a long-term nature.

At least the use of some of last year's extraordinary income (notably the Iscor privatisation) to set off the Reserve Bank forward cover losses is the most uninflationary way of financing that item.

Analysis of expenditure is more difficult, partly because much depends on how individual votes are allocated departmentally, and partly because figures published in various parts of the Budget documentation appear inconsistent. But the general thrust is clear: within an overall increase below the inflation rate, the holding back of defence spending will allow sums to be switched to education, health and the police — all areas generally agreed to be underfinanced.

And as well as increases in the relevant departmental votes, Du Plessis has found a few one-off sums for these noble purposes, too.

The implication is that not only will spending on these vital areas rise, the emphasis will be on eliminating the "backlogs" — a pleasant euphemism for the consequences of apartheid, however much Du Plessis may be justified in saying that countries without apartheid also suffer such disparities.

This is essential if we are to move towards an equitable post-apartheid society. Only those who don't want to see a peaceful resolution will object to the principle.

At the same time, Camay has a point when he counsels against euphoria: "One must compare this to the SA Housing Trust, which also generated a lot of excitement when it was announced, but hasn't really relieved the housing backlog."

SPENDING RISE

(Rbn)

Fiscal year	Budgeted spending	Actual spending	†Percent increase
90-91	72,93	—	11,9
89-90	65,02	65,18	16,5
88-89	53,87	55,93	17,9
87-88	46,87	47,45	17,9
86-87	37,57	40,25	22,3
85-86	31,29	32,91	21,3
84-85	24,95	27,13	21,6
83-84	21,18	22,32	16,4
82-83	18,24	19,18	16,7
81-82	15,87	16,43	20,8
80-81	13,08	13,60	18,9
79-80	11,19	11,44	14,9
78-79	9,81	9,96	11,2

† Percent increase in actual spending from previous year's actual spending

However, in these as in other matters this Budget must be seen as setting a new direction rather than a final answer.

The least controversial aspect is the fi-

STATE REVENUE ACCOUNT

	Budget 1990/91 Rm	change %
Expenditure:		
Printed Estimated (R.P.2-'90: First Print):	**71 546**	
Plus: Supplementary appropriations in respect of:		
Black education and training	150	
Police	100	
SBDC and development corporations in self-governing territories	100	
Ex-servicemen in Namibia	36	
	386	
	71 932	
Plus: Reserve for unforeseen expenditure	1 000	
Total expenditure	72 932	11,9
Revenue:		
Printed Estimate (R.P.3-'90: First Print):	8 598	
Customs and Excise at existing rates:		
Plus: Tax proposals in respect of:		
Excise duty:		
Beer	45	
Spirits	27	
Cigarettes, tobacco and pipe tobacco	72	
Fortified and sparkling wine	1	
	145	
	8 743	
Less: Tax proposals in respect of:		
Surcharge on imports	835	
Ad valorém customs and excise duty on jewellery	37	
	872	
Total for Customs and Excise	7 871	−10,2
Inland Revenue at existing rates:	60 870	
Plus: Tax proposals in respect of:		
Companies:		
Training allowances	80	
Work in progress	50	
Consumable inventories	50	
Phasing out of LIFO reserve	50	
Tax on fringe benefits	20	
Marketable securities tax	15	
	265	
	61 135	
Less: Tax proposals in respect of:		
Tax on mining	68	
Tax on undistributed profits	2	
Income tax on individuals:		
Tax on dividends	408	
Increase in interest deduction	240	
Married women	206	
Rebate for the elderly	22	
Tax scales and rebates	3 122	
	4 068	
Total for Inland Revenue	57 067	8,5
Total revenue	64 938	5,8
Deficit (before borrowing):	7 994	110,6
(as percentage of GDP)	2,8%	
Redemption of loans		
Domestic loans:		
Treasury bills (net)		
Government stock	3 229	
Bonds	350	
Foreign loans	226	
	3 805	-24,9
Financing requirement	11 799	33,1
Financing:		
Domestic loans:		
Government stock	11 250	
Bonds	175	
Foreign loans (Debt Standstill Funds)	200	
Foreign loans (new)	200	
Total financing	11 825	−7,8
Balance:	26	

Budget extremely political - Azapo

THE Budget was extremely political and reflected the current schizophrenia of the government of the day, Azapo vice-president (Finance) Mr P C Jones said in Cape Town yesterday.

While acknowledging the major emphasis of the Budget on the creation of a State Fund to remove socio-economic backlog was a major departure from the traditional emphasis of strengthening the defence forces and other protective measures of white interests, he pointed out the government was "trying to satisfy too many fundamentally contradictory interest groups".

Sowetan 16/3/90

"The lack of definition of the beneficiaries of the State Fund is clearly also directed at white fears that their impoverishment would be made worse by the government's current concerns for black problems," he said.

"The Budget is extremely political," he said.- Sapa

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Mixed reaction to one-off grant

By Marguerite Moody (49)

Wednesday's announcement that universities and technikons are to receive an amount of R50 million from the Government, brought mixed reaction from tertiary education institutions yesterday.

Finance Minister Mr Barend du Plessis said in his Budget speech that the one-off amount would be provided to enable these institutions to finance adjustments.

"It will help us fund the 12 percent salary increase for academic staff and teachers which was announced in December, as well as the announced 10 percent non-pensionable allowance for civil servants. As such it is very much appreciated," University of the Witwatersrand vice-chancellor and principal, Professor Robert Charlton told The Star.

16/3/90 Star

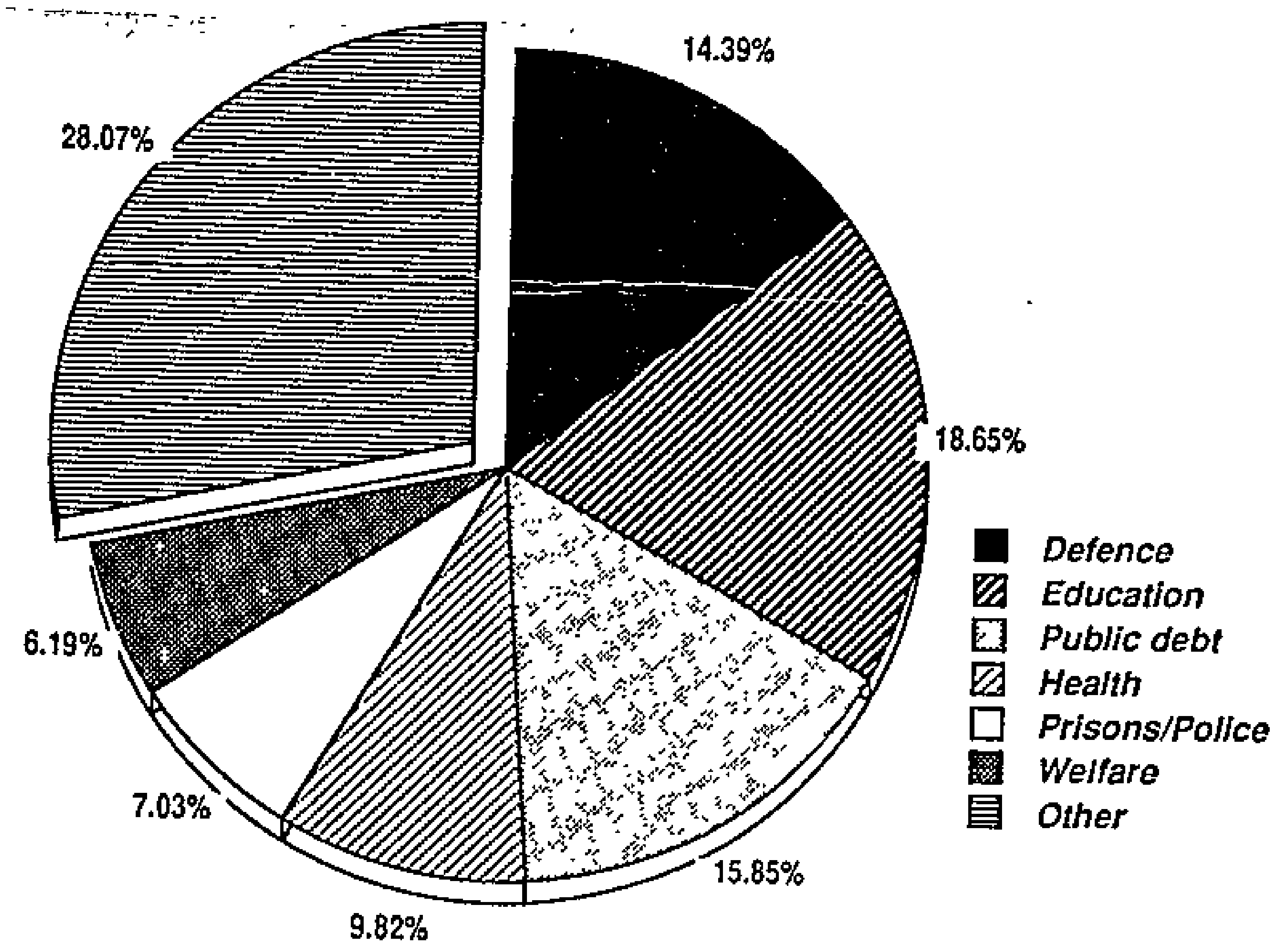
The rector of the Pretoria Technikon, Dr Denis van Rensburg, said that although the additional grant was "sincerely appreciated", it would not make a significant difference to the "position of technikons as suppliers of essential manpower.

WEEKLY MAIL, March 16 to March 22 1990

THE BUDGET

More from less for a new South Africa

HILARY JOFFE reports from Cape Town on the implications of this week's budget



Government spending ... how the R73-billion budget pie is sliced

FINANCE Minister Barend du Plessis showed his priorities are in line with the "new South Africa" this week when he presented a budget in which defence spending was cut but social spending was increased.

But there wasn't much money going around, with total government spending set to fall in real terms. Thus there was not much spare to allocate on education, housing, health and welfare — spending the government said it would stress.

The budget displayed a significant shift of priorities, but within the context of "fiscal discipline". Social spending rose, but not by as much as inflation.

Spending on "security services" rose by under three percent — where last year it had risen by 19 percent. Defence spending fell slightly in money terms — by 0,2 percent to R10,2-billion — a real fall of 13 percent or more, saving at least R1,4-billion. The government expects further savings in future years.

Education spending rose by R1,3-billion to R13,3-billion, an increase of 11 percent. But last year's increase was 22 percent. Health spending rose only eight percent to R7-billion. Housing expenditure appeared to rise by 51 percent to R1,4-billion, but this was the result of some budget reshuffling — the real figure was 15,8 percent. The total for "social services" was up 11 percent to R27,8-billion. And it appears the increases in spending to benefit black South Africans were generally much higher than those benefiting whites.

Du Plessis has budgeted for government expenditure of R72,9-billion in this 1990/91 fiscal year — an increase of just under 12 percent on last year's figure. That means a fall in real terms, taking inflation into account.

The government does not reveal the inflation rate on which it bases its budget calculations, but Finance Deputy Director General Arnold Pretorius talked of an expected inflation rate of 13,5 percent at a Sanlam post-budget seminar in Cape Town.

But the government's spending priorities did not only show in the regular budgets. It will also route funds to addressing some of the backlogs which are the legacy of apartheid.

Most important of these was the R2-billion "special capital fund for the reduction of a variety of backlogs", created from surplus funds borrowed by the government last year. The sum is small in relation to the backlogs which have to be addressed but does indicate a shift in direction.

The state president will decide how it will be used, and since it is likely to be on infrastructural projects such as electricity and housing in black areas, it will probably take some time to spend.

Pensioners and police are among those who will benefit from this week's budget. State old age pensioners will receive a R25 across-the-board increase — representing a 10 percent increase for whites to R276 but a 17 percent increase for blacks to R175 a month.

The budget includes R2,2-billion to raise civil service salaries — up from only R138-million last year. Some of this goes towards the 10 percent allowance which has been granted to all civil servants, but "improvements will also be made on a differentiated basis to address specific lacunae in respect of the police, nursing staff and certain personnel involved in law enforcement", according to the *Budget Review*. It adds that the government is investigating the wages of the lowest-paid state employees.

Du Plessis characterised his budget as one which on the revenue side sought to improve the performance of the economy (by tax concessions); and on the expenditure side sought to "equip people to use those economic opportunities".

Pretorius described the budget as a "neutral" one — that is, it should have no impact in either stimulating or contracting the economy.

Despite the tax cuts, the budget does, however, look more like a restrictive one, giving the real cuts in spending. That could bode ill for economic growth, which could even fall below the one percent currently being forecast for this year.

‘Magic’ deficit conjures room for tax concession

W/Mail, 16/3 - 22/3/90

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THE tax concessions in this week’s budget serve to give back to taxpayers the huge amount of additional income they brought the government last year.

Total revenue for 1989/90 was R6-billion higher than the original R55-billion anticipated in last year’s budget. This exceeded most economists’ estimates of an approximately R3-billion overrun on revenue. The R2,6-billion the government earned from import surcharges and the increase in tax money because of fiscal drag earned the government more than anyone (including the government) expected.

Meanwhile, government spending last year was just slightly above budget at R71,5-billion — an increase of around 15 percent over the previous year, no real increase taking inflation into account.

The result was the deficit before borrowing (the excess of spending over revenue) was only R3,8-billion (instead of almost R10-billion), representing only 1,5 percent of gross domestic product. In effect, the government was saving the country’s money, because its capital (investment) spending amounted to 2,2 percent of GDP.

It is only considered “dissaving” if it uses loans to finance current expenditure, for example on salaries and administration.

The “magic figure” for the deficit is three percent of GDP — the government had been trying vainly for several years to get the figure down to that level.

Du Plessis described this week’s budget as “continuation of fiscal discipline, but making room for tax reform”.

The way he made room for tax reform was simple — he allowed the deficit before borrowing for 1990/91 to rise from last year’s very low level to 2,8 percent of GDP, well within the “magic” three percent limit. Rather than raising some taxes to compensate fully for losses on others, he merely used the space he had on the deficit to allow a net revenue loss from the tax concessions of R4,5-billion. The concessions mean total tax revenue will represent 23 percent of GDP, down from 24,9 percent last year.

Government revenue this year will total R64,9-billion — up only 5,8 percent on that collected last year, although up more than 18 percent on last year’s budget figure. Spending will be R72,9-billion, up 11,9 percent on the amount actually spent last year. The deficit before borrowing will therefore be just under R8-billion.

Having it all and eating

W/Mail 5-16/3 - 22/3/90

By ALAN HIRSCH

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WHILE much of the capitalist world seems to be moving towards a kinder, gentler, ecology-conscious attitude to economics in the 1990s, the philosophy behind South Africa's budget this year places us in a hardline supply-side regime, typical of the West in the early 1980s.

The emphasis of the budget is on tax reduction, which, says Finance Minister Barend du Plessis, is of crucial importance in boosting savings, enterprise and investment.

It is to the revenue side that one must look to promote economic growth, say Du Plessis. In other words, the less revenue collected, the better. Economic development comes first and foremost by way of investment in the private sector. Deregulation and privatisation are cornerstones of this approach.

The idea of a supply side approach to economic growth came into vogue in the United States in the early 1980s. Both conservative and liberal (in the American sense) economists agreed that something was wrong with the growth dynamic of business. Especially in the manufacturing sector, growth was slow and piecemeal. The liberal response was to embark on an industrial strategy that would aid the growth of sunrise sectors of the economy, and ease the decline of the sunset sectors. This involved government aid in research and development, investment, training, and related activities. It was an approach strongly backed by the unions, and by sections of manufacturing, but not by the financial sector or the Administration.

The position that won was a supply-side economics of conservative variety: cut taxes, ease the constraints on the growth of private companies and economic development will look after itself. It is true that defence expenditure went against these rules, but for the rest of the private sector tax cuts and deregulation were the bases of growth.

Many economists (especially supporters of "industrial policy") would argue today that the Reagan/Thatcher style of supply-side economics led to little more than growth in the supply of financial services. Forms of speculation, from junk bonds to stock-option futures, boomed but manufacturing did not.

The *Budget Review* explicitly indicates that South Africa needs to adopt the kind of policy many industrialised countries moved to in the early 1980s. It argues that we have moved more slowly to the same position because the fluctuating gold price of the 1970s distorted the economy, and allowed us to delay this action. It draws parallels between the industrialised countries' experience in the 1970s and our disastrous economic performance in the 1980s, when our Gross Domestic Product grew at an average annual rate 1,6 percent.

The *Budget Review* seems to forget that we tried a version of supply-side economics in 1984, with damaging socio-political consequences.

Yet there is recognition that what the minister calls "socio-economic backlogs" need to be addressed. It is the role of government spending to "contribute to the relief of hardship and to equip as many people as possible to grasp, on an equal basis, the opportunities the economy offers".

However, it is repeatedly stressed that this expenditure will not come out of increased government revenues: "Fiscal discipline must not be sacrificed." The money for social expenditures has to come from a redistribution of government funds kept more or less at current levels.

In other words, the bold philosophy of the budget is to have our cake (tax cuts), and to eat it (social expenditures).

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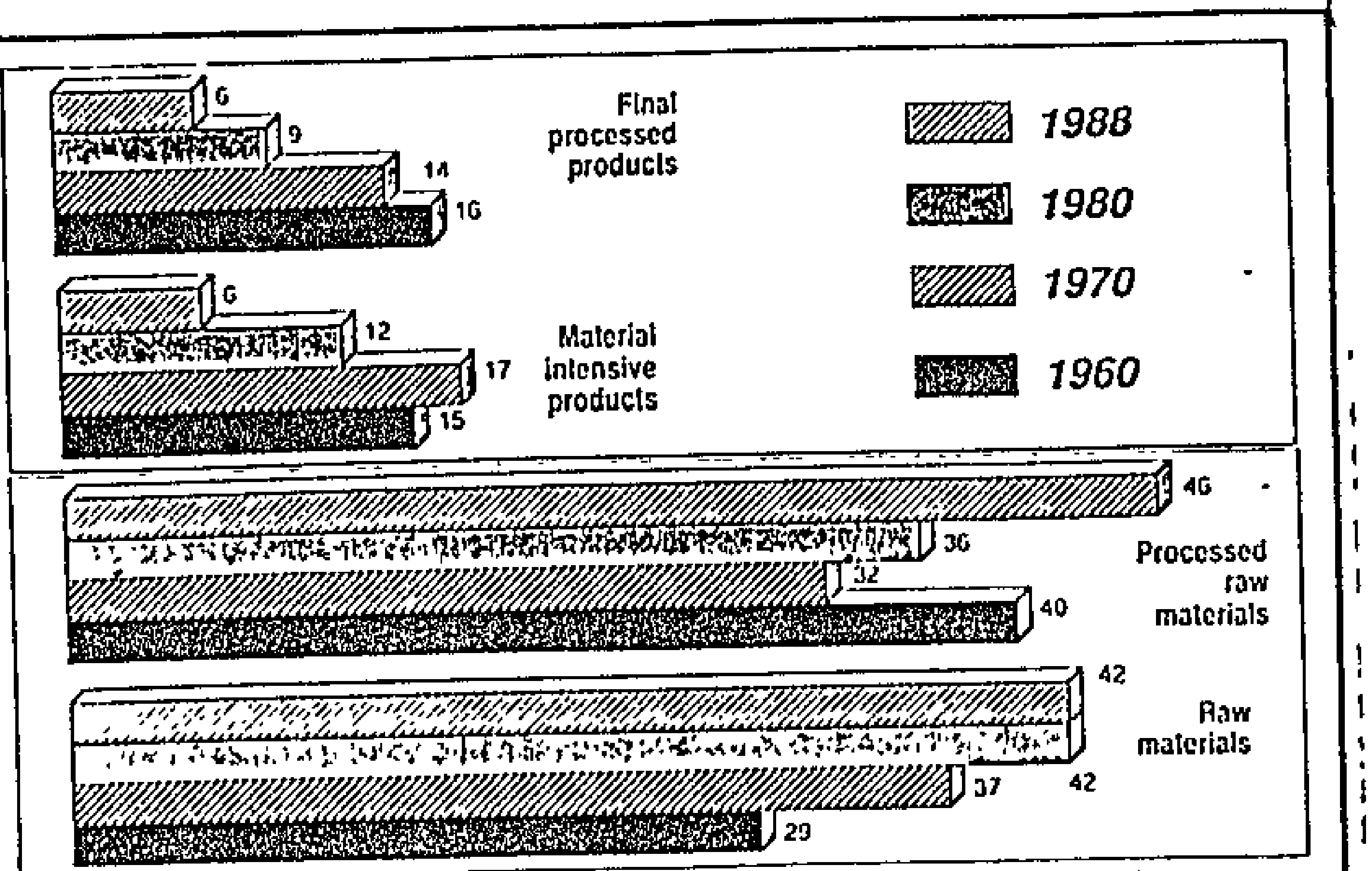
A devastating critique of our exports failure

By ALAN HIRSCH



Source: Department of Finance Budget Review, March 14 1990

ONE of the most interesting features of the Budget Review issued by the Department of Finance is Annexure B, tucked in right at the back of the report.

It is a brief analysis of the structural crisis of South Africa's economy, written by two of South Africa's most powerful economists, Minister of Economic Co-ordination Wim de Villiers assisted by Jan Lombard, a deputy-governer of the Reserve Bank.

They point, as economists often have, to the declining role of personal savings and the rising importance of private corporate savings, and note that the "increasing concentration of saving funds in a small number of institutions and corporate conglomerates ... must eventually result in a sub-optimal investment structure".

Maybe this is why the African National Congress's call in the Freedom Charter to nationalise the banks seems in some ways more appropriate today than in the 1950s.

The budget's answer is less radical: to try to increase personal savings through tax cuts. Perhaps this doesn't recognise sufficiently that the low level of personal savings is a result of the low level of personal disposable income.

Another major point De Villiers and Lombard make is that the process of capital deepening that has occured in the economy, especially since the early 1970s, has not given rise to comensurate increases in productivity.

The reason, they suggest, is over-investment in capital goods encouraged by an over-valued rand and protectionist policies encouraging uncompetitive industries.

Their answer seems to be that the rand should remain low, that protectionism should be dropped, and that wages should be lowered to rectify the balance of investment between capital and labour.

What they seem to miss here is the possibility of government intervention to increase the productivity of labour though a co-ordinated industrial strategy.

Perhaps the most devastating section of the report is De Villiers and Lombard's analysis of the changing composition of South African exports. In short, they show that, contrary to one's expectations of a developing economy, raw and processed materials have been a rising component of exports, compared with manufactured goods.

Clearly, goods manufactured in South Africa are making no impression on international markets at all. The trend is strongly evident before the 1980s, so sanctions cannot really be blamed. (See graph.)

The reasons for the failure of the manufacturing exports are those already mentioned by the authors. One is a tariff structure designed to protect import-substitution industrialisation, leading to the importation of expensive capital goods and intermediate goods, and distorting the price structure of industry.

They also note that domestic suppliers of intermediate goods have been able to raise the prices of their products close to the level of imports, similarly making the final products manufactured here too expensive to export.

The implicit solution to the crisis in export marketing for De Villiers and Lombard is to do away with protection and support incentives. The approximately 25 percent cut in the trade promotion item in this year's budget indicates that the new export promotion programme, due to begin in April, will provide much less direct assistance to exporters.

A new deal for savers on the way

Star 17/3/90

49

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DEREK TOMMEY

MINISTER of Finance Barend du Plessis disclosed in his Budget — not before time — that a new deal for savers was on the way.

He said he was abolishing the tax on dividends, increasing the tax exemption on interest income from R1 000 to R2 000 and, most important of all, he virtually promised to introduce next year a low-rate withholding tax on interest payments.

These measures, together with the development recently of "real" interest rates and the move to curb inflation, should transform the savings situation.

Saving has been going out of fashion for many years, even by those with the money to do so. Since the 1970s SA's saving rate has been awful. But it was worse last year when, overall, South Africans did not save a penny.

Reserve Bank figures show that in the first three quarters of last year there was a net dissaving of R700 million.

The main reasons are:

● Persistent high inflation, which has reduced the ability to save and has made holding assets more profitable than holding cash.

●High tax rates, which limit the amount available for saving and limit the returns on saving.

●The failure of the Government to take any remedial action and, in some areas, to aggravate the situation.

These developments resulted in the flow of savings to building societies — the most important savings medium for South Africans since the turn of the century — virtually collapsing.

Negative rates

Government policy forced them to pay almost negative rates of interest. At the same time the saver was heavily taxed on his interest income. Savers became poorer instead of richer and moved their money elsewhere.

This has had a serious affect on house-buyers. The building societies had to get more funds from the money market and mortgage rates started moving in unison with money market rates.

Innocent house-buyers found themselves paying the same penal rates as banks.

One result was that the little money savers had began to flow to insurance companies. The latter could invest their money in the share market and in property and so offer the saver protection against inflation.

But savers had to leave their investments with the insurance companies ~~for 10~~ years to get a tax-free return.

This locked up a large portion of savings for an extremely long time.

Moreover, as insurance companies regarded these savings as trust funds, which could not be invested in speculative ventures, many new enterprises were starved of capital.

The situation will now change dramatically. The abolition of the tax on dividends means savers need no longer lock their money into insurance companies for 10 years to get a tax-free return.

The can get the same benefit by investing savings in shares or unit trusts for just as long as they like.

The lifting of the tax should result in more attention being paid to dividends declared by listed companies. Until now investors have tended to seek capital gains as these do not normally bear tax.

Higher dividends

But with the lifting of the tax barrier, investors are likely to start demanding higher dividends.

This should make the share market, especially the mutual fund movement, much more attractive.

It should also lead to more money becoming available for investment in growing companies.

The second concession to savers — doubling of the amount of interest income exempt from tax from R1 000 to R2 000 — though welcome, is far from generous. It represents an investment of just over R10 000 at current interest rates.

A much higher rate of saving than this is needed before SA is able to finance its capital needs.

More encouraging is Mr du Plessis's statement that a low-rate withholding tax on interest payments by banks and building societies could be introduced next March.

Provided interest rates then are still above the inflation rate, and the withholding tax rate is in the region of, say, 10 percent, one can visualise a flood of money going to the banks and building societies.

Attracting this money would be the best return investors have had for decades. This reverse flow to banks and building societies would enable them to lend more money at lower interest rates than they do now.

So great would be the advantages that one wonders why the Government is waiting a year to do so.

Take a chance, Mr du Plessis, and introduce this concession straight away.

Budget news restores shareholders' morale

Inside Out

ANNE CROTTY

(49)

Star 17/3/90

MYLES thought the budget was mildly positive for the market... to the extent that there was nothing in it that was definitely negative.

He didn't think scrapping of tax on dividend income would cause a stampede of individuals into the market.

But that, the phasing out of marketable securities tax and the clarification of the tax position on equities held for more than 10 years did seem to have provided a bit of a gee-up for the shareholders' camp where morale has recently suffered a knock from all the nationalisation talk.

De Beers had another good run this week — it was the most actively traded share, but there was little price movement.

Little bit

Some players in the market are waiting for an easing in the price on the basis that anything that goes up that fast has to come down — even if it's only a little bit and for a little while.

Then, when it's down around the R80 level, they'll move in.

But in the longer term, the share is expected to pass the R100 mark.

Liberty got a lot of attention during the week.

The share reached a high of R300 yesterday following Wednesday's announcement that there was going to be a 10-for-one share split.

Myles spent most of Wednesday and Thursday trying to work out whether or not there was scope for the price to move, given its high rating ahead of the news.

Meanwhile, the share moved from R220 to R250 to R270... and Myles still couldn't come to a definite conclusion.

Bankorp moved up quite strongly during the week, reversing a trend that its shareholders had long become familar with.

Obviously the market feels that Mr Liebenberg will be able to give the organisation some sort of direction.

But Myles says that even at the end of the week most of the punters were expressing surprise at Mr L's move from Nedcor and he wondered if the boys down at Pinelands were as surprised.

The Fedvolks share suffered a bit of a knock during the week) following the announcement that the group's earnings would be significantly down on earlier management expectations.

Seems that Fedmech and Tek are the culprits.

The drop in the share price wasn't too steep, given the extent of the damage to earnings.

Tedelex, which is in a market that faces the same sort of difficulties as Tek, dropped 30c during the week.

At the beginning of the year there was speculation about a deal involving Tedelex that could see it moving from the Malbak stable. No news on this front in recent weeks.

Myles heard some talk of AVI buying out the minorities in Claude Neon.

This sort of move wouldn't surprise him as there doesn't seem to be much justification in having a separate listing for that company.

It does need an injection of capital. The current market price is around 230c, compared with a net asset value of about 330c a share.

Myles wonders, if the reports are accurate, whether AVI will demonstrate its usual generosity and offer a NAV price.

Seems that the Landlock cautionary could refer to a change of control or a rights issue.

The company is in great need of new funds to get its borrowings down to less horrific levels — gearing of around 100 percent is a fairly traumatic management experience, given current interest rates.

If it's a rights issue, one possibility is that the controlling shareholder (UK-based BBA) might renounce its rights in favour of a specified party, who would then become the underwriter to the issue.

Depending on the size of the issue, this could result in the party getting a considerable stake in Landlock without an obligation to make an offer to minorities.

In time BBA may or may not decide to offload its stake in the original equity. Myles seemed uncertain about the need to make an offer to minorities in such a situation.

Arontex hit another new low this week amid reports of serious problems at the company and news that Senbank has had its guys in "assessing the situation" for some weeks.

Myles says that things must have gone badly wrong to justify a 5c share price.

Results to February 1989 showed EPS of 8,6c, a dividend of 3,2c and NAV of 31,9c a share.

Barend gets a grip on power

By PATRICK MAFAFO

COMPARED to the Budgets presented by other finance ministers, the one presented by Barend du Plessis this week is revolutionary.

It is a follow-up to President De Klerk's reform moves started in February and both black and white tax experts regard it as a perfect match of economic and political reform.

It is regarded as the only budget where an NP Finance Minister has been allowed a free hand, without interference of party politics, to shape the economic policy of this country.

Indeed, it seems that Barend du Plessis has been given a free hand to demand control of wasteful government spending.

Despite commitment to this, Du Plessis is on record as admitting that at the start of his career he did not have the political clout to demand it.

Now he has. He is Transvaal leader of the National Party and his close second running to FW De Klerk in the NP leadership race has given him much more Cabinet influence.

The pragmatic appointment of Dr Wim de Villiers from the private sector to the Cabinet is said to have contributed significantly to his cost-cutting strategies.

‘Peace Budget’ a s in the right direct

c/Press 18/3/90 (49)

THE climate of peace in Southern Africa was reflected strongly in the Budget presented to the nation this week. Without the end of South Africa's involvement in the Angolan war and the subsequent scaling down of the role of the military, the large socially-orientated allocations in the Budget would not have been possible.

It is gratifying to have a "peace Budget" which enables the government to address the country's serious problems of growing poverty and deprivation. However, it is extremely worrying that economic growth has virtually come to a standstill. No country can succeed with its social and other development programmes without a robust and expanding economy.

A strong economy provides jobs, ensures progress and contributes to a sense of well-being.

It is interesting to note the government's commitment to the worldwide trend of moving towards a smaller role for the central authority in the economy through privatisation, tax cuts and deregulation. At the same time Finance Minister Barend du Plessis expressed his determination that this should take place against a background of tight monetary and fiscal discipline.

Unfortunately, the government has a bad record in this respect. In a recent interview with a magazine Du Plessis to a large extent blamed the impulsive nature of the previous State President for the lack of financial discipline in the past. Apparently things should go better under FW de Klerk.

Yet the real test still lies ahead. The current strong disciplinary measures are all very well, but when unemployment starts getting out of hand – as seems to be happening at the moment – things can go badly wrong. Hungry people are not interested in high economics. They want jobs and food for their families.

Meanwhile the inflation rate remains unacceptably high. This remains public enemy number one. Unfortunately, there is no easy way out to bring it down. More sacrifices will be demanded from all of us.

Du Plessis made much of the need to encourage savings, because this provides capital for economic growth. It is generally known that the massive savings by Japanese have enabled Japan to finance such economic growth that poverty has virtually been wiped out in that country.

Some experts refer to South Africa as the potential Japan of Africa because of its relatively advanced economy, excellent infrastructure (such as roads, electricity supply, etc) and plentiful raw materials. But we have no hope of achieving anything worthwhile as long as the destructive forces of high inflation are at work.

I doubt, however, whether inflation could be brought down to more acceptable levels – below 10 percent – before the government will have to stimulate the economy to avoid unemployment to escalate to too high levels.

It is therefore encouraging that a major effort is being made in the Budget to encourage employment through special concessions, mainly to the mining industry. After all, South Africa is a mining country and one of our success stories has been the creation of large-scale employment through the development of some of the world's biggest mines.

This has also assisted many of our neighbours, for example Mozambique, Lesotho and Malawi, whose citizens have sent back billions of rands to their families over the years.

Almost 20 percent of the Budget is directed at education, which is – by any international standard – a high figure. Yet, if we want to become a successful and growing country, it is absolutely essential that the country's managerial and entrepreneurial talent be used as fully as possible. Surely the government should be able to cut back even further on the vast

which has been
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all, at the mo-
re is not even the
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country in sight.
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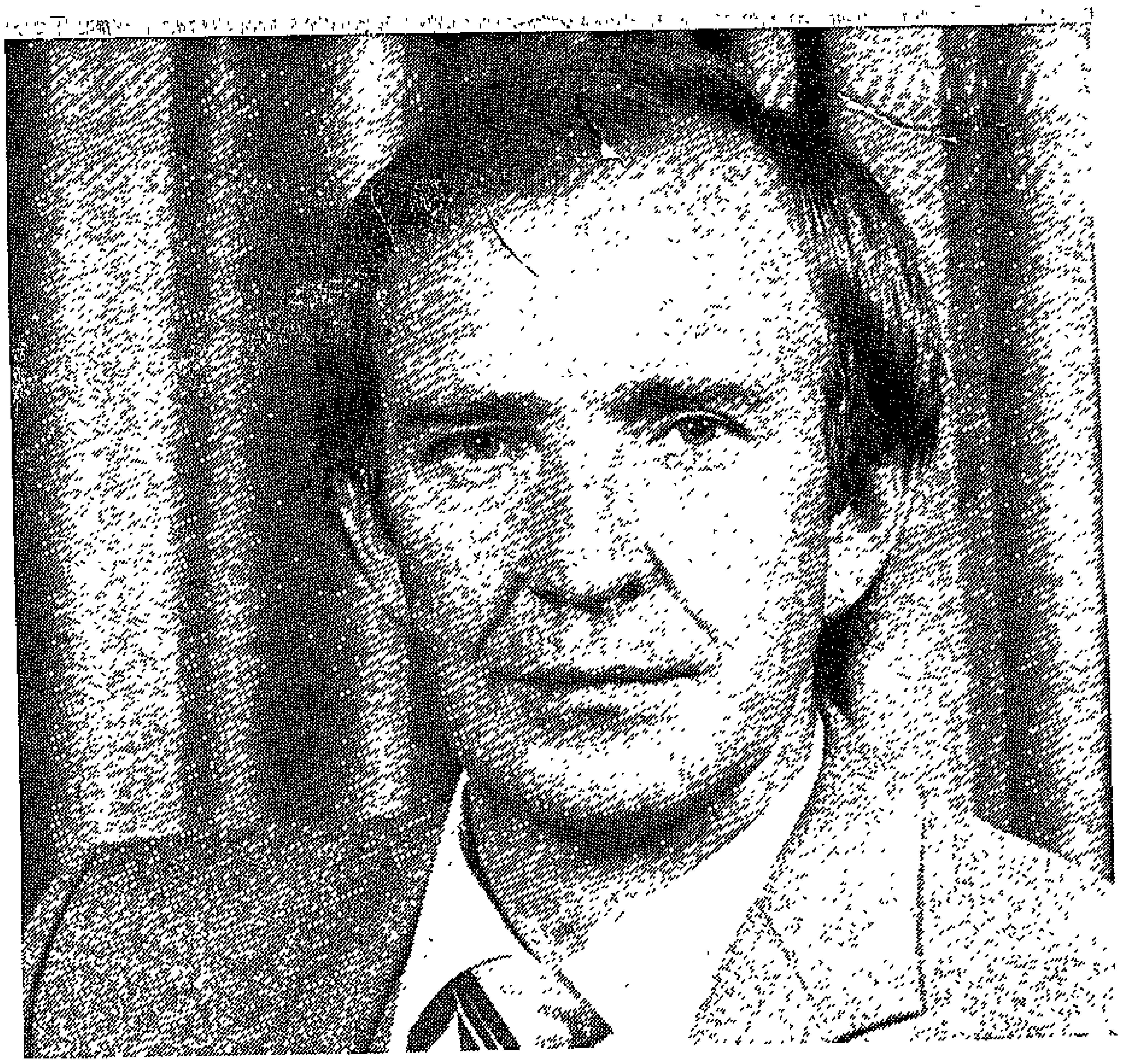

Finance Minister Barend du Plessis . . . insisting on discipline.

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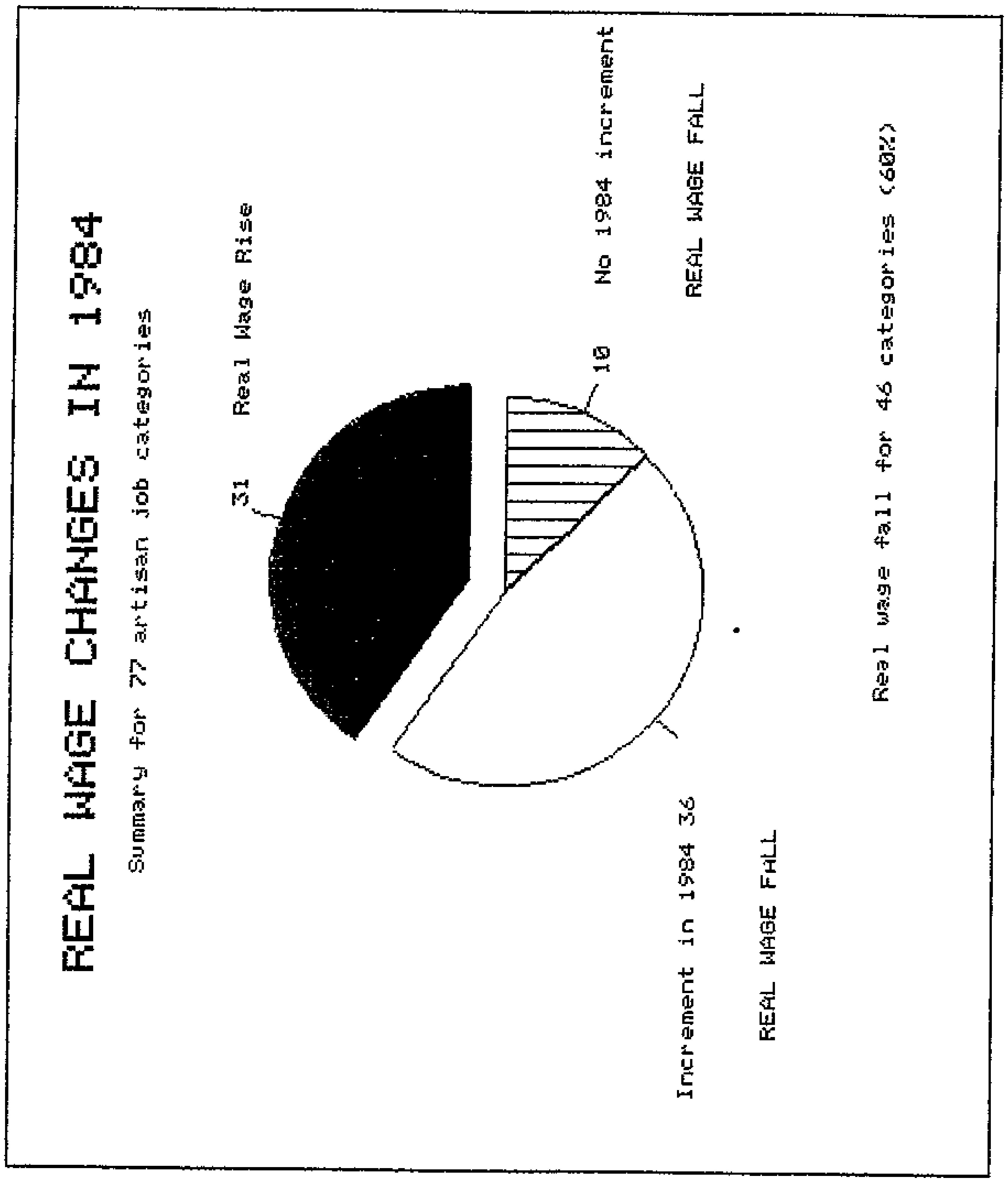

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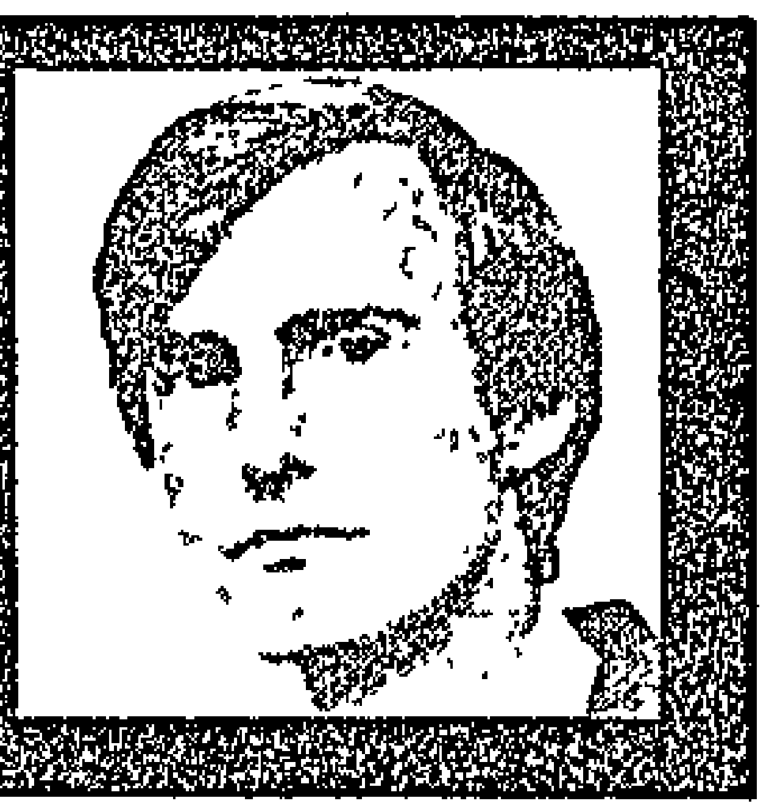
REX

Coos Bruggemans reviews the local and world scene



A giant leap in the dark for long-time slaves of socialism

BT STimes 18/3/90

(49)

OBSERVING events in Eastern Europe and Russia, many a Westerner makes the simplistic judgment: "We have won."

However, it makes more sense to see events in the Eastern Bloc as the birth of a butterfly escaping its cocoon. A transformation is under way directed from within.

The Western observer naturally insists that this process can be successful only if Eastern Man sheds his old thinking and reshapes himself in the image of Western Man. That implies wholesale acceptance of democratic structures and economic systems that have proven their worth in the West.

* * *

As common sense is directing the Eastern Bloc's revolution, it presumably wishes to undo its historic mistakes and to strengthen its abilities by learning from the successes of others.

In this sense, personal freedom is being acknowledged as a superior engine of progress that should be profitably adopted in the East.

Choosing a philosophy, however, is different from selecting an ice-cream. The latter is a simple decision based on taste. The choice of political and economic systems is more difficult because it involves emotions and such questions as human dignity and the instinct of survival.

Emotional issues tend to be forgotten in assessing the performance of political and economic systems.

Economic performance is described in terms of production levels, financial disturbances and imbalances generally. What is taken for granted most of the time are the human relationships on which this performance is based.

* * *

The nature of such relationships may have been agreed generations ago, or relative strengths such as those between labour and capital may change only gradually and be barely noticed as such.

When a nation starts to question the performance of its chosen system as the Eastern Bloc is now doing, it subjects its social relationships to a revolutionary reassessment.

But whereas the mind may decide clinically as to what needs changing, the heart is usually much more emotional about needed changes. There is ingrained fearfulness of surrendering hard-won gains: the dread of sacrificing, to a greater or lesser degree, both dignity and survival.

Socialistic values and practices did not come into being in a void. They grew out of a response to prevailing conditions of exploitation. Socialism was begotten as a defence mechanism by the weak against the strong. In certain countries, political changes allowed the socialistic value system to become the predominant one.

Its main emphasis was to protect the individual from exploitation and the precariousness of his existence. In its highest form, socialism affords the individual protection against change and instability, and the personal costs these imply.

However, these are Utopian aims in a world that is still being shaped, in which change and restructuring rather than peaceful stability are the norm.

Unfortunately, change requires adjustment. And human ambition makes things worse by insisting on as rapid a pace of change as can be sustained.

Change is therefore a permanent condition, intense — and costly in terms of business failure, unemployment, rapid career and location changes and the many stresses of modern life.

Capitalistic practices have been most effective in sustaining growth and the changes it requires.

Socialism has proved far less effective, and threatened to become an absolute failure without a change in approach. Socialistic practices have turned out to be a "slow coach", a development trap for countries so inclined, and have resulted in their failure to keep up with the modern world.

* * *

A change in economic behaviour is not summarily achieved. Indeed, most Eastern Bloc participants remain unwilling reformers, searching for ways and means to retain old socialistic principles while only grudgingly giving way to capitalistic ones.

Except for a small fringe of committed believers, recent conversions to capitalism are seldom wholehearted or convincing. For most Eastern Bloc reformers, the change towards free market practices is a distasteful leap into the dark.

This is partly due to ignorance and the fear of a bright new world, and partly to protect as far as possible the old principles and prevent the return of old enemies, such as class exploitation.

Eastern Europe and Russia have embarked on a massive learning curve. Many different experiments are now being conducted simultaneously: how quickly and how far to free prices, reduce subsidies, break up state monopolies and cartels, deregulate private enterprise, encourage foreign investment and create modern financial, labour and product markets.

Many of the notions currently on offer as reforms in these countries are half-baked non-solutions. The attempts to preserve socialism with a human face are aimed at not giving up too many of the old and cherished ideals.

However, freeing prices is one thing but if there is no concurrent freeing of markets by breaking up and privatising state monopolies and cartels and allowing unfettered free enterprise, the end result will be higher inflation instead of higher production.

* * *

After all, the true engine of capitalism is spirited competition between as many participants as possible across the entire spectrum of economic activity, and this remains mostly absent in current Eastern Bloc systems.

In addition, suspicion remains deep regarding private property, foreign participation and control. Each of the Eastern Bloc countries seems to be dreaming up its own variants of reform, short of Western-style free market laissez-faire.

There is an irony in this that is lost on many participants. By trying to retain many of the old socialistic practices, the Bloc's economic performance will continue to deteriorate. You can't be half-pregnant.

For the common man and woman, the impasse translates into hardship and greater hardship. Ultimate success will depend on a willingness to learn from the success of others, and the capacity of the population to suffer hardship while these lessons are learned.

It is a heavy price to pay for mistakes made by generations long gone, but whose memory continues to induce fear and detrimental responses in today's generation.

But try telling that to someone who has to make the leap into the dark.

Businessmen to meet ANC

Finance Staff

49

A delegation of 25 businessmen meets the ANC in Harare this weekend in a prelude to wide-ranging talks between big business and the organisation over the next few months.

The delegation comprises the chief executives of 11 of South Africa's largest companies, a senior member of a major Government parastatal and 13 other businessmen and academics.

The meeting has been arranged by the Consultative Business Movement (CBM), headed by executive director Mr Christo Nel, and will give the business leaders an opportunity to discuss with the ANC its plans for the South African economy.

The agenda will focus largely on the organisation's plans to nationalise key assets in the economy — and also on economic restructuring and the role of business in achieving a greater distribution of wealth.

The ANC is sending a 16-man team, headed by SA Communist Party leader Mr Joe Slovo, and Mr Thabo Mbeki, who is in charge of the ANC's international affairs department.

The business delegation includes Mr Peter Wrighton, chief executive of Premier, Mr Murray Hofmeyr, CE of JCI, and Gencor general manager Mr Roodt Senior. Anglo American is represented by Mr Michael Spicer, personal assistant to outgoing chairman Mr Gavin Relly.

● See Page 3.

Nationalisation 'misguided'

BDay 19/3/90

49

LINDA ENSOR

TALK of nationalisation is "misguided and unproductive", says Liberty Life chairman Donald Gordon in his chairman's review published today.

He says it is vital in the forthcoming negotiations that "the economy be structured in a manner to achieve a high level of growth, which will in turn facilitate job creation and employment opportunities and ultimately a higher standard of living for all".

At a news conference last week, Gordon said nationalisation could never work as those who would take over did not have the requisite skills to run highly complex business organisations.

SA entrepreneurs with high levels of expertise, much sought after in the world, would not be prepared to work in nationalised bodies. If a new government wanted access to more funds it would make more sense to impose higher taxes.

In his chairman's review, Gordon welcomes President F W de Klerk's bold initiatives and says "major and traumatic reappraisals of the very fabric of SA society" would result from the widespread fundamental changes which lay ahead.

SA was well-positioned to assume the role of economic leader and powerhouse of the sub-continent.

"Given the massive amount of funding which will be sought from the Western world for the rebuilding of Eastern Europe, the level of funds available to impoverished African countries is likely to be drastically curtailed. This represents a special opportunity and challenge for SA to restore credibility and good relationships with its neighbours."

Commenting on the international economic scene, Gordon warns of the possibility of a serious recession in the US. An economic slowdown in Pacific Rim coun-

☐ To Page 2

Misguided

BDay 19/3/90

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☐ From Page 1

tries was already apparent. The UK and Western Europe, however, had sound financial and economic infrastructures and should "weather the stormy conditions which lie ahead".

While the future of the British property market looks uncertain because of a development boom and resultant over-capacity, Gordon believes Capital & Counties, the cornerstone subsidiary of TransAtlantic, has considerable scope to outperform the overall property sector because of its investment in out-of-town shopping centres which will comprise just over 50% of C & C's portfolio by the end of 1991.

Turning to the investment activities of Liberty Life, Gordon says the group increased its holdings of prime industrial, financial and mining counters in 1989. During 1989 it acquired 20% of unlisted Gold Fields SA Holdings, which owns 43,7% of Gold Fields.

Holdings in the R18,3bn investment portfolio include TransAtlantic (R1,7bn), SA Breweries (R1,4bn), Standard Bank Investment Corporation (R946m), Gold Fields and GFSA Holdings (R910m) and Anglo American (R604m).

Wealth creation mixed with wealth distribution

B| Day 19/3/90

49

CHARLOTTE MATHEWS

SA CANNOT embark on a one-man, one-vote system as long as there are big differences in per capita income, Deputy Finance Minister Org Marais told the Nissan economic forum in Johannesburg on Friday.

The government had, therefore, attempted to combine the principles of wealth distribution with wealth creation in the Budget last week.

Marais also mentioned the possibility of introducing a minimum tax in the next budget and a withholding tax on interest.

A withholding tax is one imposed at the origin of income. If, for example, an investor is due R2 000 a year interest on investments, taxable at 10%, his bank will deduct this and he will receive R1 800.

Marais analysed the budget from the principles of equity and equalisation, neutrality and efficiency and cost simplicity and visibility.

He said wealth distribution, which was the position articulated by Walter Sisulu in an article in Business Day on Friday, was the policy of spending money according to the needs of the people.

"But you also have the other side, which is the approach from the supply-side economists or public-choice theorists, where Reagan and Thatcher built their thinking.

"They believe you should only pay tax according to the benefit you get out of it and protect private ownership.

"Although the two approaches are to some extent conflicting, this Budget, we believe, integrates them."

Marais said this policy had been followed in the allocation of R2bn to a fund to uplift the Third World sector of the economy and in the changes made to personal income tax, where 800 000 taxpayers had been removed from the tax system and the hump in the marginal tax rate had been smoothed out.

Government was trying to make people with equal income pay the same tax.

"But if a man has a company car, a company flat, subsidised interest rates, he is not paying the same.

"We have the objective of bringing down personal income tax and we are also investigating the possibility of a minimum tax — we hope to have a report on minimum tax in the next Budget."

Marais said the Budget was intended to be neutral and efficient. The tax system had to be cut down so that rates were neutral in economic decision-making. The government did not want to encourage investment in low profit activities.

Simplicity

By putting more money in people's pockets the government would motivate greater productivity.

"There is sometimes a conflict between equity and simplicity in the tax system," Marais said. "You have to adjust the tax system with the poor and the aged in mind and it makes the structure extremely difficult to manage.

He said one must accept a tax system which was not always fair but was simple and easy to manage. A withholding tax might erase the provisional tax system for individual income-tax payers.

Marais said government was moving towards a self-assessment scheme, a way to simplify and cut costs and make the system invisible to some extent.

DBSA board sanctions first capital market issue

49

EDWARD WEST

THE Development Bank of SA (DBSA) board has approved a first capital market issue to raise nearly R300m during the new financial year in support of the bank's development programme. B/Day 19/3/90

The DBSA's development programme amounted to R750m of disbursements during the financial year to March 31.

This was apart from more than R500m made available to the bank in the 1990/91 Budget, DBSA chairman and CE Simon Brand said in a statement.

DBSA GM, resources and support services, Andre la Grange said on Friday the issue would be spread over the year, but first transfer to the market would be in May. About half of the R300m to be raised was needed in the first quarter of the new financial year.

Resources mobilised by the bank are used to give developmental support for a wide spectrum of projects to develop urban and rural regions in southern Africa.

Commenting on last week's Budget, Brand said the bank welcomed the new development fund to address socio-economic backlogs.

He had previously proposed that a major portion of the proceeds from the privatisation programme be allocated to such a fund.

"I fully support this decision to make available additional resources for development and it is the DBSA's firm intention to play a key role in supporting the management of the new fund in carrying out their responsibilities."

He expected appropriate guidelines and procedures for co-operation between the new fund and established development institutions like the DBSA would be agreed upon.

Within such guidelines and procedures the management of the new fund would be able to draw on the capacity and experience of established institutions.

The DBSA had accumulated experience in this respect in the building up of a portfolio of development loans of R2,5bn on a wide variety of development projects, he said.

Business Report

Govt aims to uplift Third World sector

Cape Times 19/3/90 (49) [redacted]

Own Correspondent

JOHANNESBURG. — SA cannot embark on a one-man, one-vote system as long as there are big differences in per capita income, Deputy Minister of Finance Org Marais told businessmen at the Nissan economic forum in Johannesburg on Friday.

The government had therefore attempted to combine the principles of wealth distribution with wealth creation in the Budget announced last week.

Marais also mentioned the possibility of introducing a minimum tax in the next Budget and a withholding tax on interest.

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"But you also have the other side, which is the approach from the supply side economists or public choice theorists, where Reagan and Thatcher built their thinking.

"They believe you should only pay tax according to the benefit you get out of it and protect private ownership.

"Although the two approaches are to some extent conflicting, this Budget, we believe, integrates them."

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The government was trying to make people with the same income pay the same tax.

"But if a man has a company car, a company flat, subsidised interest rates, he is not paying the same.

"We have the objective of bringing down personal income tax and we are also investigating the possibility of a minimum tax — we hope to have a report on minimum tax in the next Budget."

Marais said the Budget was intended to be neutral and efficient.

The tax system had to be cut down so that rates were neutral in economic decision making. The government did not want to encourage investment in low profit activities.

By putting more money in people's pockets the government would motivate greater productivity.

"There is sometimes a conflict between equity and simplicity in the tax system," Marais said.

"You have to adjust the tax system with the poor and the aged in mind and it makes the structure extremely difficult to manage.

"We must therefore accept a tax system not always fair but simple and easy to manage. If we introduce a withholding tax, the provisional tax system may disappear in the case of the individual taxpayer."

Marais said the government was moving towards a self assessment scheme, a way to simplify and cut costs and make the system invisible to some extent.

Liblife's Gordon warns on policy of nationalisation

Ar 19/3/90

49

By Sven Lünsche

The policy of nationalisation is misguided and unproductive given the failure of this approach in Africa and elsewhere, says Liberty Life's Donald Gordon in his 1989 chairman's statement.

"It is vital that the economy be structured in a manner to achieve a high level of growth which will in turn facilitate job creation and ultimately a higher standard of living for all," Mr Gordon says.

"Given the massive amount of funding which will be sought from the Western World for the rebuilding of Eastern Europe, the level of funds available to African countries is likely to be drastically curtailed.

"This represents a special challenge for South Africa to restore credibility and good relationships with its neighbours."

Mr Gordon also announced the appointment of his son Richard to the board of Liberty Holdings as a non-executive director to represent the Gordon family interests.

● Liberty Investor's earnings per share rose from 14,6c to 16,8c in the year to end-February. The total effective dividend was raised to 11,3c (10c).

Star 19/3/90 (49)

6 holidays to cost more than R2,4-bn

By Helen Grange

Six public holidays in April and May this year — all of which fall on working days — will cost the economy in excess of R2,4-billion, according to the SA Chamber of Business.

With these holidays falling on days at the beginning and end of the working week, some extra days would also be lost so workers could take long weekends, tha chamber said.

Extremely costly

The highly disruptive holidays concentrated over these two months — (Founders Day, April 6; Good Friday, April 13; Family Day, April 16; Workers Day, May 1; Ascension Day, May 24 and Republic Day, May 31) — would play havoc with productivity countrywide every year.

"We lose something of the order of R400 million for every working day lost," said Mr Vincent Brett, labour adviser at the SA Chamber of Business.

Mr Brett said the chamber would again look at the uneven spread of public holidays, but it was unlikely the Government would change them at this stage.

"Economies the world over make allowance for public holidays and most countries have an average of 10 public holidays a year. We are not unduly over-average," Mr Brett said.

Mr Colin Boyes, deputy director of the Cape Chamber of Industries, said the April and May holidays were "extremely costly to industry".

"And worse still is when the holiday falls on a working day. Twenty percent of the working week translates into a lot of money," he said.

Industry field that a number of core holidays should be identified and more evenly spread. "At present, we are dealing with many demands from different community sectors and it is highly disruptive," Mr Boyes said.

● The Government last year recognised May Day (May 1) as a public holiday for "practical and productivity reasons". This was to stop workers staying at home on both May Day and Workers Day (May 7).

Star 19/3/90 (49)

Foreign view on Budget positive

By Neil Behrmann

LONDON — Swiss and West German banks have taken a positive view of South Africa's post-budget prospects and boosted the financial rand.

Foreign investors, however, are unsure about the fate of the 15 percent withholding tax, following the Government's decision to abandon tax on dividends.

Any dividend received from South Africa is subject to this tax, but overseas investors receive gross income from gilts and semi-gilts.

"In terms of South Africa's double taxation agreement, the withholding tax must go," says Geoffrey de Jager, MD of RND International, financial rand traders.

He says the financial rand has risen to 25 US cents from 24c as a result of the tax changes.

Swiss investors have also been active buyers of gold shares since last week.

If indeed the withholding tax is scrapped, says Mr de Jager, South African shares and the financial rand could surge, particularly if the gold price begins to recover.

Albert Loveless, analyst at Smith New Court, is less convinced about any change in withholding tax.

He contends that double taxation agreements will not enforce the abandonment of the tax. In any event, such a change will not make much difference, he says.

Total tax paid

A UK investor, for instance, must pay 25 percent tax on dividends received anywhere in the world. And those who are in the higher-income bracket must pay tax of 40 percent.

The 15 percent withholding levy is deducted from total tax paid.

On balance, however, the scrapping of withholding tax should encourage investment in South Africa, says Mr de Jager.

Considerable funds are offshore or in low-tax nations such as Switzerland. The rise in SA dividend income will make it attractive for foreign investors to buy SA shares, he says.

Present market rates are an incentive. The financial rand has fallen 21 percent from its peak reached at the time of Nelson Mandela's release and the discount to the commercial rand is a whopping 35 percent.

Tax incentives for the mining industry are also regarded favourably by foreign investors, says Mr Loveless.

In the end, however shares will perform in line with the gold price, he says.

Following its correction from the peak of $423, Mr Loveless is optimistic about gold's prospects.

He favours Buffelsfontein, which is on a yield of 13,5 percent.If gold rises towards $500, as he expects, Leslie and West Rand Consolidated will be good buys.

Shearson Lehman Hutton analysts Rhona O'Connell and Robert Davies visited South Africa recently and believe that "there will be selective strike action at mines where NUM membership is strong.

"This might well focus the attention of management on rationalisation of less profitable operations," they say.

The analysts conclude, however, that there is substantial goodwill among the populace as a whole.

"The leaders of the ANC are more moderate than generally understood."

The assessment of analysts representing large international firms indicates that after the recent panic, foreign investment funds will shift back to the SA market.

The Financial Times gold share index at 283 points is 25 percent below its 1990 high, so shares are beginning to offer better value.

Economists fear tax cut may be over-stimulant

By Michael Chester

Star 19/3/90 (49)

Concern has been voiced by the SA Chamber of Business that the 1990 Budget may prove an over-stimulant if too much of the R4,5 billion round of income-tax cuts is channeled into consumer spending rather than into savings or cutting down their debt burdens.

Ronnie Bethlehem, chairman of the Economic Affairs Committee, told a Sacob budget seminar that a R6 billion deficit could backlash on the current account of the balance of payments unless well handled.

Much depended now on government reliance on monetary and fiscal policies to hold restraints on consumer expenditure while the economy was slowed down and it tackled new socio-political objectives.

But the increase in the deficit to a level equal to 2,8 percent of gross domestic product raised questions about the determination of policies of economic constraints.

He personally would have preferred to see the level at 2,3 or 2,4 percent of GDP.

"The Budget may have taken a few chances with the current account if it acts as a stimulant at the moment," he said.

Rudi Gouws, group economist of Rand Merchant Bank, was also fretful about the risk of over-stimulation at a time when South Africa's terms of trade were facing problems as a result of lower world prices on its commodity exports.

Also to be assessed was the impact on the balance of payments if lower prices were also accompanied by lower volumes as industrial production showed signs of a slowdown in several key overseas markets.

Improvements with current account surpluses could also be affected by a stronger rand exchange rate and the lowering of import surcharges.

Much hinged on the handling of the R2 billion set aside by the government to plough into programmes of socio-economic improvements aimed at trying to remedy the past injustices of apartheid policies.

There was still hope, however, that taxpayers would use a good proportion of their income-tax savings on clearing the burden of debts they had accumulated in a decade of fiscal drag and higher tax bills eating into disposable income.

And economists had been highly encouraged about the longer term outlook as the government spelled out promises that the 1990 Budget was the first phase in a five-year programme of tax reform.

For the moment, Finance Minister Barend du Plessis, was trying a balancing act. "All now depends on whether he has got the mix right."

Dr Estiaan Calitz, Deputy Director-General of the Department of Finance, was convinced the Budget had found the correct formula.

He saw few dangers of over-stimulation since R4 billion of the 1989-90 budget year was already accounted for — steered into the stabilisation account, meeting losses on exchange rate forward cover, or held by the Reserve Bank on behalf of state pension funds.

He was satisfied that many taxpayers would make full use of new tax benefits to reduce their debt obligations and savings rather than on indiscriminate consumer spending.

Two ANC men defend nationalisation policy

Star 19/3/90 ca

By Esmaré van der Merwe

The aim of nationalisation was to improve the economy and raise the standard of living of the exploited people, African National Congress stalwart Mr Walter Sisulu said in Lenasia yesterday.

Mr Sisulu said it would be unproductive and impractical to put every little business or industry under State control. However, major monopolies, financial institutions and mines would be nationalised to obtain capital to cater for the most basic needs of impoverished working people.

Both Mr Sisulu and Mr Ahmed Kathrada devoted time to the issue of nationalisation, one of the recently unbanned organisation's most controversial policies.

Mr Sisulu said nationalisation was not as irrational as was made out by spokesmen of powerful capitalist enterprises. Nationalisation would allow for a planned redistribution of wealth to develop education, housing, health and social services, he said.

Mr Kathrada said the National Party government had successfully solved the problem of white impoverishment by nationalising key sectors of the economy.

"I ask our oppressors why they are opposed to us doing exactly the same for our people? If you don't agree with our policy of nationalisation, please tell us how can we uplift our people," Mr Kathrada said.

Star 9/3/90 (49)

Private sector must not denegrate nationalisation

Although nationalisation is not the answer, the inferior quality of life of blacks is a fact and it is in the interests of all the inhabitants of South Africa that this problem be addressed," Mr Marinus Daling, CE of Sankorp, said at a conference last week.

Mr Daling said it was necessary to examine with understanding and sympathy the problems that the ANC wishes to address by means of nationalisation: An improvement in the quality of life of the black people of South Africa. "Nationalisation is the worst route to achieving this aim and is without a doubt doomed to failure."

If the wealth of the country were simply to be divided to compensate the backward sections of the community it is to be expected that this prosperity would quickly be used up and disappear.

However, the private sector cannot just denegrate nationalisation, but would have to consider how best it could contribute to relieving this problem in coopera tion with government.

"Increasing the growth potential of the South African economy is the prerequisite for the meaningful and permanent improvement of the quality of life," Mr Daling said.

To achieve this, it would be necessary to continue the government's policy of the past few years, namely, privatisation, deregulation and extension of free enterprise, which implies that the concept of free trading and free settlement areas will have to be further expanded.

It would also be necessary to obtain access to international capital again, to curb government spending and to contain the problem of inflation.

According to Mr Daling, there are several areas in which the private sector could make a contribution, the most important one being skills training.

"Black education must be normalised to equip the future generation with those skills that are needed for successful entry to the economic field.

"This demands greater involvement of and discipline by community leaders, and thereafter a more generous allocation in the medium term of the country's financial means. Moreover, all education in South Africa would have to become more vocationally orientated," Mr Daling said.

"The private sector in South Africa spends a mere 2 percent of its salary account on training, against approximately 6 to 8 percent in the case of Japan, West Germany and the USA.

"Strictly speaking, we should be spending more than those countries do because of the backward position of our education system compared with those of these countries.

"The successful business of the next century will be the one which views training and the nurturing of the skills as a long-term investment, rather than regarding it as an expense to be skimped on", Mr Daling said. — Sapa

B/Day 19/3/90

GOVERNMENT HOLDS R2bn CASH IN RESERVE

(49)

GRETA STEYN

GOVERNMENT has about R2bn in cash tucked away in a special account with the Reserve Bank for which no spending provision was made in the Budget.

It can transfer these funds back to its normal account for spending if it wants to.

The account bears no relation to the special R3bn fund created for "economic backlogs" which was announced by President F W de Klerk on Friday.

The special Reserve Bank balance, known as the stabilisation account, was created to keep money taken out of the economy as part of monetary policy.

The fiscal year ended with R1,4bn in the stabilisation account — over and above the R7bn in the Exchequer balance.

A further R750m was transferred to the stabilisation account from the R7bn left in the Exchequer account. The rest of the latter will be used for the social services fund, the forward exchange losses, the Development Bank of SA and the pension fund deficits.

Finance director-general Gerhard Croeser confirmed government now had about R2bn in the stabilisation account and that the money had not been appropriated in the Budget.

Economy of future: Minister spells out the key guidelines

Sowetan 19/3/90

(49)

The key question facing South Africa was which type of the economic system would have to be adopted, the Minister of Manpower, Mr Eli Louw, said at the weekend.

Speaking at the 50th anniversary of the SA Motor Industry Workers' Union in Johannesburg, Louw said the expectations of all South Africans could be met only if the country had a prosperous and growing economy.

He said healthy labour relations, good management and high labour efficiency had to be the cornerstones of a workable system for the creation of wealth.

Louw said South Africa was entering a period of reform which demanded wisdom, flexibility and a judicious approach from everyone.

South Africa had a serious shortage of people with the ability necessary to build a progressive economy in which everyone could take part.

Effective training was necessary to solve this problem. - Sapa

Nat plan for all-party Johannesburg budget

Star 20/3/90 **Municipal Reporter** 49

The National Party caucus in the Johannesburg City Council last night decided to invite the other political parties and independents to take part in drawing up the city's annual budget.

This move is aimed at preventing any disruption of the June budget. The NP has only 22 seats in the 51-seat council and 26 votes are needed to pass what is the largest budget for any city in the country.

Management committee chairman Mr Jan Burger said it was time to depoliticise the budget.

"We have reached a stalemate in council. We are still the strongest party as far as members are concerned, but with the assistance of the independents the Democratic Party could be one vote ahead of us."

The NP plans to hold meetings with a delegation from each party and city treasury officials.

The DP chief whip in the council, Mr Paul Asherson, said it seemed as if the NP had been forced to extend the invitation. "It does look like the death throes of the management committee."

6 The Star Tuesday March 20 1990

A) (49)

Budget Bill is passed despite stiff opposition

The "own affairs" budget of the House of Assembly was one of a crumbling and capitulating National Party and was an exercise in misleading the people, **Mr C H Pienaar (CP Heilbron)** said yesterday.

He said the budget had been reduced to an arithmetic example of Chinese bookkeeping in which own affairs money was being used for other races.

Another reason why the CP would oppose the budget was because the help it afforded farmers was pathetic.

"If there is a section of the white community being disgracefully treated, it is the farmers."

Conservative Party deputy leader **Dr Ferdie Hartzenberg**, said that the National Party was underestimating the power of nationalism and was going against the tide of history.

He said even after centuries of oppression, the nationalism of the Lithuanians could not be dampened or extinguished.

"It was nationalism that established the Conservative Party and which will make us the majority party. We and our land will not become part of Azania. We will do what we have to in order to restore peace," he said.

The Democratic Party finance spokesman Mr Harry Schwarz said his party would oppose the budget because the concept of a tri-cameral system only catered for three of the four population groups and was inefficient and wasteful when the country was in dire need of funds.

He said the increase of R25 a month for social pensioners was inadequate due to the high rate of inflation.

Mr J W Maree (NP Kliprivier) said the own affairs system was still the only method by which each group's interests could be looked after.

The Bill was passed after a division. — Sapa.

Star 23/3/90

(49)

Challenge is to meet demands

Business urged to enter SA debate

By Esmaré van der Merwe, Political Reporter

Africa's economic track record would make significant foreign investment in a non-racial South Africa unlikely unless a sound economy prevailed, South Africa Foundation president Mr Warren Clewlow said today.

Opening the Foundation's annual general meeting at the Sandton Sun this morning, Mr Clewlow highlighted the complicated economic challenges facing the country in the light of political reform.

He urged business leaders, who had the unique skills and experience to maintain and develop wealth creation mechanisms, to become involved in the economic debate.

Grapple

"Changes and compromise will undoubtedly be required. We will have to grapple with unfamiliar ideas and uninformed and even naive conceptions about how the economy works and what resources are available.

"Equally, we as businessmen will have to come to terms with the inequalities in our society and the extent to which these cry out to be addressed."

The challenge was to improve productivity, successfully address the socio-economic aspirations of blacks and maintain South Africa's position in the global economy.

The real needs and aspirations of the black population had to be balanced with the equally important requirement of a growing economy which was needed to produce the resources needed to address those aspirations.

There would be intense pressure for affirmative action and the rapid advancement of blacks into senior and influential positions in both the private and public sectors.

Housing, health care, education and the "mismatch of skills with the economy" would become the prime focus, while wealth and ownership redistribution would be fundamental policies for black leaders.

Said Mr Clewlow: "I can understand these demands and I accept that a successful new South Africa will not come about if they are not planned for and substantially achieved.

"What I cannot accept is a degeneration into economic chaos. Any constituency trying to bring this about will have to contend with the not inconsiderable strength and resources of the business community ranged against them."

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Baker to tackle ANC on economy

SIMON BARBER

WASHINGTON — Secretary of State James Baker plans to tell Nelson Mandela that the ANC's nationalisation policies are unacceptable to the US adminstation, a senior State Department official said.

Rejecting Mandela's call for intensified economic pressure on Pretoria, Baker will also say that while sanctions have played a "positive role" hitherto, "we think now is not the time to think or more sanctions, but to think in terms of negotiations".

However, he does not wish to talk about sanctions at all in his meetings with President F W de Klerk.

Briefing reporters before Baker left for Windhoek on Saturday, the official outlined in unusual detail the "talking points" the Secretary will take with him.

High on the list of points to be made to Mandela is that "we do not agree with his economic model for a future SA".

Baker does not propose to dwell on the ANC's stance on violence, because "we believe that the ANC is prepared to renounce violence as part of the pre-negotiation process which is going to take place starting April 11". B/Day 20/3/90

Baker will arrive in Cape Town on Thursday for talks with De Klerk, Foreign Minister Pik Botha and unspecified "black opposition leaders".

Technology 'key' to creating wealth

[redacted]

Business Day Reporter

WHITE fears were not of a black-dominated government or sharing of the country's wealth — the fear was the rapid lowering of standards, said Society for Professional Engineers president Ron Heydenrych.

In his first presidential address to the society last week, Heydenrych said this would not happen if technology was given its rightful recognition by the decision-makers and was seen as a priority in SA's education and development strategies. 49

"The future of SA will depend on its ability to create wealth. [redacted]

"There are many components of wealth creation ... However, a key component is the application of technology." [redacted]

It was unfortunate that in political terms money spent on maintenance carried few rewards compared with education and hospitals.

"But, if we fail to maintain and extend our infrastructure we will seriously undermine the potential economic growth of the country."

While SA had many fine engineers, there was a critical shortage and it was getting worse, Heydenrych said.

"Even assuming that only half of our population is economically active, we only produce 56 engineering graduates per million of population compared with Japan's 500 and US's 370. In these terms we are hardly in a position to challenge the world."

As a profession "we work in a way which strips away political pressures and because of this unique relationship to society we can make an important contribution to development strategies in SA", Heydenrych said.

Cape Times 21/3/90 49

Hurd: SA must share wealth

JOHANNESBURG. — British Foreign Secretary Mr Douglas Hurd urged businessmen yesterday to accept that South Africa's wealth should be fairly distributed among all races, but said nationalisation was not the way to do it.

"The aim must be to preserve and promote economic growth," Mr Hurd said in an address to businessmen at the end of a 36-hour visit to South Africa.

"The requirement in South Africa is both for political reform and to find the means in a post-apartheid society of creating and distributing wealth."

Mr Hurd made an unannounced stopover here on his way from Cape Town, where he met President F W de Klerk on Monday, to Namibia, where he was scheduled to join independence celebrations at midnight.

In Johannesburg he visited a Soweto township Nicro centre for the rehabilitation of criminals and the offices of the top-selling black newspaper Sowetan, before meeting top industrialists at a meeting of the South Africa Foundation.

Mr Hurd, speaking on Britain's views on peace in South Africa, said: "We do not believe that it will be possible to achieve a settlement except on the basis of one person, one vote.

"It must (also) be obvious that the days of residential segregation through racially based legislation are numbered."

Mr Hurd said South Africa would not be able to generate enough money on its own to redress the imbalances caused by apartheid and urged foreign donors not to postpone their involvement in reconstruction.

"We must not wait for the end of apartheid before we start alleviating the misery it has caused."

Addressing the SA Foundation's 30th anniversary annual general meeting, Mr Kurt von Shirnding, the foundation's director-general, said the South Africa of yesterday was dead and gone and South Africans were at the beginning of the process of creating a new country that it was hoped would reflect the aspirations of all the people.

He said this process would ultimately result in South Africa's international reacceptance, which would enable its people to play a creative role on the subcontinent.

Mr David Willers, outgoing London director of the foundation, told the meeting that a Labour government in Britain might be better for the new South Africa as it would have a greater vested interest in promoting Third World causes.

He said a Labour government could be expected to fight for a retention of aid to Southern Africa at greater than existing levels.

It was an extraordinary paradox that at this precise juncture of South Africa's history, when President F W de Klerk finally took the steps the world had been urging on Pretoria for years, that the UK Prime Minister, Mrs Margaret Thatcher, should have lost influence with such crucial players as Germany, America, France and Japan.

Mr Willers, who is soon to take over as the new editor of the Natal Witness, questioned whether Mrs Thatcher was as important to South Africa as she once was, saying change in South Africa was now irreversible. — Sapa-Reuter

Cpt Times 21/3/90 49

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Du Plessis sends Manpower Dept budget soaring by 50%

B/Day. 22/3/90

ALAN FINE

THE Manpower Department last week saw its budgeted expenditure grow by 50% — an increase greater than that granted to any other government department in Finance Minister Barend du Plessis's March 14 Budget.

However, director-general Joel Fourie said most of the extra R112m allocated this year was for functions previously carried out by other departments.

State subsidies to employers for in-service training has been cut substantially.

Fourie said the department was to receive R31m to be used for cash grants to stimulate in-service training. This amount was in lieu of a budgeted R110m in tax concessions granted to employers for this purpose, and effectively represented a saving in government expenditure of R79m.

Fourie said in spite of recognition of the economy's need for better-trained manpower, government and the private sector agreed such training was largely the responsibility of the private sector.

The smaller amount available would be used in a more focused manner — targeted mostly on technical training.

49

Decided

The department would also administer an amount of R66m earmarked for job creation programmes.

These programmes had previously been carried out by various departments — including Foreign Affairs and Local. Government. It had now been decided by an inter-departmental committee they should be co-ordinated by the Manpower Department.

A further R16,4m included in the department's budget for the first time was for contributions to state pension funds on behalf of employees of the department, Fourie said.

This payment was previously made by the Department of Health and Population Development for all government employees.

From this year, each government department will pay these contributions on behalf of its employees.

This new bookkeeping system explains why a R2bn amount allocated to the Health Department has now "disappeared", but it has also made much more complex comparisons between the 1990/1 Budget and that of the previous year.

One area where the Manpower Department does intend to increase expenditure is in the Industrial Court, Fourie said. It has budgeted an additional R800 000 for the employment of part-time court members to partially relieve the existing over-worked bench.

Nafcoc to talk nationalisation

By JOSHUA RABOROKO

THE National African Federated Chamber of Commerce is to host an economic conference of business and community leaders to a discuss options for a new order in South Africa. Sowetan 22|3|90

The conference, to be held at the Wild Coast Holiday Inn in Transkei on May 1 to 3, will investigate the nationalisation of business in South Africa as proposed by the African National Congress.

This follows a recent meeting in Lusaka between Nafcoc and executive members of the ANC. (~~35~~, 49)

Nafcoc public affairs manager Mr Gabriel Mokgoko said Nafcoc's stance was that "while nationalisation will not necesarily solve all problems, it can serve as a vehicle to provide an answer to some of them".

A delegation of Nafcoc this week met with the Australian Ambassador and the Australian United Nations representative.

Choice of control by the state or by the people

(49)

B/Day 22/3/90

STUART JONES

A SOCIAL democracy is not an economic system; it is a political system that operates within a capitalist framework, as in, for example, Sweden, West Germany and the Netherlands.

Pieter le Roux displays a grave misunderstanding of capitalism in the excerpt from his article (Business Day, March 1) when he writes: "Social democracies, in contrast to Marxist-Leninist socialism and the capitalist systems, have the proven ability rapidly to enhance the political and economic power of these groups excluded under more exploitative and authoritarian systems."

The real choice is between a market-orientated economy and a state-dominated economy. The latter may be Stalinist and be known as communism, or étatism as practised by Mustafa Kemal in Turkey or De Gaulle in France. The end result is always the same. The state takes over and owns and operates an enterprise that in the course of time becomes an unwieldy bureaucracy, in which wage awards are determined by the proximity of elections, or the decisions of committees of experts selected for their views.

This happened to Margaret Thatcher in 1989, when she committed herself to accepting an award of an inflationary-inclined committee not responsible for implementing the awards it recommended.

The state takeover of enterprises in manufacturing or the services invariably leads to losses, the costs of which are then imposed upon the taxpayer. Nelson Mandela would do well to ponder what happened in independent Zambia, where the copper mines were nationalised.

Two unfortunate consequences flowed from this decision. Firstly foreign exchange was wasted by buying out the foreign shareholders. Secondly and more seriously, mines that had been a major provider of taxes for the government of Northern Rhodesia very quickly ceased to make profits and then, instead of helping to pay for Zambia's education and health services, the mines began to absorb taxpayers' money just to keep going.

By taking over the commanding heights of the economy in order to direct funds into "black advancement", Mandela's policy is likely to produce a few fat cats at the top of nationalised industries at the cost of impoverishing the country and reducing money spent on welfare.

Ultimately, state control is likely to be self-defeating. It crippled Zambia, it has crippled almost all of black Africa, just as it devastated all the communist countries of Eastern Europe. That choice Le Roux rules out.

But the alternative economic choice is not social democracy, though that may well emerge. The alternative is a market economy, in which people and not governments decide what to buy and what to produce. A market economy is very much more democratic than a socialist economy, for it assumes that the people know best, and it responds to signals from the people much more rapidly than bureaucrats do.

Market economies have been responsible for the development of the affluent societies of today. It was a market economy that produced the managerial revolution of the 1880s in the US that gave us the modern business corporation, which, by its efficiency in allocating and co-ordinating the flow of resources through giant enterprises, so lowered costs that goods hitherto beyond the reach of man in the street now became part of his normal spending pattern.

Managerial capitalism was good for managers, but it was also good for the man in the street. A socialist bureaucracy would never have given us typewriters, sewing machines, soap powder and a thousand and one mass-produced foods that are today available in the supermarkets. Socialism has produced food scarcity in every country in which it has been able to overrule market forces.

This has happened in advanced economies. Food rationing was retained in Britain for eight years after the war — long after it was abolished in defeated Germany — because a socialist government and bureaucracy interfered with the market mechanism and let a state bureaucracy manage the buying and selling.

Market economies can be the bases for welfare on a large scale. Sweden is a good example of this. It is often forgotten that Sweden operates a market economy and that steel and shipbuilding were nationalised, not for ideological reasons, but to keep them going when they proved unable to compete with Japan and Korea. Keeping them going out of the income tax helped keep their politicians in power and postponed the day of reckoning. A wealthy country can operate loss-making nationalised industries without undue suffering for lengthy periods; this is not true of poor countries.

One suspects, too, that the main argument for privatising the telephones in Britain was the increasing cost of a high technology industry. It is far better to let the market provide the capital than the hard-pressed taxpayer, which is why socialist Sweden and the Netherlands are privatising their telephones.

It takes politicians a long time to realise that privatisation means an enlargement of the tax base. In Northern Ireland British politicians have been propping up lame ducks since the 1920s, in order to create jobs where the market tells us they should not be. Our decentralisation scheme has had the same effect — the impoverishment of the taxpayer.

While we are debating the shape of a future SA it would be well to ponder which economic system offers a future finance minister the most revenue. Nationalising the mines is not only foolish; it will have the opposite effect to that intended. It will impoverish the country, for bureaucratically managed mines will very quickly cease to make profits and start to draw funds from the Treasury.

Nor is it reasonable to argue that money should be drained from existing profitable industries to provide social services comparable to Western Europe. Since 1948 SA's population has increased at the rate of 5% a year. No country with such a population growth can hope to have sufficient resources to provide Western European-type welfare.

A future SA government will have to make difficult choices. Pensions will have to be linked to payments into a fund and not paid out of general revenue. The government will have to get out of housing.

What SA needs is an economic system that maximises wealth creation, not one that retards it, and a government committed to a reasonable amount of social welfare. The extent of the welfare that can be provided will in the long run be determined by the economy's performance rather than political slogans.

A market economy is likely to produce the most wealth and a future "social democratic" government, if it is wise, will acknowledge this and accept that it is based upon a capitalist economy. Suggesting that capitalist economies are different from social democratic ones confuses the issue. All the democratic welfare states operate on capitalist bases and not socialist ones.

Social democratic economies do not exist and it would be better if advocates of social democracy recognised this fact. Then, a future market economy might produce the wealth necessary for the provision of adequate social services in a future SA. The alternative is immiseration à la Tanzania and Zambia.

☐ **Dr Jones heads the division of economic history at Wits.**

Sowetan 22/3/90

Hurd rejects policy of nationalisation

Economic growth key to SA's prosperity

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This is the second and final part of the speech made by the Rt Hon Douglas Hurd CBE MP to the annual general meeting of the South African Foundation at the Sandton Hotel, Johannesburg, on Tuesday.

You will be familiar with the assistance Britain has given through the Urban Foundation's scheme for low-cost housing. We are looking at ways of expanding our effort in that area too.

I saw the squatter settlements in KTC and Crossroads. They are the squalid face of apartheid. We must not wait for the end of apartheid before we start alleviating the misery it has caused.

Solving tomorrow's problems means starting solving them today. It is not good enough ,indeed totally dishonest, for those far away from this region's difficulties to create the impression that 'ending apartheid' will be a magic wand bringing rapid prosperity and freedom.

Education

Attention has to be given now to building up black education and black community infrastructure so that tomorrow's post-apartheid South Africa can have the best chance to become a decent, prosperous modern society.

South Africa's prosperity is crucial for the whole of this region.

Today, there are 500 million people living in Africa south of the Sahara. In 20 years time there will be another 500 million. Hardly any economies in Africa are growing at a rate sufficient to keep pace with that increase in population, let alone outstrip it.

Yet, unless economic growth is able to outstrip the population increase, the prospect throughout Africa is one of increasing impoverishment.

Free Press

Last year's World Bank report suggests that sustainable growth is not attainable without good government, a respect for the rule of law and human rights, a free Press and democratic institutions.

The requirement in South Africa is both for political reform and to find means in a post-apartheid society of creating and distributing wealth.

It is not surprising that, like other liberation movements, the ANC pays homage to the idea of nationalisation.

Nationalisation is seen by them as the way to redress the gross economic inequalities which characterise apartheid just as surely as political domination.

Fallacies

The problem is that so much interventionism to post-independence Africa has been misconceived resulting, as the World Bank report says, in a range of ills from loss-making public enterprises to poor investment choices and inefficient resource allocation.

In pointing out the obvious fallacies in the doctrine of nationalisation as a means of redistributing wealth, it will be very important that the business community in this country should not appear to be adopting an essentially defensive or negative position ("what we have , we hold") vis-a-vis black aspirations.

For the fact is that the question of the distribution of wealth in South Africa will have to be addressed if an equitable system is to be developed here.

Land Acts

We welcome the Government's decision to set up a large independently administered fund to be used in consultation with black leaders to help redress the distribution of resources.

The aim must be to preserve and promote economic growth - otherwise there will be only increasing poverty to redistribute.

I have mentioned the case of the Land Acts, which we hope will be repealed. That itself will not suffice to make more land available to black South Africans: that is likely to require the sort of effort to help black farmers which has been made so sucessfully through the Land Bank to help Afrikaner farmers get established.

In the industrial sector, you are better able than I am to devise ways in which black South Africans can be given a much greater share and a greater vested interest in the working of a free economy. For otherwise it will be hard to preserve the free economy on which the future prosperity of all South Africans is going to depend.

Politically, it is easier to make these adjustments if the economy is growing. South Africa can never generate sufficient capital to provide new jobs for the millions of blacks coming on to the labour market. So foreign investment is essential.

Investment

Contrary to the belief which seems to exist in some circles, the world is not queueing up to invest in South Africa.

Competition is fierce. The opening of Eastern Europe to the West means that it will be even fiercer in future.

Post-apartheid South Africa will have to convince potential investors that the bleak story of the last 25 years in so much of the sub-Saharan Africa will not be repeated here.

South Africa will have to create a climate which is attractive to the investor.

You will have noted that I have succeeded in getting this far in my speech without any mention of sanctions and that, I can assure you, is deliberate.

For in my views that whole issue is yesterday's debate.

Reform

I know how much some of the members of this audience have contributed to the process of reform which is now underway here.

I believe that you can make an equally major contribution to the greater economic debate which is now going to take place here. It is not possible to debate the economy with leaders in prison. Now that they are no longer in prison, that debate must be engaged.

It can and will go hand in hand with the debate about the future constitution and on the outcome of those two great debates, the future of this country, and in large measure also of the neighbouring countries, will depend.

Crumbling

"New thinking"is sweeping the world. Dictatorships are crumbling everywhere. It is no coincidence that Marxism and apartheid are coming to a dead end in tandem - both are unrealistic creeds now shot to bits by the incessant popular demand for the freedom of choice that modern economic and political life demands.

I can assure you that, so far as the people in my country are concerned, there is no hostility towards South Africa. There is absolute hostility towards apartheid.

We want to see things work out here in a way which will confound all the doomsday predictions.

Your Government has already taken irrevocable steps towards radical reform because it has faced up to political and economic reality. The possibility of negotiations had been opened up. Those involved on all sides will have to make the hard decisions.

Encourage

We shall encourage them, press them, to do so. Our encouragement will take practical form. At the end of the process the results will be judged by the people of South Africa.

If they are acceptable to the majority , the international community will rejoice with them. But the real prize will lie not in world approbation but in the judgment which people will make thereafter on whether South Africa has become the sort of country they want to visit, to do business with and - most of all - to invest in.

South Africa will be no exception to the rule that political liberty and economic performance go hand in hand.

Star 22/3/90 (49)

Blacks must get jobs before vote, says Org Marais

Pretoria Correspondent

South Africa could not enter a system of one man, one vote, with the majority of its population impoverished, the Deputy Minister of Finance, Dr Org Marais, said in Pretoria last night.

Addressing economists on the new Budget, Dr Marais said: "Yes, we are taking from the rich to give to the poor, the blacks."

Dr Marais said the Budget was aimed at generating wealth and using it to uplift the black population: "All blacks must be able to own their own homes in four to five year's time, their children must have decent schooling."

"That is the only way to fight the African National Congress and socialism."

Dr Marais said the new Budget was progressive, but simple: "We are looking at a Third World budget. We cannot enter the new South Africa with a rigid budget along the old lines."

"In four to five year's time personal tax could be as little as four percent."

Sowetan Business

Remember those '20s parastatals, Barend?

Sowetan 22/3/90 (49)

It's my business

THAMI MAZWAI

MR Barend du Plessis's letter in *Sowetan Business* last week was quite a say.

For starters I expected him to know that what *he* says, regardless of the fact he is quoting somebody else, carries with it the stamp of Government.

My point was that a Government minister could not afford to make such a comment when he knew quite well it was Government policies and the fact that blacks did not share in the free market economy that drove them to socialism. Very few blacks, if any, can claim to have benefitted from the free market economy as applied in this country.

It also does seem he did not understand what he was questioning. None of my columns have ever supported nationalisation. Argue on its behalf, yes, but advocate it, no. As far as I am concerned nationalisation has so far failed to make a convincing case for itself.

But this does not mean we should not have redistribution. In fact, this is a non-negotiable. How this is to be accomplished is a matter for the negotiation table. In other words negotiations must not decide whether there should be redistribution or not, but these talks must determine how it should be done.

Letter

However, it appears that the Government has started on what it sees as redistribution. How does one explain last Friday's R3 billion announcement by President F W de Klerk? Typical National Party tactics, they differ and then proceed with their interpretation of what is demanded.

Let us now look at other points in the Minister's letter. For Du Plessis to argue that Afrikaners never nationalised is mind-blowing. What do we call the Government's ownership of Eskom, Sats, Posts and Telecommunications, Foskor and at one stage the Land Bank? Iscor and Sasol (now privatised) were also at one stage Government-owned.

Perhaps what he means is that they did not take over existing companies. He is right in that sense. But they had another variation of nationalisation. The Government simply set up businesses and made taxpayers foot the bill. This happened in the days of the Pact Government during the '20s.

According to Wits University industrial sociologist Professor Duncan Innes, business was opposed to the setting up of these concerns. He tells me the barons of business knew they would be taxed to the bone to keep these institutions going.

Innes, who also publishes the *Innes Labour Brief*, should know. He has gone through miles and miles of volumes studying the labour and economic issues of those times and has published an authoritative book on Anglo American.

Jobs

Also, the creation of these parastatals was not only a question of business economics, as Du Plessis suggests, but had social and political ramifications.

For one, the "poor whites" problem was solved when Afrikaners who had lost their farms now found jobs in industries owned by the Government, and where colour and *broederskap* was the criteria. Those "poor whites" enabled the Nats to stay in power since 1948.

Nogal, for that matter, when the Government set these parastatals up it followed what it called a civilised and Christian labour policy - only having whites in skilled positions.

Perhaps Du Plessis is also not aware that the privatisation of Iscor and Sasol he is talking about has not meant anything to the black community.

Poverty

We did not participate when the companies were privatised, except when Iscor shares were forced down the throats of unwilling black workers. When Sats is privatised again blacks will be spectators, and workers may once more have stock shoved down their gullets.

Du Plessis tells us of poverty in other parts of the world although, he says, these countries did not have statutory apartheid. He even says poverty is not restricted to one race or group.

In South Africa, poverty is not only restricted to one group, but this group has been ruthlessly exploited over the years to ensure that another race group lived in luxury.

According to the Central Statistical Service average earnings in the non-primary and non-public sectors were as follows for 1987: Africans, R593 and whites, R1956. This pattern reproduces itself in the public and primary sectors. What do these figures say to Du Plessis?

They tell *me* that a lot of poverty in this country is a direct result of apartheid. Incidentally, Du Plessis is the one who last week raised white pensions to R276 (and this is not enough) while he kept those of blacks at R176.

Lastly, in response to the claim that there is a lot of poverty elsewhere: what happens elsewhere is the business of those countries, what happens here is my business.

By the by, Du Plessis says confiscation is plunder, and even theft. How does he describe the uprooting of blacks from areas they have lived in for decades, and the pittances they are given as compensation for their property? These payments defied the basic principles of the free market system. The buyer determined the price and when the unwilling seller rejected it, armoured vehicles and truckloads of soldiers were brought in. According to my book it was armed robbery. To crown it all this was committed by a Government and, worse still, one of its Ministers is now shrieking about plunder and theft.

FOR THE RECORD

F/M 23/3/90

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There were two errors in last week's coverage of the Budget:

☐ It was reported that revenue is expected to increase 13,2% to R69,47bn. This estimate does not take into account various tax concessions which should reduce revenue to R64,9bn — making the increase 5,8%; and

☐ Allocation to Privatisation was R2,6m, after actual expenditure in fiscal 1989-1990 of R2,3m. The amounts were incorrectly reported as billions.

FINANCIAL MAIL MARCH 23 1990

THE BUDGET F/M 23/3/90

Apples and pears

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Meaningful analysis of 1990-1991 Budget allocations and a comparison with this fiscal year are still not possible.

"There are two reasons," says DP Finance spokesman Harry Schwarz. "One is that globular figures relating to the coming year don't reflect reallocations brought about by the Budget, so are not comparable." One example is a 73% fall from 1989-1990, to R720m, in the vote for National Health & Population Development.

Amounts which previously fell under this department have been reallocated, including "civil pensions and contributions to funds," which have declined to R127,6m in 1990-1991 — nearly R2bn down on 1989-1990 actual expenditure.

"Employers' contributions to pension funds" appear for the first time in individual votes, totalling nearly R1,9bn. (Also, R1bn was appropriated to government pension funds from the surplus after borrowing.)

F/M 23/3/90

"The second reason the figures are not comparable is that the detailed breakdown in the Estimate of Expenditure to be defrayed from State Revenue Account — RP2 — includes outdated information relating to 1989-1990," says Schwarz. "Many figures in RP2 are from the original Budget and not revised to show actual expenditure. There appears to be no purpose in incurring the cost of printing this outdated document as, in any event, the State will bear the cost of printing an up-to-date version, now in progress."

Updated statistics appear in the Budget Review but this does not provide a detailed breakdown and totals are of limited value.

A detailed analysis by the Department of Finance will be provided to the Joint Committee on Finance by month-end. It will be published "when the committee report becomes available," says Schwarz.

Two new votes appear in the 1990-1991 Budget: Privatisation and Constitutional Development Service.

Last year, R2,3m was spent on privatisation, but it came under the R283,5m spent by the Commission for Administration. This year, R2,6m has been budgeted for the new Department of Privatisation, an increase of 10,5% on last year's actual expenditure.

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Despite this re-allocation, R407,3m is voted for the Commission for Administration, a 43% increase. Says Schwarz: "This is due to an 80% increase in contributions to the Public Service Medical Aid Association and 20% increase in computer services."

Constitutional Development has been allocated R14,5m, up nearly 37% on last year's actual. And National Education has been allocated R205m, an increase of 38%. ■

Star 24/3/90 (49)

Budget tricks disguise the plunder

Money Matters

MAGNUS HEYSTEK

IN recent years South Africans have become accustomed to viewing Budget speeches with some scepticism, like children attending a magician's show. They know instinctively that the illusion they are seeing just is not real, though they cannot spot how it is done.

Throughout the past two decades South Africa's Ministers of Finance have become skilled at using all kinds of "mirror tricks" to disguise their true intentions.

In the past decade, in particular, this was evident as the Government embarked on a massive plunder of individual coffers, often using a variety of mirror tricks to disguise the reality.

I remember on several occassions Ministers of Finance gleefully telling Parliament that taxes were not being increased.

The most obvious mirror trick used in this charade — or maybe it was not that obvious — was fiscal drag, also known as bracket creep.

This is dramatically illustrated in the sharp rise in revenue collections from individuals in the 1980s. In 1980-81 inland revenue from individuals amounted to R2,09 billion, only 17,6 percent of the total.

In the 1989-90 fiscal year individuals' contribution to total ordinary revenue was R18,9 billion or 36 percent — up more than 800 percent.

In the same time contribution from non-mining companies to total ordinary revenue rose from R2,4 billion in 1980-81 (20,4 percent) to only R11 billion or 20,9 percent of total revenue.

In most other Western countries such a shocking state of affairs would have been met with an almost instantaneous dismissal at the polls. That this did not happen can be partly explained by taxpayers' apathy.

Individual taxpayers have no formal forum to air their grievances, unlike organised commerce and industry who have built up huge structures to lobby government on a continuous basis.

While the so-called R4 billion handout from the Government in last week's Budget is widely hailed, one should be aware of not being duped once again by a clever magician's use of mirror tricks.

To a large extent the taxman is only giving back to individuals the amount he overtaxed them in 1989-90.

It should now be apparent that the Government suffered from an embarrassment of riches in the past financial tax year.

Income tax collections from individuals rose by no less than 36 percent — from R13,8 billion to an estimated (they are still busy collecting their haul) R18 billion. The same applies to the import surcharge from which revenue collections rose by more than 60 percent in the past year.

According to my calculations this amounted to about R2,5 billion now being given back to taxpayers in the form of relief from fiscal drag.

That this tax "relief" is illusory is further explained by looking at other indicators. Direct taxes on indivuals as a percentage of their current income rose from 6,2 percent in 1980 to 11,1 percent last year. On estimates of revenue for the current financial year, tax collections from individuals, budgeted to rise by 24 percent to R23,5 billion, will still constitute more than 11 percent of total revenue.

Also, the total tax bill on the economy, expressed as a percentage of the gross domestic product, will remain largely unchanged at around 27 percent.

However, mirror tricks and sleight of hand aside, an important start has been made by the Government in addressing the serious structural flaws in the economy.

The tax relief on dividend earnings is long overdue, and will make tax planning for people living off their dividends far easier.

It will also cause a great loss in business for highly paid tax planners. At least a start has been made in the direction of a simplified tax system (semi-)understandable, at least, to most people.

The decision to declare dividends tax-free, together with the implied definition of what constitutes a capital gain, the cut-off point being 10 years, will upset the endowment-policy gravy train.

Private individuals can now make 10-year investments, either using their own judgment or making use of stockbrokers and/or investment advisors, knowing full well that the capital gains over 10 years as well as the dividend flow during that time will be tax-free.

Why invest in an endowment policy, paying large commissions, if it can now be done free of charge?

With dividends on equity investments now being tax-free, shares with high yields suddenly look attractive. Look for a significant appreciation in the prices of property trusts in the near future. But also expect the definition of capital gains tax to be broadened soon.

Overall, the Budget was fair, with the macroeconomic effect likely to be neutral to slightly stimulatory. This can just prepare us all for a soft landing in economic growth. Cheers!

Nationalisation could be worse than sanctions for SA

DE BEERS, the South African diamond group, denies that it has set up a Swiss base for overseas assets because of Mr Nelson Mandela's threats of nationalisation, but I have no doubt at all that what the African National Congress appears to have in mind for South Africa's economy is fiercely concentrating business and industrial minds there.

S Times 25/3/90

How distressing it would be if the ANC's economic aims turned out to inflict more damage on South Africa's economy than international sanctions and disinvestment.

It is pointless to argue that much of the world is turning away from socialist ideas and back to the market economy. I perceive the political difficulties of the ANC.

It has little choice in the matter. To most of its followers, political liberation makes no sense without economic liberation, which means a redistribution of wealth.

This was partly the problem of Attlee's Labour government in 1945. The People's Hour having arrived, the people expected a bigger share in things.

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Attlee and his Ministers proceeded to nationalise a lot of industries — which meant they were controlled by the State — whereas what many Labour workers really wanted was syndicalism . . . more worker ownership and control of industry.

I have a strong impression that the minds of the ANC's economic thinkers are turning in that direction.

Mr Joe Slovo, who is one of them, has recently said that nationalisation, if it means the transfer of ownership to the state, is not what the ANC seeks.

It wants a phased transition of main industries from the private sector to public control through democratic participation of producers at all levels. That is certainly closer to syndicalism than nationalisation.

But would it work any better?

Of course these ideas will shift about as time goes by. The urban black who benefits from the strength of South Africa's industry might prefer things to remain as they are.

But there is a large population outside the cities whose aspirations have also to be met. It is not going to be easy to reconcile these aspirations with the need to sustain internal and international confidence in post-apartheid South Africa.

I fully understand a desire by people like De Beers to hedge their bets.

William Deedes in the Daily Telegraph

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C/Press 25/3/90

Education will get less cash this year than last

By DESMOND BLOW

BLACK education is going to be worse off this year than last. The 16 percent increase in the cash allocation for schools in the DET areas and the homelands – last year's increase was 18 percent – allows for no growth after inflation.

As between 70 percent and 80 percent of the budget is spent on salaries, teachers are the hardest hit. And there is no allowance for the employment of more teachers for the overcrowded classes.

The budget does not include the 10 percent increase in salaries for civil servants due to be introduced next month – but teachers' organisations have already indicated these are insufficient.

With an average 6 percent rise in the number of students every year, this means that after inflation there is less money for each student than last year.

The government has announced an extra R150 million for extra classrooms and equipment for this year, but this will not help put more, better-paid teachers in them.

The R1 000 million earmarked for social services from the privatisation of State-run companies will allow for about R800 million for black education, but this is to be spent on buying land and building about 5 000 extra classrooms – and will not be spent on the running of the schools themselves.

Minister of Education and Training Stoffel van der Merwe held talks with the National Education Union of South Africa (Neusa) and members of the NECC in Johannesburg on Friday to hear teachers' complaints. Delegates included those representing strikers in Soweto and Alexandra.

A scheduled Press conference by Van der Merwe was called off because the talks went on longer than expected, promising to hold another meeting with delegates, followed by a full statement on Wednesday.

Meanwhile, the teachers' strike continues and threatens to spread to the East Rand and Natal as delegates who spoke to the Minister felt nothing constructive had been suggested by Van der Merwe.

■ See Page 2

REX

Cees Bruggemans
reviews the local
and world scene

Opposites in a complicated mating game

S/Times 25/3/90

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THERE is an amazing mating game in progress in which the two love birds aren't even facing each other.

On the left, there are the poor and oppressed in search of justice, which is made an elastic concept in imaginative hands.

Justice is not only to equalise access to privilege and to institute a true meritocracy. It is stretched to mean the forced eradication of all inequalities. Political liberation apparently is a hollow victory if it is not instantly accompanied by economic liberation.

Such liberators do not accept that existing wealth rests where it lies. It has to be seen to be shared, to become less imbalanced. Indeed a form of restitution of ill-gotten gains obtained under an evil regime is called for.

Outright confiscation could lead to an exodus of scarce highly trained manpower, which would mean the destruction of the economy's sophisticated core. To prevent this, wealth sharing will have to be effected through more subtle mechanisms.

Instead of emphasising, for this purpose, the sophisticated mechanisms of the modern state, specifically the tools of taxation and government spending, the wealth-sharing agenda has been drawn up with more outdated techniques in mind.

[redacted]

The lovebird on the left suggests that without nationalisation of the mines, the banks and any monopoly situations, the poor and the oppressed will stay that way.

This suggests ignorance of the true leverage that comes with political power and the ability to direct and shape the economy. It focuses attention on the visible symbols of private economic power that are understood by the masses.

Attempts are being made to reassure the rich, who are intended to share more equally with their less fortunate brethren. But platitudes do not provide much balm.

What the better heeled need to see is some understanding on the other side that an efficient economic performance is not to be corrupted by over-manning, political management of credit extension and industrial activity, and over-taxation generally.

Black politicians have so far been addressing the economic agenda as seen and understood by their constituents. They have not come near to addressing the coming agenda from the point of view of the privileged part of the community.

And yet they are supposed to agree to any constitutional arrangements that are still to be made.

Similar criticism applies equally to the still-governing party. Its economic agenda is attuned to its existing electorate, emphasising the reduced role of an efficient public sector in supporting dynamic free enterprise.

This is not the way political campaigns are supposed to be fought. One's language must be attuned to the emotional symbolism that appeals to one's audience if there are to be results.

So far, the Government has been as determined as its opposition to speak only the language of its own constituents.

The Government's message is a red rag to the opposition bull. The latter's talk of nationalisation and implied work creation is just as provocative the other way round.

For the Government speaks of a smaller public sector, selling state assets, and containing the tax burden. That is a funny way to start sharing with the poor and oppressed.

The cheerleaders on both sides have thus far been pre-occupied with whipping up enthusiasm among their natural constituencies with no thought for others.

The downtrodden have obviously been a great deal more aroused than the rich whose fearfulness has so far not been ameliorated by the Government's low-key wooing.

Indeed, most analysis has focused on the the opposition's preference for sharing wealth, than on the Government's intentions of sustaining its creation.

A popular guessing game is to speculate about the love birds finally facing one another and the give-and-take in the actual mating (never mind who will finally get on top).

Here we encounter that wonderful word "compromise", giving way on some cherished goal in return for the same by the other side.

Compromise really means opportunism and implies a lack of principle. That is a fine definition of politicians and their trade.

However, with such a wide chasm between the poor and the rich, how are these respective constituencies to be sold the idea of compromise? This is not at all obvious.

The Government has acknowledged the principle of social justice, meaning fairness for all, not just the chosen few. In order to make it work, though, the economy's efficiency and strength must be maintained and indeed enhanced. To this end, the Government now subscribes to the practices followed by successful economies.

The up-and-coming opposition also insists on justice, but has its very own way of going about achieving it. In fact, it is not an indigenous approach at all.

Socialism as the chosen way to modernisation is very much a borrowed agenda, and moribund in large parts of the world. In contrast, the free enterprise approach of the existing government makes it the more fashionable party, putting it on the side of the angels, while the opposition gets marked with the forces of evil.

[redacted]

This looks quite intentional from the Government's point of view, a kind of technical high ground from which it should presumably have an easy time extracting compromise from its opposition and agreement from its own narrow electorate.

However, the love game won't end that easily, as the opposition has the moral high ground and the more difficult task.

Socialism is no longer the fashion that it used to be. Today's chosen system is a combination of Thatcherite free enterprise and continental social democracy. Neither condones confiscation, social engineering or inefficiency.

That will be hard to swallow for those brought up on a diet of revolutionary concepts which prescribe taking from the rich to give to the poor.

B/Day 26/3/90

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‘Rein in extension of credit — or else’

GRETA STEYN

IN AN assault on inflation, Reserve Bank Governor Chris Stals has tightened the credit squeeze with tough monetary growth guidelines of 11%-15% for 1990.

Stals said in a statement at the weekend: “The lowering of the target range by three percentage points signals the determination of the monetary authorities to make a contribution to the combating of inflation by reducing the rate of increase in the money supply.”

The new range for growth in the broadly defined money supply, M-3, is lower than the 12%-16% expected by the markets and well below last year’s 14%-18% target. The actual growth last year was 23,5%.

M-3 consists of cash in circulation and all deposits with banks, building societies and the Post Office.

Stals’s statement is a clear signal to the banks to rein in credit extension — or else. He repeated the Reserve Bank’s request that banks limit the monthly growth in credit to an average of about 1%, and added: “Not many banks complied with this request last year and discussions will be held with representatives of the banks shortly to explore ways of making this request more effective.”

Asked whether the new targets for growth were not too ambitious, given the past two years’ failure to come even within striking distance, Stals said: “The new range for growth in M-3 should not be seen as a target or a forecast. It is a guideline, an indication of what we regard as appropriate. As long as growth in the money supply far exceeds the desired range, we cannot contemplate easing monetary policy.”

He acknowledged this view signified a change in style to accord even greater flexibility to the targeting exercise. In spite of the Reserve Bank’s repeated claims in the past that targeting was a “low profile” policy instrument, the targets were centre stage in the De Kock era.

Stals’s statement indicates that the maintenance of relatively high positive real rates of interest as part of a longer term economic strategy is now at centre stage of monetary policy.

He repeated his faith in the maintenance of positive real interest rates — and indicated success in combating inflation was likely to be a precursor to lower nominal interest rates. Nominal interest rates “may well move in accordance with changes in the rate of inflation”.

To ensure downward pressure on the inflation rate, a further reduction of the guidelines for M-3 growth may be called for in 1991, the statement said.

The lower guidelines were believed to be reconcilable with projected growth in real GDP in 1990 of up to 1%, a surplus on the current account of the balance of payments of at least R6bn and a gradual rise in the official gold and other foreign reserves.

It is evidence of the low profile accorded to monetary targeting that Stals chose to release the new guidelines on a day when gilts dealers’ train of thought was far away — on Rand Merchant Bank’s Gilts Express to the Magaliesberg.

Scrapping Land Acts 'will not achieve much'

ALAN FINE

THE process of land reform in SA had to extend further than simply scrapping the Land Acts, Development Bank of SA CE Simon Brand said at the weekend.

Opening the Transvaal regional congress of the SA Chamber of Business, Brand said eliminating or changing laws which were preventing blacks owning property in most of the country would not achieve much.

Attention would also have to be given to "such institutional matters as the role of the Land Bank in supporting land purchases by new entrants, and the support of such a land reform programme through more equal access to agricultural support services and facilities, such as research and extension services, rural roads and markets for inputs and products."

Brand used these proposals to back his appeal for a considered, unemotional debate on the future of the economy.

There was clear evidence of the failure of classical socialism and the nationalisation debate was sterile, Brand said.

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Business and other establishment groups had to recognise there were real misgivings in the black community about the degree of concentration of ownership and control in the economy.

Discussions about future economic policy would be usefully directed to ways in which the resources already at the command of the public sector could be used for correcting backlogs and disparities in the provision of services and facilities.

BDay 26/3/90

In this process it would become clear that privatising activities which could be handled more effectively by the private sector would release resources which could be directed specifically at the reduction of disparities and backlogs, Brand said.

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B/Day 26/3/90

Economics centre to study SA's prospects

KIN BENTLEY

LONDON — A Commonwealth-funded centre is to undertake a three-week fact-finding mission next month on SA's economy and prospects.

Centre for the Study of the SA Economy and International Finance director Jonathan Leape, conducting the study, believes this will provide essential information to potential investors in, and lenders to, a post-apartheid SA.

Leape, a lecturer at the London School of Economics, said last week he had applied for a visa to visit SA, and hoped to start his trip on April 1.

The research, he said, would seek to document all aspects of the economy, including sanctions. It would look at economic prospects for a post-apartheid SA.

"The emphasis is very much on providing information and an analysis of the situation and not on drawing policy conclusions," Leape said.

He hoped to meet members of the parliamentary political parties, as well as non-parliamentary groups, including the MDM, the UDF and the ANC. He also planned to meet Finance and Reserve Bank officials, banking representatives, commerce and industry leaders, trade unionists and university officials.

The centre will bring out two types of report: an update of the SA situation published quarterly and reports on specific issues.

Leape will work full time on the project from July until the end of December next year. The Australian government has given £140 000 to fund the centre, at the London School of Economics.

Public sector contribution to GDP staying 'stubbornly high' (49)

GRETA STEYN

B/Day 26/3/90

THE public sector's contribution to GDP was 28,8% in 1989 — down from its peak of 30,4% in 1986 but still significantly higher than 10 years ago.

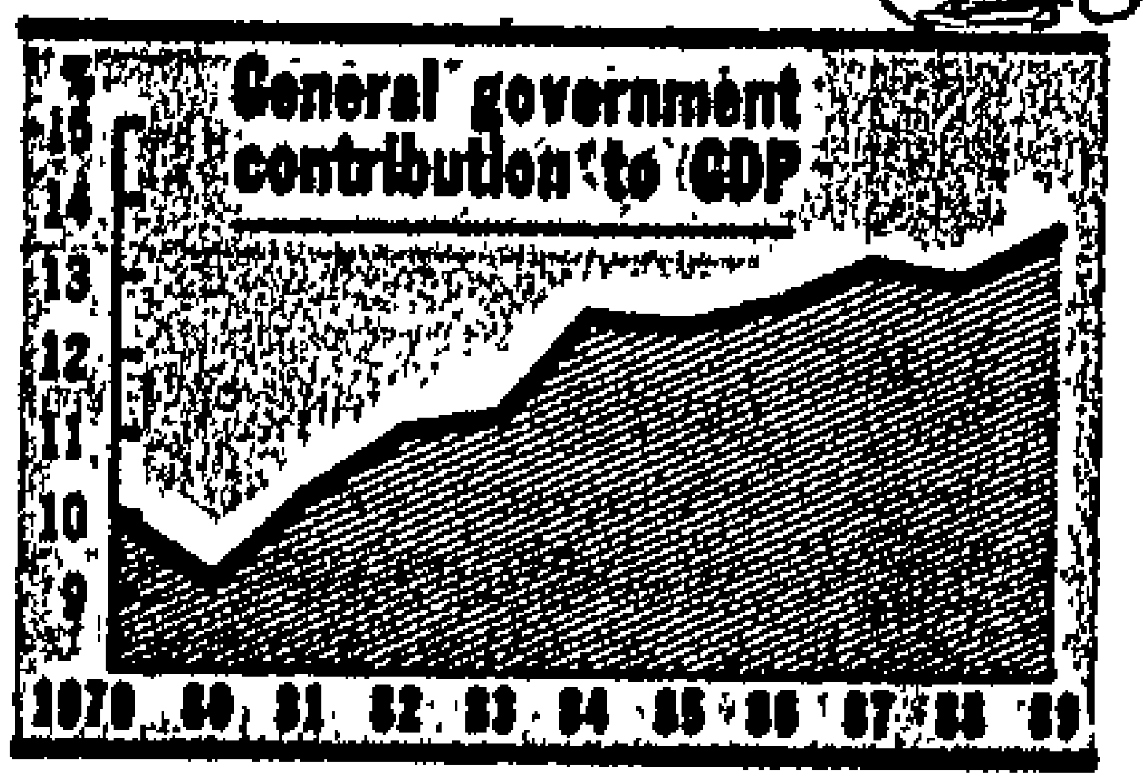
An analysis of figures in the Economic Review shows the public sector's share of GDP remains stubbornly high because of the uptrend in the contribution of "general government" — mainly salaries and wages. Other public sector categories are on the decline.

General government — central, regional, TBVC and self-governing states — contributed 13,8% to GDP last year, up from 12,8% in 1986.

Ten years ago, general government's contribution was 10% and the public sector's total stake about 25%.

"The smaller contribution of the public sector since 1986 is mainly reflected in the smaller contributions of public corporations, Sats, and government business enterprises (including Post and Telecommunications)," the review says.

Better private sector profits during the latest upswing added 71,2% to GDP from a low of 69,6% in 1986.



Graphic: FIONA KIRSCH Source: CSS

Argus 26/3/90 49

'Nationalisation a fatal mistake'

The Argus Correspondent

JOHANNESBURG. — The African National Congress's policy of nationalisation, at a time when socialism was crumbling in Eastern Europe, was "a fatal mistake", the Minister of Foreign Affairs, Mr Pik Botha, said here today.

Opening an international conference on "Eastern Europe: Implications for Southern Africa" at a Johannesburg hotel, Mr Botha said a centrally planned economy had failed dismally in Eastern Europe and elsewhere in Africa, and there was no reason to believe that things would be different in this country.

"To think that nationalisation will redress the historical economic imbalances is a fatal mistake which Eastern Europe, with the help of a superpower, has now come to realise," he said.

Mr Botha said recent events in Eastern Europe would have, and had already begun to have, a marked effect on events in southern Africa, and he hoped the trend would not now be reversed.

"As we have said so often in the past, the season for violence is over, and so is the season for politics and apartheid. Significantly, however, the season of one-party states, centralised government systems, nationalisation and political posturing is over. There rests a heavy responsibility on us to forget the past, but also to share the future," Mr Botha said.

The Foreign Minister said a new political dispensation would have to lead to a government by the consent of the governed, and nobody would be excluded from the decision-making process.

"Domination in any form won't be allowed, but all must be free."

Responding to a question, Mr Botha said the government was determined to bring skilled Eastern European immigrants to South Africa. This move, he said, would not disadvantage black South Africans in the job market.

"It is not correct to say that by allowing immigration of people from Eastern Europe we will take jobs and other opportunities from blacks and other population groups in the country. This country has a dire shortage of skilled personnel."

● See page 6.

Long-term growth in SA 'promising'

Cape Times 26/3/90

(49)

Financial Editor

THE longer term outlook for real growth at an acceptable level is "more promising than it has been for years," Len Abrahamse, chairman of Northern Engineering Industries (NEI) Africa, says in the annual report.

"There is no doubt that we can manage ourselves out of this situation, given an acceptable programme of reform in terms of substance and time.

"We need no longer be forced to grow at too low a level in real terms."

Abrahamse says there are signs of a new pragmatism in Southern Africa. "The situation is fluid but encouraging and events in Eastern Europe are not irrelevant to this process of rethinking."

Warning, however, that the path ahead will not be smooth Abrahamse says:"Those on the extreme right and left will continue to attempt to undermine the prospects for a renewed SA. We, the majority of all South Africans, must not allow them to succeed.

"In the interim the economy continues to be relatively strong given the constraints of an outflow of capital, the effect of sanctions, the high rate of inflation, the low level of reserves and the poor level of productivity."

Discussing prospects for NEI, Abrahamse says the company has broadened its access to offshore technology and has increased its export activity.

"I am pleased to report that we move into the new year with a forward order book in excess of R400m."

The directors say that in spite of the limited growth of the SA economy last year, NEI companies "secured a record order intake for 1989, exceeding budget, and more than 33% above that of the previous year.

"The order intake in all operating companies reflected real growth, well above inflation rate."

However, they say, the intense competition in certain sectors of the economy has led NEI's operating companies to start cost reduction programmes.

Inequality probe vital

49

Sowetan Correspondent

THE SA Institute of Race Relations has warned that a polarised debate, contrasting socialism and capitalism, could detract attention from black material inequality.

The latest edition of the Institute's publication, *Social and Economic Update*, pointed out that any post-apartheid government will face enormous demands to match political with economic liberation.

The report said the debate on black material inequality should be comprehensive.

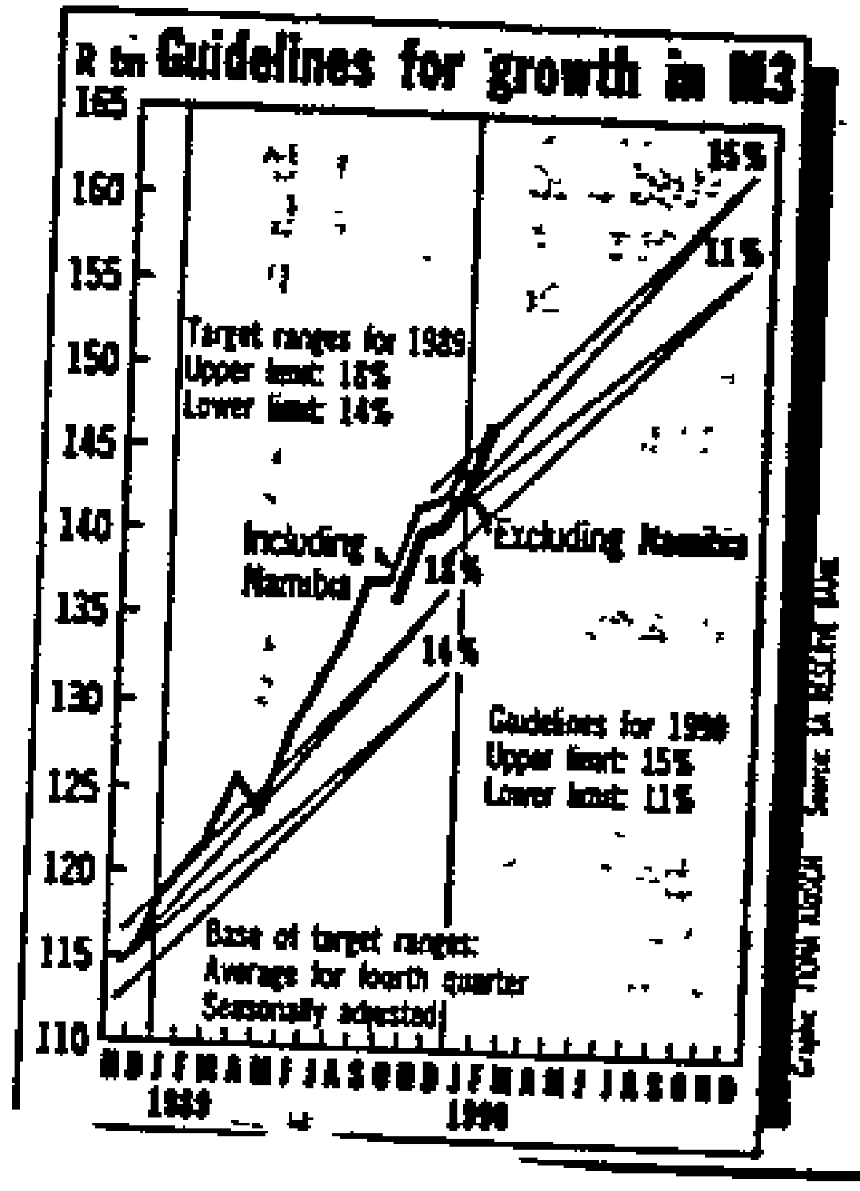
"The jobless, the rural poor, and the illiterate must be brought in as well.

Sowetan 27\3\90

"If they are not, we will see a new form of apartheid opening up between whites and urbanised, housed, unionised, educated blacks on the one hand, and the illiterate, malnourished, unemployed urban and rural poor on the other," it said.

Money supply growth slows, but not fast enough for some

B/Day 27/3/90



Source: SA Reserve Bank

NEIL YORKE SMITH

GROWTH in money supply is showing signs of slowing, but economists are concerned that the rate of slow down remains insufficient.

January's final figure reflected an annualised growth rate of 23,63%. This was revised upwards from the preliminary figure of 21,9%. But February's preliminary figures showed M3, the broad definition of money supply, increased at an annual rate of 21,96% last month.

M3 comprises cash in circulation and all deposits with banks, building societies and the Post Office.

Seasonally adjusted M3 growth for February was 19,2%, compared to 25,46% for January and 19,12% for December.

Responding to the release of money supply growth figures for January (final) and February (preliminary) by the SA Reserve Bank yesterday, economists were surprised that the increases were still so high.

"The high rates of increase indicate the further postponement of interest rate reductions, especially given the current weak gold price," said TrustBank economist Nick Barnardt.

"We now think the fourth quarter of 1990 is the earliest date that prime rate could be reduced," he added.

It was reported yesterday that SA Reserve Bank Governor Chris Stals had tightened money supply growth guidelines to 11%-15% for 1990. Last year's target range was 14%-18%.

Reduced money supply growth is likely to have a beneficial affect on the inflation rate.

However, economists said the long term benefits of tight economic policy appeared further away than was previously thought.

They attributed high money supply growth to continued bank credit extension.

But the rate of increase in credit extension appears to be easing, as borne out by the decline to R143,9bn in total domestic credit extension from R144,1bn in December. It rose from R139,2bn in November as a result of the seasonal Christmas shopping spree.

"Given excessive money supply increases, further interest rate increases are possible this year," said Econometrix economist Azar Jammine.

Both Barnardt ~~and~~ Jammine expressed their dissatisfaction at discrepancies between preliminary and final money supply figures in recent months.

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"Almost every preliminary money supply figure released during the past nine months has later been revised upwards, hardly a desirable situation," said Barnardt.

POLITICS

BDay 27/3/90 -

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Report lists many worries

Political Staff

CAPE TOWN — Concern about the leakages of foreign exchange, the viability of the Mossgas project and the finances of the independent homelands was expressed yesterday by the parliamentary joint committee on Finance.

It also recommended that the Budget allocations for the four independent homelands — Transkei, Bophuthatswana, Venda and Ciskei — be removed from the Department of Foreign Affairs and transferred to the Department of Finance.

Its report said it was of the opinion that "staff reductions in the navy should be handled with compassion".

It was also "concerned" about:

☐ "The nature of films which are being subsidised and their benefit to the community";

☐ The impact on insurance companies of the extension of the exemptions from tax on dividends not applying to them;

☐ "The welfare of the aged, and the state of education and health care in SA";

☐ "The need to take care in respect of the privatisation process, regard being had to the state of pension funds, the impact on the consumer and taxpayers and competitive circumstances"; and

☐ The state of unrest in various parts of SA and the shortage of manpower and equipment in the police.

The committee called for a review of the method of providing for export incentives by promissory notes in the Budget and said surcharges should be removed on goods imported for production purposes.

It also called for more funds to combat AIDS.

Referring to "the socio-economic spending" and the new structuring of the Budget, it said: "There is a perception that the Budget has greater credibility, that more discipline will be exercised and that cut-backs exist in real terms."

However, this had to be considered in the light of the surplus of the previous year and off-Budget financing.

"In these circumstances, great care needs to be taken in regard to the implementation of the Budget.

"The evidence indicates that greater reliance must unfortunately be placed on monetary policy, that high interest rates are likely to continue for a longer period than previously anticipated, and that the inflation rate may not decline as soon as was hoped for by the authorities."

DP backs Budget in historic step

BDay 27/3/90.

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MIKE ROBERTSON

CAPE TOWN — DP finance spokesman Harry Schwarz yesterday ditched years of parliamentary tradition by taking the unique step of pledging his party's support for the Budget — the first time that an opposition party has done so.

While it appeared at first that Schwarz had taken this step without consulting his party's caucus, he was immediately backed by DP parliamentary leader Zach de Beer.

De Beer said: "We have done something that breaks the traditional mould because we think this Budget is a signpost to a future which, at the very least, comes close to what we have always fought for."

Schwarz's move was welcomed by Finance Minister Barend du Plessis as an important example of how today's politics should be conducted.

The DP finance spokesman said that while the Budget was far from perfect, it had without doubt taken a new direction, particularly in regard to economic priorities of expenditure.

It was a unique Budget in that Du Plessis had frankly admitted errors in respect of political and economic policy, changed priorities to address socio-economic imbalances and in some way begun addressing structural problems in SA.

"It draws a line and a choice must be made not only in this Parliament, but outside, as to whether apartheid is to die not only politically but, as important, economically," Schwarz said.

"This Budget does not kill economic apartheid but it starts its funeral procession. We therefore have to make a choice in this Parliament.

"It is necessary to demonstrate to SA, and perhaps to the world outside, that on this issue — the destruction of economic apartheid — the CP stands alone.

"So while we will point out shortcomings, criticise constructively and offer suggestions and solutions, we will adopt what is a unique course in this Parliament and, as an opposition party, we will not oppose this Budget," Schwarz said.

He said this unique step was intended to be symbolic and designed to encourage Du Plessis and his colleagues to follow a road of socio-economic reform which removed discrimination in the rendering of state services.

"We hope that we will not be disappointed in the times ahead, but if we are we will not regret today's step, but will ensure that our objectives, our criticisms and our policies will then be advanced to the best of our ability," Schwarz said.

Responding to Schwarz's speech, Du Plessis told Business Day that: "Mr Schwarz was today faced by the reality that this Budget embodied important features which he, along with other observers, had promoted for years.

"He did this in accordance with his own insights and also on behalf of his party as its chief spokesman on finance.

"His choice today . . . was between integrity and political expediency. His choice was for integrity. It is an important example on how today's politics should be conducted. I welcome it."

DP pledges support for the budget

Cpt. Times 27/3/90

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Own Correspondent

DEMOCRATIC PARTY finance spokesman Mr Harry Schwarz yesterday ditched years of parliamentary tradition by taking the unique step of pledging his party's support for the budget — the first time ever that an opposition party has done so.

While it appeared at first that Mr Schwarz had taken this step without consulting his party's caucus, he was immediately backed by DP parliamentary leader Mr Zach de Beer, who said: "We have done something that breaks the traditional mould because we think this budget is a signpost to a future which at very least comes close to what we have always fought for."

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It was a unique budget in that Mr Du Plessis had frankly admitted errors both in respect of political and economic policy, changed priorities to address socio-economic imbalances and in some way commenced to address structural problems in the country.

He said that the DP's stance on the matter was intended to be symbolic and designed to encourage Mr Du Plessis and his colleagues to follow a road of socio-economic reform which removed discrimination in the rendering of state services, gave equality of opportunity, and gave, in Mr Du Plessis' own words, high priority to the issues of poverty, housing, education, training, basic health and job creation.

Responding to Mr Schwarz's speech, Mr Du Plessis said: "Mr Schwarz was today faced by the reality that this budget embodied important features which he, along with other observers, had promoted for years. He did this in accordance with his own insights and also on behalf of his party as its chief spokesman on finance.

"I welcome it."

To nationalise would be fatal error, says Pik

Star 27/3/90 (49)

By Kaizer Nyatsumba

The ANC's policy of nationalisation, at a time when socialism was crumbling in Eastern Europe, was a fatal mistake, Minister of Foreign Affairs Mr Pik Botha said in Johannesburg yesterday.

Opening an international conference on "Eastern Europe: Implications for Southern Africa" at a Johannesburg hotel, Mr Botha said centrally planned economies had failed dismally in Eastern Europe and elsewhere in Africa, and there was no reason to believe things would be different in this country.

"To think that nationalisation will redress the historical economic imbalances is a fatal mistake which Eastern Europe, with the help of a superpower, has now come to realise."

Mr Botha said recent events in Eastern Europe would have, and had already begun to have, a marked effect on events in southern Africa, and he hoped the trend would not now be reversed. Markets in these countries had opened up, and there were opportunities aplenty for South African businessmen.

There was a great demand for Western-style goods and services in Eastern Europe, as could be seen from the phenomenal success of the American fast food chain MacDonalds in the Soviet Union.

BARRIERS BROKEN DOWN

Local businessmen could not go to Eastern Europe assuming these countries were familiar with the language and practices of a free-enterprise system, and they would have to be prepared to share information with their counterparts in those countries.

"South Africa is very well-placed to trade with Eastern Europe ... because we have both a First World and a Third World component," said Mr Botha.

Changes in the Soviet Union and Eastern Europe had broken down ideological barriers that had largely determined these countries' trading partners. This meant countries that could not trade with SA because of ideological differences would now be able to do so.

"Events in Eastern Europe will have, and have already had, a direct effect on South Africa, southern Africa and Africa as a whole. I hope the necessity of not having to reintroduce ideological barriers will dawn on South Africa and southern Africa. As we have said so often, the season for violence is over, and so is the season for politics and apartheid.

"Significantly, however, the season of one-party states, centralised government systems, nationalisation and political posturing is over. There rests a heavy responsibility on us to forget the past, but also to share the future," Mr Botha said.

Responding to a question, Mr Botha said the Government was determined to bring skilled Eastern European immigrants to SA. This move would not disadvantage black South Africans in the job market.

(49) Star 27/3/90

'Racist' services to be scrutinised

Political Staff

The absence of "targets" for the removal of the remaining discrimination in social services was among various concerns expressed yesterday by Parliament's Joint Committee on Finance.

The committee's report, tabled yesterday after more than a week of hearing evidence on the Budget, says, however, that the Minister for Administration and Economic Co-ordination, Mr Wim de Villiers, was giving attention to the removal of discrimination in social services.

MPs will soon be pouring over Dr de Villiers's investigation into the health services and there is speculation he may make recommendations on the opening of State hospitals to all races.

Among other things the committee is concerned about are:

- That the policy of deregulation "is often in conflict" with many regulatory laws and as a result people who have been encouraged to participate in the informal sector have found themselves facing prosecution.
- The impact of the Budget on insurance companies since the extension of the exemptions from tax on dividends do not apply to them.
- That cognisance should be taken in the privatisation process of the impact on consumers and taxpayers and competitiveness in the economy.
- The unrest in the country and the shortage of manpower and equipment in the SA Police.
- The viability of the Mossgas project.

Among several recommendations are that more money should be spent combating Aids and that surcharges on goods imported for production purposes should be scrapped.

Schwarz takes bold step

DP backs Budget to spur on reform

By Peter Fabricius,
Political Correspondent

The Democratic Party has decided to vote for Finance Minister Mr Barend du Plessis's main Budget, in an unprecedented move to encourage the Government's steps to "bury economic apartheid".

DP finance spokesman Mr Harry Schwarz, Yeoville — after strongly opposing National Party budgets for many years — surprised Parliament yesterday by announcing what he called "a unique course in this Parliament by an opposition party".

"Not only will we not oppose this Budget, we will vote for it," he said.

Mr Schwarz's announcement seemed to take even his own party by surprise and one MP said it would be hotly debated in caucus.

The move appears to have partly pre-empted the result of the current debate in the party about whether it should move towards the National Party or the ANC in the negotiation process. Pro-ANC MPs in the DP are likely to be upset.

DP parliamentary leader Dr Zach de Beer immediately backed Mr Schwarz and said his co-leaders Dr Denis Worrall and Mr Wynand Malan were also behind him.

He said he knew of no dissent.

"We are not acting in the old tradition of Government and opposition. We are acting against the background of the momentous history that is unfolding in this country."

Parliamentary historians said it was the first time they could remember an opposition party supporting the main Budget.

It is understood that Mr du Plessis was delighted.

Dr de Beer said the step did not imply the DP was about to go into a political coalition with the NP.

Mr Schwarz said the Budget "does not kill economic apartheid but it starts the funeral procession".

Backing the Budget was "a unique step and it is intended to be symbolic and designed to encourage the Minister and his colleagues to follow a road of socio-economic reform which removes discrimination in the rendering of State services."

The Government's economic reform moves gave high priority to poverty, housing, education, training, basic health and job creation.

Mr Schwarz said it was important that economic reform should be initiated and benefits felt before a change took place in the power structure.

EC top-level 'troika' in bid to promote dialogue in SA

A little boy waves an ANC flag at an anti-apartheid rally attended by about 9 000 people in London's Trafalgar Square on Sunday. Picture: REUTER

KIN BENTLEY

LONDON — The way has been cleared with the SA government for a visit by a high-level "troika" of representatives from the EC.

A spokesman for the Department of Foreign Affairs in Ireland said yesterday that Irish Foreign Minister Gerard Collins met President F W de Klerk in Windhoek on Thursday last week.

He said at the meeting, which was also attended by Foreign Minister Pik Botha, the SA government indicated what dates it found suitable for the visit.

With Ireland currently holding the EC presidency, Collins is chairman of the EC's Foreign Ministers Commission which, in February, decided to send a delegation to SA.

The troika, led by Collins, will include the foreign ministers or senior foreign office officials of France and Italy. The visit was likely to take place between mid-April and mid-May.

This means it should occur during or soon after the first formal talks between the government and the ANC, scheduled to start on April 11.

The troika visit is aimed at promoting dialogue between government and the ANC and other organisations representing the black majority.

Sapa reports from Windhoek that the EC is to provide Namibia with R28m to support priority projects.

This was announced by the director-general of the Development Commission for the European Communities, Dr Dieter Frisch, who led a delegation to Namibia's independence celebrations.

The aid would be in addition to that available for development assistance once Namibia becomes a member of the Lome Convention.

About R14m would be for targeted budgetary support as the new government was inheriting a large deficit.

An amount of R8m had been pledged for health services in the north and would be channeled through the WHO.

An amount of R570 000 was for English-language training for 100 teachers at the Lusaka-based UN Institute for Namibia.

The commission had also provided R2m towards a development project at St Mary's Mission at Odibo in the far north. Another R3,2m was allocated for community and income-generating projects in Owambo.

The EC had also pledged R200 000 to the Namibian Institute for Social and Economic Research for urban planning and research.

Economic debate must focus on material deprivation of blacks — SAIRR

49

CHARLENE SMITH

A POLARISED socialism-versus-capitalism debate could distract attention from the urgent need to deal with black material deprivation, the SA Institute of Race Relations (SAIRR) says in its latest Social and Economic Update.

Any post-apartheid government will face enormous demands to match political with economic emancipation and the temptation to opt for symbolic quick-fix solutions like nationalisation will be great, the SAIRR report says.

It says businessmen have pointed to socialism's failures in Eastern Europe. The trade unions, as represented by Cosatu's Jay Naidoo, have on the other hand pointed to "the failure of capitalism in SA. More than four-million are unemployed, five-million are homeless, millions live in abject poverty in rural areas. The health, social security and education systems are in a crisis. There has been virtually no growth in the economy for the past 10 years".

The SAIRR urges that the debate be comprehensive, and not just a dialogue between business and trade unions.

"The jobless, the rural poor and the illiterate must be brought in as well. If they are not brought in from the outset we will see a new form of apartheid opening up between whites and urbanised, housed, unionised, educated blacks on the one hand, and the illiterate, malnourished, unemployed urban and rural poor on the other," the Update suggests. B104 27/3/90

"Any new government in SA will need to be structured in such a way as to ensure that the black platteland and the jobless all over the country are in a position to see to it that their needs are looked after, and not only in the interests of the urban proletariat."

SA 'must learn lessons of East bloc'

B/Day 28/3/90

LESLEY LAMBERT

CAPE TOWN — The pursuit of an economic ideology which had failed elsewhere would spell disaster for SA, Harry Oppenheimer warned at the biennial meeting of the SA Institute of International Affairs (SAIIA) yesterday evening.

Speaking at his last council meeting after 10 years as chairman of the SAIIA, Oppenheimer said SA would do well to learn from the experiences of Eastern Europe and Africa and formulate economic policies which stimulated growth, attracted capital and best served the needs of its growing population.

Voicing the opinion of many SA businessmen, he said a regional environment of co-operation and peace, rather than ideological division and conflict, would best serve these ends. In the longer run, it would enable southern Africa to recapture capital investment and compete more effectively in "the harsh conditions of this changing world".

Oppenheimer emphasised the economic co-operation and competition which had emerged as one of the most important global trends this century. But he warned weaker countries would lose ground in an increasingly competitive, albeit interdependent, world where powerful trading blocs competed with one another.

Improved

49

Attempts to gain public support for ideologies such as apartheid or communism were unlikely to succeed when the economic costs of isolation in an interdependent world were counted. SA could not afford to be isolated, he said.

Oppenheimer also focused on the growing interdependence between southern African countries. He said the stage for SA's improved international relations had been set by the recent independence of Namibia and the withdrawal from Angola, both of which signalled an end to the government's reliance on military means to pursue its interests in the region.

This had been enhanced by the prospect of negotiations within SA and the outlook for closer regional co-operation was favourable now.

The challenge would now be to strengthen the newly invigorated policy of seeking multilateral diplomatic and economic co-operation. This policy offered the best hope of achieving a wide acceptance of the need to involve the SA economy in the development of the whole region.

Oppenheimer is to be succeeded as SAIIA national chairman by Standard Bank chairman Conrad Strauss.

B/Day 28/3/90

(49)

Negotiations on economic policy vital, says Cosatu

ALAN FINE

COSATU was preparing detailed proposals on economic policy, which would clarify its views on appropriate economic planning, one of the federation's top economists, Alec Erwin, said yesterday.

Addressing the SA-German Chamber of Commerce and Industry, Erwin said future economic policy for SA would have to be negotiated.

He said it was inevitable that, as was the case in every set of wage negotiations, none of the parties to such talks would be fully satisfied with the end result. The alternative, though, was a major confrontation.

Erwin said Cosatu supported a "coherent planning approach". Planning should cover "a wide range of activities which only zealots believe can be handled by the free market".

Business, he said, should be prepared to look at the achievements of social democratic economic systems. The unions had examined these and the socialist economies to see whether they provided answers for SA.

He conceded unions would have to be blind not to recognise what had happened in Eastern Europe.

For Cosatu, a priority was a restructuring of the financial markets, to encourage investment in jobs rather than in speculative financial instruments.

On nationalisation, Erwin said Cosatu firmly believed certain social programmes required nationalised industries. For example, Cosatu would never support the privatisation of the national electricity grid. A privately owned electricity industry would mean the product would never be installed in poor areas where it would not be profitable.

He accepted nationalised industries had to operate within certain budgetary constraints — they could not be subsidised at any cost.

However, said Erwin, Iscor in the pre-privatisation period had showed clearly it was possible for a state-owned industry to operate efficiently.

CAPE TIMES 28/3/90

Cosatu backs 'planning'

49

Own Correspondent

JOHANNESBURG. — Cosatu supported a "coherent planning approach" for the South African economy, one of the federation's top economists, Mr Alec Erwin, said yesterday.

Planning should cover "a wide range of activities which only zealots believe can be handled by the free market".

Mr Erwin told the SA-German Chamber of Commerce and Industry that for Cosatu a priority was to encourage investment in jobs rather than in speculative financial instruments.

Sowetan 28/3/90

Nationalisation will be fatal, says Buthelezi

49

THERE is an urgent need to redistribute wealth in South Africa but talk of large scale nationalisation was "fatal", Dr Mangosuthu Buthelezi said on Monday.

"I will side with anybody at the negotiating table who will fight with me for an economic system based on the principles of responsible free enterprise," he said during his policy speech at the Kwazulu Legislative Assembly.

"We are going to face very difficult economic circumstances in this country.

Wrong

"There is going to be an urgent political need, as well as an urgent humanitarian need, to redistribute wealth in South Africa as effectively as we can. I do not talk the language of nationalisation because I think it is fatal talk," he said.

Buthelezi said he questioned calls made by ANC deputy president Mr Nelson Mandela, for the continuation of the armed struggle, the need for nationalisation, and the continuation of sanctions and international pressure against South Africa.

Although he respected Mandela and did not intend attacking him, his message to him was, "My friend, you are very wrong on these issues.

Revolution

"You are wrong for yourself, you are wrong for the ANC and you are wrong for South Africa," he said.

"If we talk nationalisation too hard, the wealth we are arguing about will finally be consumed in a racist conflagration as white scorched earth policy meets black scorched earth policy.

"Simply put, white South Africans would rather kill you than talk about living under a Marxist-type socialist state in which private ownership does not exist.

"If we talk the language of nationalisation, not one foreign company is likely to bring in any new investment into South Africa," he said.

Despite talk of nationalisation, Buthelezi said there was groundswell demand for a responsible free enterprise system that could produce wealth and create jobs, he said. He did however sound a note of caution.

"The poorest of the poor do not want dreams and promises. They want a roof over their heads and they want care for the sick. They want education for their children. "If they do not get these things, people in South Africa will revolt against whoever rules.

"Wherever mass poverty has spread in Africa, revolution has followed," he said.

The problem we face is one of poverty rather than ideology

B/Day 28/3/90

(49)

ZACH DE BEER

IF ONE surveys the statements of ANC leaders over the past month or two, there is a heavy emphasis on the need for widespread nationalisation. I concede this: yet I believe that during the process of debate and discussion which has now started and which, I hope, will intensify and spread widely in the months to come, it will be possible to persuade them to support something rather different.

I base my hope on the reasons given by ANC leadership for favouring nationalisation. They all seem to advocate it not for ideological reasons but because they see it as a means of making large financial resources available to government.

The problem is not nationalisation or socialism. The problem is money — or, more accurately, the problem is poverty.

The huge breadth of the wealth gap in SA is now well recognised. Francis Wilson and Mampela Ramphele, in their Carnegie report some months ago, pointed out that we have the highest Gini coefficient (measuring disparities of wealth) of all countries reporting the necessary figures, indicating that the contrast between rich and poor is sharper here than in any other reporting country.

That this is the case is, as I have often pointed out, the result of 80 years of government effectively by means of a white oligarchy. The politicians have quite naturally catered for the interests of the enfranchised white minority rather than for those of the disenfranchisd black majority. In particular, whites have had access to the best education and training over all these years, with obvious results.

This yawning wealth gap has, of course, become the direct source of black grievances and bitterness. As a perfectly natural response, black political leaders have it as their highest priority to narrow the gap rapidly, and to do so through political action.

Having moved in the business and financial world for a quarter of a century, I'm naturally well aware of the strict free marketeer's view, which is that the best way to help the impoverished people is simply to eliminate all race discrimination, to cut down dramatically on state expenditure, to privatise and deregulate, and then to let matters take their course.

The logic of the pure free market approach is powerful. On purely intellectual grounds, I would support it. Furthermore, it does appear to be true that the highest growth rates of all have often been achieved in countries where the wealth gap was wide.

But I, who spend much of my time trying to persuade politicians that they must attend to the requirements of businessmen, now beg business people to realise that there are also political requirements that have to be met. And one of them is that any post-apartheid SA government must be seen to take positive action to narrow or close the wealth gap.

Provided that this can be done — and be seen to be done — I believe there is a good chance of persuading black political leaders to drop their demands for formal nationalisation.

Nelson Mandela says: where do I get the money from? We must see that that question is expertly answered.

I suspect that the proponents of nationalism believe that by causing the dividends of big companies to flow to the state instead of to shareholders, they can revolutionise public finance.

Of course, anyone with some practical experience knows that the dividend will in most cases amount to a small fraction of the sum the state obtains via taxation on the company, its suppliers and its workers. Also, there is compelling evidence that economies run on free enterprise lines are capable of producing far more wealth than bureaucratically administered ones: the prosecution of this argument has been vastly strengthened by recent events in Eastern Europe and even in Russia itself — but it needs to be stated and proved over and over again.

If SA itself becomes democratic but the economy fails to deliver benefits to the masses, we shall inevitably be swept into some other form of centralised command economy, which would in all probability result not merely in the slowing of economic growth but in the loss of freedom itself.

Success depends critically upon the re-establishment and maintenance of a high economic growth rate. There is going to be insistent demand for the improvement of all social services for the masses. There will also be — and are already — invidious comparisons between white, brown and black standards in these matters. There is no way that, in a democratic society, the demand for equality can be ignored or resisted.

If equality were to be achieved by simply "averaging out" present-day standards, the resultant improvement for black people would be little more than negligible, while the drop in white standards would be perceived as catastrophic, with the dangers of brain drain that it implies. In order to meet the demand for equality at acceptable standards, large expenditure over a lengthy period will be required.

There is no need to be unduly pessimistic about this. From the early '50s till the mid-'70s, we did in fact maintain growth rates of 5% plus. Most, if not all, economists say we are capable of a good deal more than this.

Furthermore, we are today an outstandingly underborrowed country, in terms of foreign debt. We never were too heavily borrowed, and the programme for repayment which has been forced upon us in recent years has further reduced our indebtedness.

I think that the first post-apartheid government, relieved of sanctions and other external restrictions, will be able to borrow quite a bit within the limits of prudence. For some of the social services, notably education, there may also be aid money available — there is actually quite a lot at the moment, flowing to private organisations active in the field.

I beg of you to focus on the content of policy, not on the phrases we may choose to describe it. Capitalism, socialism, welfare, free market, even social democracy — have become loaded terms to which people react emotionally.

I refuse to see a contradiction between a capitalist or free enterprise system on the one hand, and reasonable welfare expenditure on the other. On the contrary, I actually see a direct connection.

It is only a prosperous state that can afford necessary welfare expenditure, and only capitalist states that are prosperous. West Germany is probably the best example of what I am talking about. I believe SA must try, within the major limitations which our lack of affluence imposes, to emulate the Germans.

Important business leaders in our country have recognised the validity of what I am saying here. It will continue to be my personal ambition to bring about a situation in which business and government can work together not merely in the creation of wealth, but also in its equitable and sensible allocation to necessary purposes.

That, it seems to me, is the road to stability and prosperity.

☐ **De Beer is parliamentary leader of the DP. This is an excerpt from his address to the Institute of Corporate Treasurers in Sandton last week.**

Loan levy 'alternative to nationalisation'

49

Star 28/3/90

By Stan Kennedy

Members of South Africa's data processing industry must band together to make their belief in the free enterprise system known to all political parties sitting at the negotiating table or face stagnation, says an independent software house.

Addressing guests at his company's annual awards, he praised President de Klerk's attempts to level the "political playing fields" of South Africa but attacked the ANC's policy of nationalisation.

There were alternatives to nationalisation, he said. If specific programmes were identified and their costs quantified, a system of refundable interest-bearing loan levies could be levied against companies over a set time-frame.

"Nationalisation of the mining houses, financial institutions and so-called monopolies will have a direct and dramatic impact on the data processing industry," he said.

"Those industries targeted for nationalisation are our partners. If they go, we go."

The data processing industry employed about 40 000 and its turnover was more than R5,8 billion.

"Of the total market value, companies targeted for nationalisation represent some 44 percent.

"Add to this the 23 percent of the overall value of the market that is attributed to the government and parastatal organisations.

"Nationalisation will mean that 70 percent of the entire value of the data processing industry will be controlled by a socialist government."

Nationalisation implied the confiscation of profits and the killing of free enterprise and would only encourage the departure of the entrepreneurial and skilled technical talent from the country.

In Zimbabwe and Zambia, where many industries had been nationalised, the data processing industry was 15 to 20 years behind the times. It was using hardware and software that companies worldwide had discarded in the 1960s.

"If we do not address the issue of nationalisation fairly and squarely, most of us will not be businessmen because there will be no businesses left."

Neil Hymers, managing director, Productivity Software.

SA unions set for big battle with privatisation

Star 29/3/90 (49)

The labour movement's anti-privatisation push moves into top gear this week. **DREW FORREST** looks at the rationale for the campaign, which has vital implications for South Africa's economic future.

The Government's privatisation thrust, long a bugbear of the trade union movement, is emerging as a major flashpoint on the labour front.

As part of a continuing anti-privatisation campaign, adopted at last year's Cosatu congress, Cosatu unions in the rail, postal, health and municipal sectors are planning countrywide marches and rallies during working hours this week.

A centrepiece of the protests is today's march on the Johannesburg Stock Exchange to warn "prospective purchasers" that a future government may re-nationalise privatised concerns without compensation.

Further action, including overtime bans and stayaways, are also on the cards.

Some union anxieties appear unfounded. For example, Transnet (formerly SA Transport Services) is to be registered as a company with the State as sole shareholder on April 1 and not listed on the stock exchange, as some unionists believe.

As for the post office, draft legislation is being prepared providing for the formation of two companies, one for postal services and banking and the other for telecommunications, owned by the State.

In the cases of Transnet and the post office, the stress is on "commercialisation", the creation of profit-making business units.

But the State has singled out these concerns, along with Eskom and the phosphate mining concern Foskor, as long-term targets for privatisation. In Transnet, the airways and road transport could go first.

Business leaders often assume black workers are "capitalists at heart" and agitation on the privatisation issue will subside as they come to see the virtues of private ownership.

In fact, the union objections, part of a wider rejection of the capitalist ethic, seem profoundly rooted and are unlikely to go away.

At their heart is an instinctive revulsion against the surrender of socially owned and controlled wealth, and a belief that privatisation cannot address, and may worsen, poverty and joblessness.

Unionists also claim to see a trade-off between private monopolies avid for new investment, particularly in sectors with a developed infrastructure and a tightly controlled workforce, and a government strapped for cash and looking to shield minority interests under a future democracy.

Job cuts

An immediate concern is that the sell-off of state enterprises, and the process leading to it, inevitably entails job cuts. Unionists point to the steady shrinkage of Transnet's workforce and the loss of 16 000 jobs at Eskom since 1985.

"We used to have a state transport service which gave work to 286 000 people," said National Union of Mineworkers' economist Mr Martin Nicol. "It now employs 170 000. Privatisation goes hand in hand with building lean, mean companies based on the immediate pursuit of profit."

Linked with this is a concern that the loss of subsidies and the profit motive will bring increased service charges weighing most heavily on the poor. In last year's Cosatu congress resolution, privatisation was seen as a threat to affordable transport, postal services and health care.

But there are broader concerns. Arguing that the National Party historically used the state sector to uplift poor whites, unionists see it as a future instrument of social policy.

"Privatisation removes resources from a future people's government," said SA Railway and Harbour Workers' Union leader Mr Martin Sebakwane. "It aims to undermine a new government's capacity to implement programmes of benefit to the mass of South Africans."

Mr Sebakwane said the railways had historically served "apartheid interests" by focusing on the white industrial heartland, while neglecting rural areas.

"kaNgwane, for example, has no railway. With people's transport, one might want to service workers there."

The point was driven home this week in an address by key union economic strategist Mr Alec Erwin, who argued that the electrification of black areas, a key aspect of development, would be hamstrung by a sell-off of Eskom.

"No private corporation will supply electricity unless it can make a profit. This is just not satisfactory. We must have one grid so areas that can pay will subsidise others," he said.

Economic growth and how it will affect you

Sowetan 29/3/90

MARK ADDLESON, senior lecturer in economics at the Wits Business School, today talks about growth in the economy and what this means. Addleson writes an article on economic affairs for Sowetan Business on a forthnightly basis.

IT is quite common to hear or to read about the growth rate of the economy. How much the economy grows tells us how well the economy is doing.

Politicians in the ruling party always interpret a good economic performance to mean that their policies are working, while opposition groups will look for evidence that the economy is not performing well.

Economic growth is taken as a good sign because the higher the rate of economic growth, the more employment is usually created.

Measure

A high rate of economic growth is also taken to mean that in general, people enjoy greater prosperity and higher living standards. This last interpretation can be misleading.

To measure economic growth it is customary to view the whole economy as one large producer and to think of all production activities as contributing to filling a very large basket of goods.

All production activities that occur within the country's geographical boundaries are added together.

So the activities of the farmers, the taxi drivers, the people who work in the factories and in homes, the police and the doctors, the breweries and shebeens, and the miners all contribute to the "basket" of goods.

The "basket" is called the country's Gross Domestic Product (GDP).

In measuring economic growth we would also measure the size of the "basket" that has been produced by the whole economy this year and compare it with the "basket" produced last year.

If the "basket" was considerably bigger this year than last year (suppose we are producing 5 percent more goods this year than last year) then we would say that the economy has grown by 5 percent, which is quite is high.

In some ways it is useful to have a measure of overall production in the economy, by at the same time this measure is also liable to be misinterpreted.

* A larger "cake" to share out?

Economy

An increase in production in the economy does mean that there are more goods and services to share out among the people of South Africa.

If the production of things like food, clothing, housing and education has increased that is probably all to the good.

Unfortunately because it is an aggregated measure where everything is lumped together an increase in the country's GDP does not tell us this directly.

The additional production could have been in areas which mainly benefit a fairly small number of people.

Or it may be questioned whether the growth has any real benefits at all, such as when there has been a large increase in military spending.

* A bigger share of production for everyone ?

If the GDP increases this does not always mean that each individual is better off because of the economic growth that has taken place.

The first factor that is of relevances is the growth of the population. If the population is growing more rapidly than production, then the growth in GDP *per person* or in technical language *per capita* will be declining.

Every person on average will have a smaller slice of the "cake" because there are more mouths to feed, more people to clothe, educate and transport.

In addition, how people share in production depends on how income is distributed.

In South Africa the distribution of income is highly unequal with a large proportion of income going to a small percentage of the population - mainly whites.

Production

So it may happen that when there is economic growth most of the benefits are felt only by a few people, or that relatively few people obtain a larger share of the benefits.

* More employment?

When the country experiences higher economic growth this does mean there will be more employment opportunities, more jobs and an overall increase in income in the economy.

Because production has increased, additional resources are needed to support the increase in production.

More raw material flow into the factories and more labour is required, as well as more machines. That is why economic growth is a precondition for creating more employment and it is one of the main reasons why we pay so much attention to the growth of GDP.

Once again, however, the growth in employment is sometimes a mixed blessing for it may happen that the jobs that are created are those that require skills which are in short supply. While is areas where there is an abundance of labour few new jobs are being provided.

Conclusion: It is useful to have a measure of how the economy is performing, but it is always important as with any economic statistic to interpret the information carefully so that we do not obtain a misleading picture.

It is also important to ensure that, when economic growth does occur, it benefits the right people and provides jobs where they are needed.

One of the goals of economic policy should be to ensure that economic growth benefits the population at large and not just a small group of people.

MARK ADDLESON

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FM BOARD OF ECONOMISTS

Halfway towards credibility

■ Assessing Barend du Plessis's mould-breaking Budget

Monetary policy, government spending, a restructuring of State finances and the BoP constraint are among key issues arising from the Budget. They and others are discussed by two regular members of the *FM* Board of Economists, Anglo American's Aubrey Dickman and JCI's Ronnie Bethlehem, who are joined this time by guest Edward Osborn, of Nedcor. As usual Raymond Parsons of the SA Chamber of Business asks the questions.

***Parsons:* Before we discuss the Budget, how would you assess the economic background?**

Dickman: It is clear that a slowdown started at the beginning of 1989. If you take out agriculture, the economy has come off much faster than total GDP would show. But it is a modest slowdown, a shallow dip. The actual level of activity is still above the peak of the previous cycle. Other slowdowns have been much sharper. And there are already some first signs of a possible bottoming.

Osborn: A period of consolidation has been the policy objective of both the monetary and fiscal authorities for very good reasons, but we are not going into a recession. It's a stabilisation phase.

Bethlehem: For me, the big thing in the background is what the minister mentioned as one objective of the Budget: the need for a R6bn surplus on the BoP current account.

***Parsons:* And what are the influences of the world economy and the gold price?**

Bethlehem: I'm a little concerned about the world economy, having regard to the need for a current account surplus. The world economy has shown evidence of a distinct slowing down, particularly in the US in the last quarter of 1989. Inflation generally is a little bit higher than in previous years but still relatively subdued. Against this background it's wrong to expect any strong or significant increase in the gold price. Indeed, though we're experiencing international political turbulence, gold is subdued.

Dickman: Like Ronnie, I'm worried about the world economy, but it is an unusual situation, particularly in Germany. Demand in Europe is still pretty strong and we could well be compensated for a lower gold price by somewhat better commodity prices. But we can't be complacent.

Osborn: The IMF and World Bank both project fairly satisfactory growth of about 3% this year. The US economy indeed eased in the last quarter of last year but has already shown signs of picking up. I'm not pessimistic about the world economic scene.

I think gold's fundamentals are sound. At the moment we are seeing the usual gold/dollar gyration: the dollar is strong so gold is going down. The best thing about the gold market is that it is not so strong as to lead to a huge rise in price; any movement is likely to be steady and controlled.

***Parsons:* In a nutshell, does the broad Budget stance fit into the economic picture, or does it go too far one way or another?**

Dickman: Before you take into account the capital budget, the stance may be a little stimulatory. The deficit before borrowing is planned to rise from 1,5% to 2,8%. Given the revenue over-run last year and the fact that we are in a downtrend, however mild, that's probably all right. But we are now talking about putting back R2bn taken out of last year's capital flows plus another R1bn which may come from privatisation proceeds.

That's a completely different world. I'm not saying that we should add that to our deficit before borrowing and say it's really 4% of GDP. But we are getting into an interface with political negotiations. This is where this Budget has to be judged. We're in a much more fluid situation and I don't think it can be judged on normal criteria.

Osborn: Overall, the Budget was remarkably well sculpted and fits into the requirements of the economic situation on both the expenditure and revenue side. There is this uncertainty about utilisation of the capital fund, but the uncertainty really arises from the timing of its use. I have serious doubts whether the increase in expenditure can be kept to the planned 11,5%.

Bethlehem: On the minister's figures, if he'd done nothing at all he would have ended up with a deficit before borrowing of R2,1 bn — 0,7% of GDP. As a result of Budget measures, he expects to end up with a deficit before borrowing of R8bn or 2,8% of GDP, before taking account of the R3bn set aside for catching up with the social backlog.

Had he done nothing we would have a pretty tight fiscal situation. He has seen fit to put R6bn back into the economy — which, interestingly, is the figure he says he needs as a surplus on the current account of the BoP. He must be concerned that if he didn't do that the economy would go into a deeper recessionary adjustment than he would like against the political changes government has to deal with.

***Parsons:* Has the significance of Budgets and fiscal policy changed in any important way? Do Budgets still seriously matter?**

Dickman: Of course they matter. The whole structural change in tax, the whole supply-side philosophy that has come through, are still very much part of the Budget process. But now that we are moving out with these capital flows we are into a new ballgame.

Bethlehem: Obviously the Budget matters, particularly because it provides government with an opportunity to give its evaluation of the economy and make statements about fiscal and monetary policy. But we've become a little bit disrespectful about Budgets because of the way in which budgeted expenditures have not conformed.

***Parsons:* Are the spending targets — indeed, the overall Budget strategy — more credible than in previous years?**

Bethlehem: I have a difficulty in answering this. I'm not sure what is the most important policy objective in government's mind. Is it to sustain the level of the economy or is it to achieve that current account surplus on the BoP? I don't think even government can properly answer that.

It is more relaxed at the moment about debt repayment because of what is happening politically. But if any stumbling on the road to negotiations or further deterioration in internal stability leads to con-

The Board, flanked by *FM's* Michael Coulson and Ethel Hazelhurst (L to R): Osborn, Parsons, Bethlehem, Dickson . . . weighing up Barend

cerns about SA and, therefore, capital outflows, that could quickly change. The point is, we don't need that current account surplus if the capital account provides some help. But if the capital account goes sour a current account surplus is more vital.

Dickman: When we think of what we felt this time last year about the credibility of the spending estimates and we see what's actually happened, we must admit they have done a remarkable job.

I'm a little concerned about the world economy, having regard to the need for a current account surplus.

BETHLEHEM

Osborn: The minister enunciated at the outset that one of the economic objectives is to improve the standard of living. He saw this as coming through the improvement of the supply side of the revenue structure and also through the attainment of small government. One can argue the economic merits of this objective but clearly it's been built into the spending targets. They have applied a cleaver to the whole spending pattern.

We were in extreme danger of spending outstripping revenue almost exponentially. Something had to be done to end this. I think he has, with remarkable courage, but the important thing is what is being done within the overall constraint, and that is the composition of spending.

The credibility issue has now swung from the expenditure to the revenue side.

***Parsons:* Do you see the succcess of this Budget in restraining and reallocating State spending as having long-run permanence?**

Dickman: We are told about all these plans, but we shouldn't have to wait for five years to see progress. It's subjective: we are judging people's actions in the light of what has happened in the past few years. We can certainly have more confidence in their actions now, but what worries me is what type of spending are we talking about.

Bethlehem: You use the word "reallocating." The minister used "restructuring." We know there will be a terrible burden on the State in future whether that State is National Party-dominated, an alliance, a government of national unity or whatever — it doesn't really matter. Either way the State will have to spend a lot on education, housing, health and other things like that.

If we are to avoid State expenditure increasing as a percentage of GDP from its present 27% back above 30%, then up towards 40%, we must have a restructuring of State expenditure to allow more scope to the private sector. Privatisation can contribute to that.

Dickman: I am not sure how privatisation contributes to restructuring; it merely affects the flows. If you use the proceeds of privatisation for restructuring instead of repaying public debt you are actually taking money from institutions which would otherwise have gone to the private sector.

Osborn: I am both optimistic and pessimistic. Optimistic in the sense that we have come to the fruition of the creation of government structures, which has been one of the reasons for this tremendous growth in government spending: the TBVC countries, RSCs and all that sort of thing. We can now stabilise government expenditure.

But I'm pessimistic in terms of the tremendous demands which will grow on government in terms of welfare and social strategies. They can't be financed entirely through restructuring State expenditure because there is a limit to how much you can cut back on police, security, and administration.

Bethlehem: If you take into account not only defence but the whole apartheid structure and duplication of services, surely quite a lot can be achieved through restructuring.

***Parsons:* Do you foresee any serious fiscal uncertainties arising out of the special allocation of R3bn for as yet unspecified black socio-economic development, together with R1bn for contingencies?**

Dickman: Of course this is a major fiscal uncertainty. If it is part of the negotiating scene and we can get a more sensible approach, the BoP problem will become easier. It is then more sensible to be able to spend this money, in effect pushing up the deficit before borrowing, though of course it won't all be spent in one year.

Osborn: The objectives are welcome but the accounting leads one into completely uncharted seas. We've got a new spending department, in effect, and this must be properly identified and accounted for on an ongoing basis so we can see what the impact is on overall expenditures. It adds to the totality of government spending, however the timing works out.

***Parsons:* Do you regard supply-side economics as appropriate at any time, or only in special circumstances? To what extent do these conditions exist in SA?**

Bethlehem: The supply side is always important, in any circumstances. In a country like SA it is critical, because the imperative is growth. Unless we can get our growth rate up sufficiently we face the prospect of accelerating structural unemployment.

Dickman: Before we jump to the conclusion that we've made great moves on the supply side, we must look at taxes carefully. Fiscal drag is still alive and well. If you look at the figures for fringe benefits there will be real tax increases and some of the company imposts may yield much more over the years than has been thought.

It's just a modest start, though the sense of direction is absolutely right. The level of taxation we've had has given rise to all sorts of distortions which may well have affected investment decisions.

Osborn: I may be playing with words here. Yes, the supply side is important in terms of incentives and so on. But we really need to correct the disincentive structure of our tax system.

Dickman: In the past three years the proportion of direct tax to current income has remained about 11%, which reflects a disproportionate burden on individuals.

***Parsons:* How effective generally is this Budget in promoting and restructuring the flow of domestic savings?**

Bethlehem: It was necessary to do something to promote savings. SA is a developing country with a low level of (in particular) personal savings. With financial sanctions and the lack of foreign capital it has to generate high internal savings to finance capital formation. The Budget goes a long way in addressing this. The receipt of dividends will be that much more attractive and once the withholding tax on interest is clarified that will add to the inducement to invest.

The best thing about the gold market is that it is not so strong as to lead to a huge rise in price; any movement is likely to be steady and controlled.

OSBORN

Osborn: I welcome the move as an attempt to ameliorate the financial position of the personal sector. I don't go along with the need to increase savings as such, as if this is the determinant of capital formation and ultimate determinant of growth. True, the savings ratio of the personal sector has fallen, but because of absorption through income tax and the need to borrow to finance consumption. Those ratios will remain low notwithstanding the budgetary measures.

The main source of savings remains corporate savings through depreciation allowances, which are perfectly adequate. One of our problems is insufficient outlets for savings. Investment is a matter not of

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availability of savings but of entrepreneurs' willingness to take risks and invest. That act in itself can generate the appropriate savings.

Dickman: We have a problem of consumption versus investment. The disposable income/consumption function has moved up structurally over the past few years, right over 90%, and stayed there. That it is why people have got into debt.

Parsons: **If the thesis is accepted that high income groups have the largest propensity to save, will tax cuts for the middle- and lower-income groups actually encourage saving?**

Bethlehem: I don't see tax cuts to the middle- and lower-income groups as threatening at all. What benefits they have gained are in a sense technical. We are concerned with getting rid of a bulge. Concessions to the higher-income groups, which have a higher propensity to save, have been considerable.

Monetary policy will have to stay tight and possibly become even tighter because of this Budget and the implications of the capital fund.

DICKMAN

Dickman: I don't think they have. If you compare the expected sacrifice of revenue from dividend tax against higher tax from increased salaries and heavier fringe benefit taxes, there is no relief in the burden.

Osborn: Our figures agree with that.

Parsons: **Which sectors or groups are likely to be the biggest losers in terms of tax or State spending decisions in this Budget?**

Dickman: If you look at defence, the cuts through industry must be considerable. Many people may well be laid off.

Osborn: The functional breakdown of the Budget shows there actually has been a drop in allocations for capital expenditure even nominally, so in real terms it's even greater. There will be a definite impact on some industries — engineering and the like.

Parsons: **What does the Budget do to help the BoP?**

Bethlehem: My concern is not what the Budget does to help the BoP, more whether it's a possible threat. The threat, if it comes, will be the impact on domestic demand and how that could translate into import demand and prevent the current account surplus developing.

But the Budget has a very important political aspect, related to the capital account. If we get a capital inflow, the need for a current account surplus diminishes.

Dickman: The change in political direction and possibilities that have opened up as a result could help the BoP, notably with capital inflows.

Osborn: The Budget clearly had to be fashioned in a way that would do nothing inimical to the BoP. I think it is, even if you bring in that capital fund.

Parsons: **What are the implications of the Budget for monetary policy, monetary targets, and in particular interest rates? How soon will interest rates ease?**

Dickman: Monetary policy will have to stay tight and possibly become even tighter because of this Budget and the implications of the capital fund. Velocity of circulation has fallen to the lowest level for many years. With changed interest rate patterns we may have seen an end to that decline, so monetary targets could be set somewhat lower. I think interest rates have peaked, but I wouldn't completely rule out another increase.

Bethlehem: Fiscal policy now seems to be concerned with promoting the economy and its growth. The burden in a sense has been shifted on to monetary policy to do a balancing job. If fiscal policy goes too far in any particular direction and destabilises the BoP or whatever, then monetary policy will have to offset it.

Dickman: But ironically, even if things go well you'll need a tight monetary policy to enable net reserves to be built up without an internal liquidity effect.

Osborn: Again it comes back to the imperatives of the BoP, foreign debt and external reserve situation. They require firm monetary and fiscal policy. I don't think interest rates are likely to come down until possibly a fractional easing in the third quarter of this year, maybe delayed into the fourth quarter. But I don't think there is a prospect of a further tightening of monetary policy either, because there is insufficient in the Budget to counteract the effects of a yet tighter monetary policy. We are in a very fine balance.

Parsons: **And the Budget's role in the anti-inflation strategy? Will the rate of inflation continue to decline?**

Osborn: There are fair prospects of inflation coming down, not because of the Budget but because of stabilisation in the rand and the kind of lead government has given on wage and salary increases. The Budget also has a continuing inflationary impact through the tax accelerator, which I think is one of the principal causes of inflation.

Dickman: The key is the rand, but we may not see as much deceleration in inflation as we had hoped.

Parsons: **How important are political factors in maximising the potential of this Budget?**

Bethlehem: Extremely important.

Osborn: Yes.

Dickman: Of course.

Parsons: **The Budget has a strong commitment to a private enterprise economy, accompanied by a suitable restructuring. Does it adequately address the challenge and threat of nationalisation?**

Bethlehem: Whether nationalisation provides resources to a government to address the problems of inequality is the whole debate between the business community on the one hand and the ANC on the other. We have R3bn in this Budget below the line as a consequence of privatisation, demonstrating that privatisation does actually put resources into the hands of government whereas nationalisation would not.

Does it adequately address the challenge of the threat of nationalisation? No, it doesn't, but it makes an important point; it also makes the additional point that government won't compromise itself and be accused by the ANC and others of selling off assets and, therefore, restricting the State's ability to move, because the minister hasn't linked the R3bn from Iscor and R3bn being put on one side for development.

The State President could say to Nelson Mandela, look, we're not compromising a future government over privatisation, which is a very sensitive issue in the black community. It can be shown that this R3bn has been put on one side and nothing is being done to sabotage negotiations and their details.

Dickman: There is obviously a limit to what can be raised by privatisation. But remember that if money from privatisation is to be spent, it won't be used to reduce public-sector debt. You're implicitly saying that that money is not available to the private sector, but the transfer of ownership of State assets to the private sector should improve total efficiency. That's an important message.

Osborn: The Budget brushes aside the issue of nationalisation but it does address the issue of correcting the imbalances of the past and the welfare situation through the capital fund. This is very important. It is also very important to realise that privatisation is not an ongoing milch cow. We sell the silver once and it is over and done with. It mustn't be used as an argument to say, look, we get more money this way than through the reverse process of nationalisation.

Parsons: **Do you generally as a result of the overall approach of this Budget have more confidence in fiscal policy and its influence on the business environment?**

Dickman: Yes. Think how we've moved these past few years in statements by the minister. Barend du Plessis now shows great understanding and is supported by a very good team. In years gone by we would only have dreamt of the things coming through in the speech on money supply, liquidity and the whole macro side. Sophistication starts right at the level of the State President himself.

Osborn: I heartily endorse that. The whole level of Budget formulation has improved enormously, as has the supporting argument and explanation of the Budget.

Bethlehem: The Budget doesn't raise my confidence — it does increase my hopefulness. ■

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line with projected growth in real GDP this year of 1%, a surplus on the current account of at least R6bn and a gradual rise in the official gold and other foreign reserves. ■

MONEY SUPPLY — 2 (49)

Same again

F|M 30/3/90

Each month, growth in the broad monetary aggregate M3 is measured in two ways: over the preceding 12 months; and from the base of the given target year which is always mid-November. It is the second measure which is targeted by the Reserve Bank, and to which the newly published guidelines apply. Since mid-November 1989, base of the current target year, annualised percentage growth of M3 has been well above the new 11%-15% published guidelines.

In the half-month to end-November this annualised rate of growth has been 11,6%, to end-December 19,1% and to end-January 25,5%. A provisional estimate for end-February is 19,2%, to a seasonally adjusted R148,9bn.

"Since the second quarter of 1989, preliminary estimates have been substantially revised on a number of occasions," admits Reserve Bank economist Johan van den Heever, "mainly because of technical adjustments for private-sector NCD holdings. This happens when NCDs move from banks to the private sector and cannot be measured from preliminary returns to the Reserve Bank."

Year-on-year growth in M3 was revised from 21% to 23,6% in January, bringing M3 to R148,3bn. A provisional estimate for February is just under 22%. After adjusting to exclude Namibia, this is marginally within the guideline tunnel.

Future money supply figures will exclude Namibia. Comparable seasonally adjusted M3 for the past three months is:

☐ December R143,2bn against an upper tunnel guideline of R144,8bn;
☐ January R146,9bn, R146,3bn; and
☐ February R147,5bn, R147,8bn.

Growth in other aggregates (still including Namibia) in January was:

☐ M1A 11,9% to R23,9bn;
☐ M1 26,6% to R49,6bn; and
☐ M2 28,4% to R119,8bn.

M1A, coins and notes in circulation and cheque and transmission deposits, is more directly related to income and expenditure, so its comparatively low growth indicates the economy is slowing.

January credit extension, the counterpart of money supply, fell R200m to R143,9bn. This reflects a R2,7bn increase in private-sector lending and redemption of nearly R3bn government debt. ■

TAX F|M 30|3|90

SITE changes

Deputy Minister of Finance, Org Marais, has announced several important changes to the SITE system. Now:

☐ Taxpayers, other than married women, have been subject to SITE only if their net remuneration does not exceed R20 000. This limit has been increased to R40 000. Revenue estimates around 650 000 taxpayers will be released, by this increase, from the obligation to submit income tax returns;

☐ The SITE system applies to remuneration payable to married women without any ceiling on the amount. In the light of the other changes to the system of taxing income of married women announced in the Budget, this arrangement has become anomalous. To bring the position of married women into line with that of other taxpayers subject to SITE, the limit of R40 000 for SITE liability applicable to other classes of taxpayer will now apply to married women too. Married women carrying on a business, as well as those whose net remuneration exceeds R40 000 annually, must now submit returns.

About 22 500 married women, or around 4% of all taxpaying married women, will now have to submit returns; and

☐ When an employee receives an annual bonus or similar payment, his period of service may have been less than a full year. In

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Financial Mail

FISCAL INCENTIVES

Why the exclusion?

(49) FM 30/3/90

It would indeed be churlish after what we have said about this month's Budget — and what our Board of Economists say elsewhere in this issue — to appear to turn upon it now. But there is an area about which we have serious misgivings: the absence of fiscal incentives for those in the private sector who are preparing for their retirement by saving through life assurers.

The tax position of these institutions is set out in detail in the following article. If government has deliberately not included these savers in the fiscal incentives given to other savers, we must assume that it takes the illogical ANC line that these institutions are too big and economically powerful, and that it is oblivious to the claims of equity with the public sector that private savers should have.

To take the second point first: Over the past 10 years, government has given its own employees quite outrageous pension benefits, the cost of which it could not hope to sustain without heavy recourse to taxpayers' funds. They have been allowed to buy back substantial benefits at a fraction of the true actuarial cost.

Simply put, by so doing, government has at taxpayers' expense insulated State pensions from the ravages of the inflation that it itself has created. The same applies to all members of parliament and especially to Cabinet members.

By excluding the life assurers from the latest fiscal benefits, government is making it more difficult for private savers to prepare for a retirement that is anything like that which they as taxpayers are providing for public servants. The fact that the level of retirement annuity premiums that are tax-free has not been increased in about 10 years — despite massive fiscal drag over that period — is another indication of government's attitude.

The belief that life assurers are too big and economically powerful and should, therefore, be penalised, is disingenuous and dismaying from a government that claims to support free enterprise.

Private savings have flown in great volume to these institutions precisely because government's own profligacy caused inflation. And the institutions in turn have acquired domestic assets because exchange control prevents them from seeking appropriate and price-stable investments outside the rand monetary area.

As exchange controls are a political and not an economic issue, it is logical to argue that apartheid has been the cause of this concentration. In addition, the reluctance of the authorities to license new insurance companies encouraged the process by providing what amounts to protection.

Whether concentration of ownership carries with it real economic power is a moot point. Certainly those who run life assurers have nothing like the economic power vested in sovereign government. Nowhere in the world have large businesses been able to usurp the State's sovereign power.

If the problem with life assurers is that their policies too closely resemble bank and building society deposits, then the remedy lies elsewhere, not in withholding tax concessions. The nub of the problem, however, is still government's creation of inflation.

Where it is wrong to criticise government is over what appeared to be the modest rise in this Budget given to social pensioners. It is far more important for these pensioners that government take measures (as it has) to stabilise prices than to increase pensions only to have the additional benefit wiped out by inflation in a matter of months. On that score, social pensioners have done rather better than they might think. ■

MONEY SUPPLY — 1

Ways and means

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A lower target range for growth in the broadest money supply aggregate, M3, is not a "forecast of changes during 1990," says Reserve Bank Governor Chris Stals. The drop from 12%-18% to 11%-15% is intended "to communicate to the public and government what . . . is appropriate in present circumstances in view of the Bank's objectives to stabilise the value of the currency."

Deviations from the guideline, he explains, will influence the Bank's application of monetary policy. F/M 30/3/90

This clear warning is accompanied by another request to banks to keep credit extension to the private sector to an average of about 1% a month. "Not many complied with this during the past year. Discussions will be held with bank representatives soon to explore ways and means of making this request more effective."

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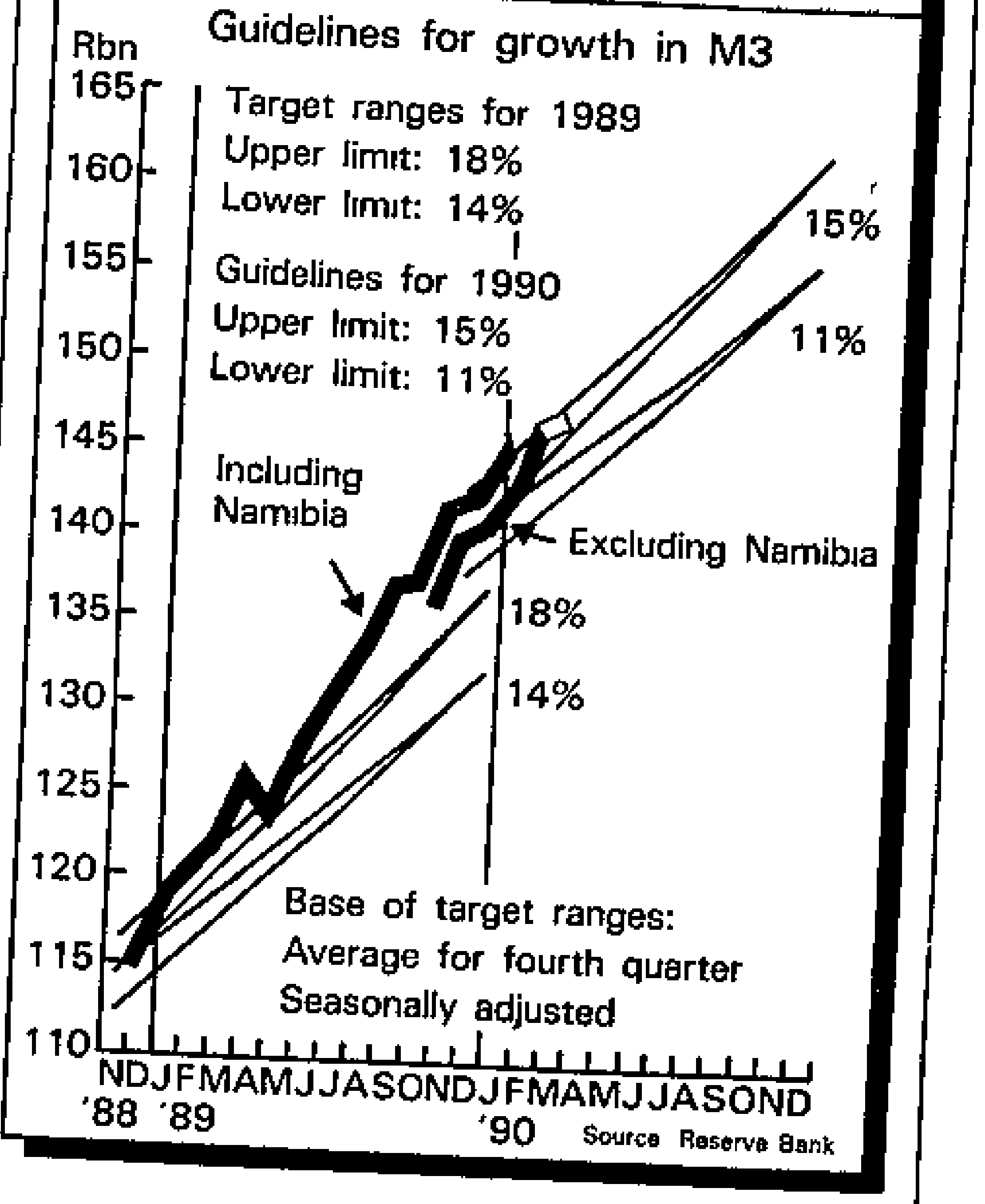
This move follows an increase in the quarterly average of M3 between fourth quarter 1988 and fourth quarter 1989 of 23,5% — well above the target range.

It is in line with recent developments on both political and economic fronts. After years of promising the goods and failing to deliver, the authorities have adopted a policy of acting ahead of expectations. First move came in October, when Stals unexpectedly hiked Bank rate one percentage point, to 18%. Economists and investors, who had been thinking in terms of *maybe*, *perhaps* and *sometime*, were caught off-balance and have been wary ever since.

Once again, Stals has used surprise tactics to underscore his intentions — though a cut in the target had been predicted, it was generally thought it would be 12%-16%.

However, while reasserting his commitment to the target range, Stals says the Bank will continue to apply the guidelines with "flexibility." Policy will be based not only on growth in M3 but also on other variables.

New start



Source Reserve Bank

"Other monetary and credit aggregates, the exchange rate, nominal and real GDE and GDP, prices, and other general economic indicators will be monitored closely."

Stals believes the lower guidelines are in line with projected growth in real GDP this year of 1%, a surplus on the current account of at least R6bn and a gradual rise in the official gold and other foreign reserves. ■

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THE BUDGET

Radical measures

In the Budget debate this week, Deputy Finance Minister Org Marais elaborated on changes to the tax system. (See **P43**).

He said it is important to keep the new VAT system simple, which implies a single tariff with minimum exemptions. This suggests food will not be exempted.

On ring-fencing applicable to new mining operations, the old distinction between income and capital still applies to cases where shares have been held for less than 10 years.

However, it will now be possible to make use of section 24A of the Income Tax Act in these circumstances. (This section permits a sharedealer to exchange shares without being taxed at that time. The dealer, making use of 24A, will only be taxed when shares received in exchange are themselves sold.)

Suppose a mining house has held shares in an established mine for fewer than 10 years, but wishes to dispose of them to raise capital for a new mining operation.

Revenue, it seems, would accept an arrangement under which an intermediate holding company is set up, which would exchange the shares in the established mine for shares in the new mine issued to it. The holding company would then be able to sell the shares in the established mine without major tax consequences, as the cost of those shares would be the market price at the time of the swap.

If the shares were sold on, say to a life assurer, soon thereafter, the market price would not have moved significantly. So neither mining house nor holding company would have suffered tax, but liquidity would have been regenerated for the new mine.

Marais

Government was earnest in implementing Margo recommendations to phase out tax concessions and exemptions which negatively influence flow of capital. An example of such concessions was accelerated depreciation in the case of ships and aircraft. Serious consideration is also being given to the tax consequences of credit agreements and debtors' allowances in the case of banks and other financial institutions.

Exemption of dividends from tax would simplify the tax system, especially as undistributed profits tax would also be abolished. The complex definition of a "dividend" in the Act could now be replaced with something simpler, while the exceptionally complicated and unsatisfactory sections 8B, 8C and 8D of the Act could now be "phased out."

All of which confirms the impression gained from the Budget itself that the 1990 Income Tax Bill will be one of exceptional importance. ■

Foreign investment is essential for economic growth says Kantor

CAPE TIMES 30/3/90

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By ARI JACOBSON

FOREIGN investment is essential for cultivating growth in SA, and the ANC should be wary of policies which would chase it away, Brian Kantor, professor of economics at the University of Cape Town warned yesterday.

Speaking at a Graduate School of Business Association (GSBA) luncheon Kantor pointed to successful strategies adopted by other developing countries based on what he described as "sound attitudes to encouraging capital movements and foreign trade."

"Countries with successful economies have engendered a spirit of openness by luring foreign capital to their domain."

Kantor mentioned Sweden as a prime example of a country steeped in welfare ideals, yet aware of the importance of foreign interest.

"The ANC would be advised to take heed of policies chasing potential investors away from our shores."

At present, foreign investment in SA totals a meagre 4% of gross domestic product (GDP), he says.

"By contrast to a winning formula, interventionist policies with inward looking strategies are doomed to failure."

Kantor pointed to South America and Zimbabwe as stark examples of countries hampered by import surcharges and other constraining mechanisms which had wrecked their economies.

"It is interesting to note that Singapore's economic growth — the success story of the last decade — has resulted in the country being 70% foreign owned."

In the SA scenario, attracting foreign interest would generate economic growth with greater demands on labour employment, said Kantor.

"The beneficiaries of stunted growth, up to now, have been the owners of capital who have reaped unprecedented profits."

This, says Kantor, has come in the wake of union-backed wage increases driving down demand for labour.

"However the government has set a trend with lower wage increases in the public sector, which could ripple through and dampen salary demands in the private sector, bolstering employment."

The possibility of wage growth being kept down is strengthened by the concept of income taxes being costed into wage demands, says Kantor.

The debate on SA's economy must focus on black concerns

BDay 30/3/90

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SIMON BRAND

THE references to economic matters in the first statement made by Nelson Mandela after his release caused a stir and resulted in uncertainty and nervousness in business circles here and abroad. They also served the useful purpose of opening up the debate on economic matters.

Consideration of economic matters in SA has tended to follow well behind the political debate and could not enlighten political decision-making. This time the economic debate has got under way concurrently with the political debate.

The first shots in this economic debate have not been particularly enlightening. The relatively general statements by Mandela and others on matters such as nationalisation, followed both by a degree of back-tracking and by reconfirmation, were not accompanied by much in the way of a clearly expressed economic programme.

The first "shot-from-the-hip" reactions from business leaders and other establishment spokesmen have tended to be stereotyped statements in favour of a system based on market forces and private ownership. They have not shown much understanding of the reasons for the scepticism among a significant part of the black community about the supposed advantages of such a system.

It should not be too difficult to come to a fairly wide consensus about key aims such as equality of access to economic opportunities and to the control of resources, the redressing of inequalities in the provision of public services, and the achievement of a certain minimum quality of life for as many as possible within the limitations of available resources.

If it proves possible to achieve a consensus about what is expected from the economic system, the debate can go on to consider how these ideals can be achieved. Key issues are emerging, such as the role of government in the economy, the ownership of assets in general and in particular access to and control over land.

It is important that these issues be looked at not primarily from the perspective of fixed ideological positions or the protection of vested interests, but in the light of experience in SA and elsewhere.

The extra-establishment groups will have to accept — and there are signs that the economically more sophisticated are prepared to do so — that the evidence is overwhelmingly against a classical socialist solution.

On the other hand it would be a serious mistake for business and other estalishment groups, who have been the main beneficiaries of the economic system in SA, to believe they can rest their case on negative experiences in Eastern Europe and elsewhere in Africa.

Many blacks feel strongly that they have little to make them enthusiastic about the merits of a market-oriented, private-ownerships system. It is essential to identify, and put forward credible ways of correcting, the shortcomings which have caused those negative feelings.

On the role of government, it would be useful for debate to start from the fact that the broader public sector already accounts for close to 40% of economic activity. It does not appear particularly fruitful to debate the merits of further increasing the public sector, through nationalisation or otherwise.

However, it is important to recognise that resources in the public sector have not been deployed in ways that have equally served the needs and interests of different sections of the population, as witness the disparities in the availability of infrastructure, public facilities and public services.

Discussion about future economic policy can usefully be directed to ways in which resources already at the command of the public sector can be directed specifically towards correcting backlogs and disparities in the provision of services and facilities. This can begin by considering reallocations in spending within the government Budget, and how such reallocations can be achieved while keeping the overall level of government spending, and therefore the tax burden, to sustainable levels.

One way would be to move out of the public sector, through privatisation, activities which can be handled more efficiently by the private sector. The proceeds can be directed specifically to reducing disparities and backlogs, as is the intention behind setting aside funds from the 1989/90 Budget surplus for exactly such a purpose.

It will be important for those who have misgivings about privatisation to realise it can be used for the advancement of black interests. It will be equally important for government and the business sector to understand how essential it is for the acceptability of the process to conduct privatisation so this objective is served.

In defining the role of government in the economy, discussion could focus on identifying policy distortions which, among other factors, have affected the rate and pattern of development in ways that were not supportive of growth, employment and equal access to economic opportunities for all the country's people.

It could well be found that more market-related poliies are in many respects what is required, while government intervention could specifically be targeted towards weaknesses not effectively dealt with by the market.

The debate should not be on whether government has a role to play, but on what that role should be to help ensure a more generally acceptable economic outcome.

On ownership of and control over productive assets, the economic debate has become somewhat sterile through having been conducted too extensively around nationalisation, and in too emotional terms.

It would be naive on the part of business and other establishment groups not to recognise that there are real misgivings in the black community about the degree of concentration of ownership and control in the SA economy and the consequences of such a perceived concentration of power.

There is also real disenchantment with the effect of the present state of affairs on the opportunities for blacks to participate and the advancement of blacks within these large concentrations of economic power. Unfounded as these atitudes may appear from the inside, they are very real in the minds of those who find themselves outside.

To ignore these perceptions or to believe that they are simply the result of economic ignorance is not going to take the economic debate further. The perceptions themselves need to be tested in debate and, where found to be valid, consideration should be given to ways in which unsatisfactory results of the economic process can best be rectified.

The question should be whether, and if so how, nationalisation can contribute to this and whether other remedies could be more effective. Success in reducing the inflation rate would go a long way towards achieving a more balanced investment pattern; there are probably aspects of competition policy and import and foreign exchange policy that have a bearing on this.

The heat can be taken out of most if not all issues by getting under way an open debate, identifying and evaluating weaknesses in the present system and policies as seen by various participants, formulating aims that by agreement would represent an improvement and considering policies that could most effectively realise those agreed aims.

By starting the debate now, and hopefully developing a consensus about economic aims and policies, the task of the negotiators about a new constitution would be lightened considerably.

Organised business has a responsibility to make an important contribution to the debate.

☐ **Brand is CE of the Development Bank of Southern Africa. This is an excerpt from an address to the SA Chamber of Business last week.**