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RUNNING DOGS

FM 25/1/91

(49)

SOUTH AFRICA'S WAR AGAINST CAPITALISM *by Walter Williams (Juta, 140pp, R34,95).*

Arriving in SA from the US in 1989, I didn't take long to realise that this is a very socialist society, despite all those "Free enterprise is working" billboards government put up around town.

This was a government that told you how long you had to wait for a telephone, how much money you could spend on foreign trips and what news you would watch on TV. This was a government that prohibited movies on Sundays and the publishing of quotes from banned opposition leaders. And certainly no government could be called capitalist that restricted 75% of the population to public housing, wouldn't allow them to own land or let them open businesses in most cities.

But for many critics of apartheid on the Left, all these government controls somehow equal capitalism. They talk of apartheid capitalism when they should be talking about apartheid socialism.

Now along comes another American — a black at that — who has traced the history of how SA became so socialist. Walter Williams's message is simple: apartheid is the very antithesis of capitalism. His book, published in the US in 1989 and then reworked for its SA release late last year, details year-by-year, law-by-law his argument that apartheid and capitalism are not bedfellows.

Though written by an academic — Williams is an economics professor at George Mason University near Washington, DC — the book is fairly readable. It's repetitious, often lacks grace, but avoids the ponderous tone that plagues most academic efforts.

The "problem" that SA faced early in the century was that blacks — willing to work harder and for lower wages — were rapidly taking jobs away from whites, especially miners. Pressured by white unions, and over the vociferous objections of the mining companies, government began passing the discriminatory legislation that eventually made SA a world pariah.

First there were requirements for competency tests and licences that were aimed at eliminating blacks. Later there were minimum-wage laws that cancelled out the blacks' comparative advantage in being willing to work for lower wages. Finally there were job-reservation laws that kept blacks out of certain jobs and drove up wages for whites. These laws were all passed in the name of Afrikaner socialism. PM J B M Hertzog was fervent in his belief that "national freedom means death to capitalism." And Jan Smuts, as early as 1900, said: "It is ordained that we (Afrikaners) should be amongst the first people to begin the struggle against the new world tyranny of capitalism."

Williams debunks many of the Left's most sacred beliefs. One is that business benefited from all this discrimination. In battle after battle over each piece of new legislation, it was business, usually the Chamber of Mines, on one side and the socialist-dominated white labour unions on the other (the white workers believed they were being exploited by blacks offering cheaper labour). Of the hundreds of racist labour laws, according to Williams, the mining houses supported just one, the Land Act of 1913, which drove blacks out of agriculture and ensured a cheap, readily available supply of unskilled labour.

SA's War on Capitalism holds an important message for blacks who are convinced they would be permanently relegated to the bottom rung in a free market. Eighty to 100 years ago, when a much freer market prevailed in SA, blacks were moving ahead smartly, stepping increasingly into higher-skilled jobs in industry and the public sector. Government, knowing full well just how formidable blacks would be in a free market, did everything it could to limit that competition.

As Hertzog said: "In the nature of things, the fittest would survive, but the fittest was not the European. The fittest was the native, who could live more cheaply. Parliament would have to take steps to stop the kind of economic forces that were against the European and meant the death of the white man."

John Koppisch

Bringing the ANC in on financial matters

ST Times 27/1/91

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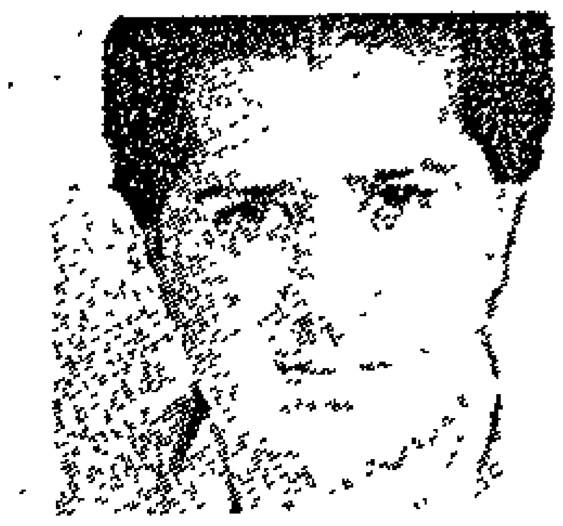
THE SUNDAY MORNING ASSESSMENT

By Mike Robertson who joins the Sunday Times as Political Correspondent today



THE government has tentatively started to involve the ANC in decision-making on important financial and economic issues.

Because of sensitivities, both sides are reluctant to attach significance to meetings between the two on such issues, but there have been several in the past six months and they are set to increase.

The most significant contact has come in the workings of Vatcom, the committee set up by Deputy Finance Minister Org Marais to oversee the introduction of Value Added Tax in the second half of this year.

Although the ANC was not invited to nominate representatives to serve on the committee, and would have declined to do so if asked, one committee member is an ANC official and at least two others are sympathisers.

Mr Marais said yesterday that "Poti" Moloto, the ANC's internal manpower director, had been nominated by the black businessmen's association, Nafcoc, to serve on Vatcom.

Two other committee members, Marina Maponya, wife of the businessman Richard Maponya, a close friend of Nelson Mandela, and businessman George Negota are believed to be ANC sympathisers.

Mr Marais stressed yesterday that the committee members had not been appointed because of their links with the ANC but because of the contribution they could make.

Spectrum

He added, however, that every effort had been made to involve black political, businesss, community and trade union organisations in discussions on VAT.

"The VAT system concerns everybody in South Africa. I therefore felt it necessary to consult as wide a spectrum as possible."

An ANC spokesmen said his organisation had not contributed anything to Vatcom, although some members were serving in an individual capacity.

Mr Marais said that neither the ANC nor the Congress of SA Trade Unions had made submissions to Vatcom. However, a "junior Cosatu economist" had made a contribution in an individual capacity.

ANC sources indicated that both the ANC and Cosatu were reluctant to be linked to Vatcom as the government was proposing that the General Sales Tax exemption on foodstuffs would be scrapped when

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s to Sports Editor Edward Griffiths

Financial outlook is gloomier

Apren 27/1/91

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WHILE thousands of workers in the private sector are losing their jobs as a result of South Africa's shrinking economy, the number of civil servants seems to keep on growing.

Figures compiled by the research division of the United financial group show that the public sector has increased by about 20 percent since 1980. The growth trend is expected to continue, while the outlook for new jobs in the private sector is decidedly gloomy.

■ MONEY TALK

Spokesmen for the Commission of Administration, the body responsible for overseeing government employment, claim the main reason for the increase in the number of public servants, whose salaries have to be paid by the taxpayers, is the growing demand for services such as nursing and teaching.

However, economists warn that with the private sector under pressure as a result of the recession, it will become difficult for the State to find enough money to meet this demand.

"We expect further retrenchments in the private sector in 1991 and the outlook is rather gloomy," says Dr Hans Falkema, chief economist at the United.

At the same time, government policy is to close the gap in the remuneration of different race groups employed in the public service.

The government needs more money to pay more people to provide more services to a rapidly growing population.

But where will the money come from?

The solution lies in economic growth.

In this respect, there is some hope in that the informal sector, dominated by black entrepreneurs, is expanding at about four percent a year.

However, according to the United's report, productivity is declining because people are continuously demanding more money for less work.

Yet we are in competition with developing countries in the Far East, where worker output is growing faster than pay increases.

As a nation we must get the economy growing so new jobs can be created, producing taxes to pay the required number of civil servants.

Decline hitting more sectors, says Sanlam

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B/Day 29/1/91

ANDREW GILL

THE decline in total economic activity is not only continuing unabated, but is extending to even more spheres of production, Sanlam says in its January Economic Review.

Although not as severe as the previous two downturns, this downturn had already lasted 21 months and any significant upswing in general economic activity should not be expected until early 1992, it said.

Various factors would have a negative influence on the economy in 1991.

The already slow rate of expansion in major trading partners' economies could be further affected by the Middle East crisis and have an adverse effect on exports.

Consumers' financial positions would weaken markedly as a result of more moderate adjustments in labour remuneration, a continued high inflation rate and sustained relatively steep interest rates.

The review said unfavourable conditions in the agricultural sector would be reflected in declining agricultural exports.

Strict control over government expenditure would prevent any significant stimulus to growth from that sector, and weak demand would be reflected in a continued discouragement of capital investment.

One feature of the current downswing was that, disregarding the agricultural sector, SA had not been experiencing a true recession as yet (real GDP has not yet declined for two consecutive quarters).

On a more positive note, the review said the inflation rate should be down to 11% by December this year, thanks largely to an expected appreciable reduction in the rate of increase in salaries and wages.

Also, "a sustained strict monetary policy will help to prevent wage and price rises from being fuelled by a sharp increase in the money supply".

Syfrets economist Elmien de Kock said, recessionary conditions were likely to be more deep-seated and protracted throughout 1991.

Consumer spending was forecast to grow at a slower rate in 1991 after an expected growth rate of 0,8% in 1990, dampening overall activity.

Fixed investment was expected to remain depressed, despite the Lesotho Highlands project and expected spending on housing.

"Government spending is forecast to grow at the rate of inflation, which will be about 12,5% over 1991," she said.

"The general slowdown in world economic activity will not benefit exports, but a recovery can be expected towards the end of the year."

She forecast a GDP growth rate of zero to 0,5% for 1991.

Africans must lead the way

Sowetan 29/1/91

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THE main tasks facing the economy are to restructure it so as to benefit the greatest number of people and organisations possible.

However, South Africa's human and material potential has been barely scratched. Indeed, South Africa is really an underdeveloped country. A forward looking and developmental outlook is required.

The redistribution issue is really backward looking; putting the stress on the already baked but relatively meagre bread, as it were.

Constructive plans, sound practical approaches, are required for effective transformation and sustained development.

The task which awaits us - to effect social changes and accelerate the economy - is a heavy one. But it can be achieved within the market economy, still the ideal framework and route for revolutionising underdeveloped economies.

Naive

Only the naive or ignorant would expect that some measure of public intervention and involvement would be ruled out.

Yet experience has shown that social democratic or welfare-oriented economies characterise modern capitalism. But it is important that the state busies itself with the economy to supplement and not supplant the efforts of the private sector.

The revamping of South Africa's market economy is necessary and inevitable to extend and deepen the quality of skills and enterprise of the Africans in particular. This could happen at two levels.

For the workers, higher and varied skills are needed. General social upliftment must also accompany the process, making cultural and psychological changes inevitable.

Other radical actions are needed. Industrial relations must

FOCUS

MESH SUMA, formerly Meshack Mabogoane, a journalist who is now establishing the Federal Democratic Movement, puts the case for African nationalism being the moving force in establishing the "new South Africa's" economy.

be significantly overhauled. The racial question is central. In South Africa, in addition to the normal antagonistic relationships between workers and employers, each group also views the other as belonging to another race.

A variant of this exists in the white and Indian-led (or dominated) "non racial" labour unions. Non-racialism is a nice phraseology but racial feelings are concrete and go deep. The African worker refers to both the white employer and non-African unionists as "them."

Africans become grateful and dependent, remaining the eternally incapable underdogs, it seems. Whether as producers or earners, aliens must lead them. Psychologically, however unconscious, Africans do suffer alienation.

No wonder that most of the long industrialised workers in Africa still have secretary generals and real administrators of their labour federations who are non-African. Talk of backsliding, emasculation and selling the national soul!

The industrial relations system needs urgent surgery. In-house co-operatives or workers' syndicates should be encouraged and formed; employee share ownership schemes must be extended.

Commitment to, and identification with the job, are sure to ensue.

Workers

Labour unions must be led entirely by African workers. The right and duty of national self determination is unarguable. Democracy should take place. Unions should be of workers, by workers and for workers and not the petty bourgeoisie and alien leadership which controls them now. This will enhance their ability to do things for themselves, part of liberating Africans psychologically.

Unions should be instruments of community development and economic empowerment while contributing to real African nation building.

Still, the greatest need is to unlock the spirit of enterprise amongst the Africans.

Collectively more elaborate and well determined collective frameworks and means are required. The entrepreneurial upliftment of Afrikaners, for example, can serve as a model. National trusts and special measures from the State were started by them and for them.

The state certainly played a major role in these developments either through legislated and supported co-operatives or contracts awarded favourably to Afrikaner businesses. This is how Volkskas and Afrikaner insurance companies became giants.

Similar networks and measures are, for Africans, either lacking or really inadequate. A statutorily-established black economic framework of voluntary and obligatory contributions (shares and levies) to community, workers and national trust funds is imperative.

Persuasion will be needed to ensure that black local councils and schools, for example, insure themselves or bank with African financial institutions. Favourable contracts to African enterprises and businesses are required.

Trust funds could be used for massive purchases of shares in existing major corporations.

Joint ventures with existing major corporations will be inevitable. However, as time moves Africans should gain the upper hand in technical, managerial and directorial positions.

The special promotion and protection of black enterprises are a must.

But all this will come to little without the primary ingredient: The national will and the spirit of self determination.

Demands

This demands commitment to nationalism as the driving force. Racial solidarity and going it alone as much as possible, genuine self help and upliftment are its essential ingredients.

Above all it calls for the removal of the virus of dependency - now disguised as "need for expertise", or "non-racialism" meaning complete and everlasting reliance on white and Indian leadership. Africans must be led and directed by Africans themselves.

If there are lessons to be learnt from the rest of Africa and "non-racial" bodies here, it is simply that reliance on non-African expertise is fatal. In contrast, the success of the old and new industrialised countries or societies depended on the national will and spirit, the real bootstrings that pull people up.

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Negative growth seen for SA economy

By PIETER COETZEE
Financial Editor

SA can experience another year of negative growth in 1991 after GDP declined by about 1% in real terms last year, says Ryk de Klerk of the Board of Executors (BOE).

Prospects for 1992, however, are more encouraging and with skillful political and economic management there is the potential for rapid economic recovery in 1992/93.

De Klerk says he expects that the tight economic policies will succeed in producing lower inflation and higher foreign exchange reserves.

Interest rates could therefore gradually be lowered to about 17% to 18% by year-end. "This process should continue in 1992.

"Another positive development which is helping to set the stage for a securely-based economic recovery is the greatly improved fiscal control exerted by the authorities.

"For the second year running the deficit before borrowing is likely to come in under budget in March.

"Particularly praiseworthy in our circumstances is that the increase in government spending will come in below the inflation rate — government spending has therefore been cut in real terms.

"There also appears to have been notable progress in ending the unhealthy practise of borrowing to finance current rather than capital expenditure," says De Klerk.

A gradual lifting of trade sanctions should occur in 1991. With slow world economic growth this may not provide a significant boost to export volumes but effective prices received for some exports will improve as the SA "discount" disappears.

"When world economic growth picks up again, hopefully in 1992, our exports will at least not be fighting with one hand behind their backs.

"More important than relief on trade sanctions would be an easing of financial sanctions. Towards the end of last year there were indications that short-term foreign capital was again available to SA.

"If significant political progress is made it may be possible to renegotiate our current foreign debt repayment schedule, or at least attract sufficient new capital to forego the necessity to run large current account surpluses year after year.

"Further down the line it may be possible to attract IMF and/or World Bank funds on reasonably atractive terms.

"Renewed direct private sector foreign investment would be the cherry on the top, but is unlikely on any significant scale until such investors have real assurance that the longer term political and economic environment in the new SA will be a rewarding one for long-term investment," says De Klerk.

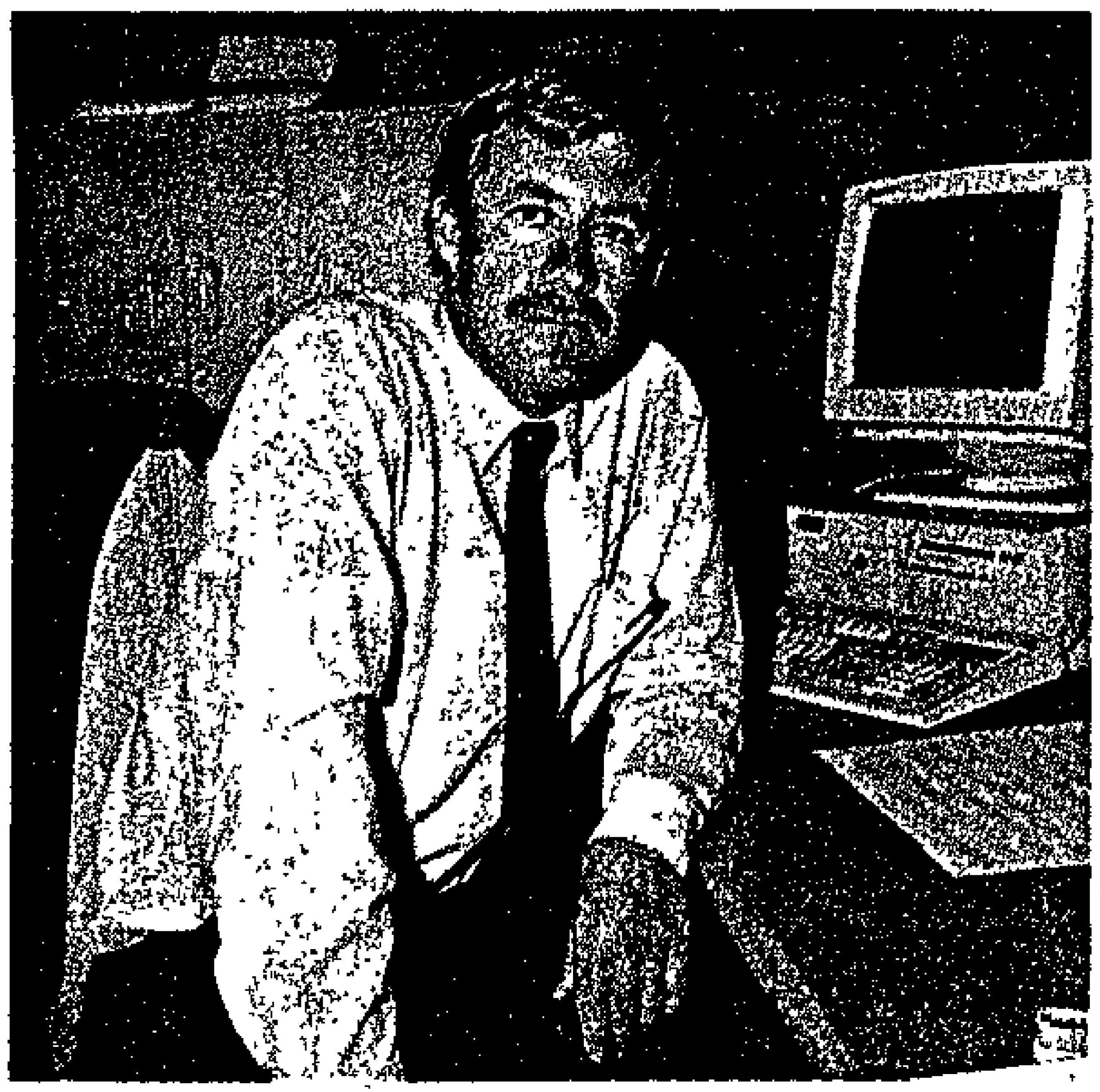
SA in an economic crisis . . .

Economist calls for investment in black community

CAPE TIMES 30/1/91

(49)

By AUDREY D'ANGELO
Business Editor



ROB LEE . . . we are going to have to do some relatively unorthodox things to get growth going

SA is in an economic crisis — and growth must be stimulated by investment in black housing and education and the electrification of township houses, says leading economist Rob Lee.

Interviewed yesterday, Lee, who has just joined the Board of Executors, said he now thought it would be in the national interest for life offices and building societies to invest a small proportion of their cash flow in black housing.

He had lost his earlier opposition to this after talking to ANC economists. They admitted socialism had failed and were learning rapidly how markets worked.

But talking to them had given him new perspectives and made him realise that Western-trained economists, too, were blinkered in some ways.

"SA has an economic crisis. We need to grow much faster and I have a feeling that we are going to have to do some relatively unorthodox things to get growth going.

"We need to redistribute wealth by investing in the black community. We must invest in education, housing and the electrification of black townships.

"This will create more jobs, which will have a multiplier effect throughout the economy, and will lead to a more stable and productive workforce."

Lee said the work could be carried out without increasing imports significantly. The capacity was already available in SA.

There would be no need for a horrific tax burden to pay for it. The private sector would have to play a role "and should be able to do it in a viable way".

He thought foreign investors would buy housing bonds if they saw positive action being taken and if violence and unrest disappeared.

Investing only 3% or 4% of the cash flow of life offices and building societies would pay for enormous housing schemes, and would be in the long-term interests of the policyholders and investors.

Business must be pro-active. Yesterday's announcement that R500m would be made available by a group of companies for education and other social welfare projects was the kind of initiative needed.

The private sector was realising that "if the country went up in flames it would not be a good environment for business".

But, Lee pointed out, housing initiatives would not work if people were afraid to go into the townships and if rents were not paid.

And the black leadership would have to deal with unrealistic expectations which had been built up.

"The economy can deliver only so much. SA is not a rich country, although the impression has been built up that it is."

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ECONOMIC OUTLOOK (49)

BEYOND MEASURE

FM 25/1/91

Brian Kantor, UCT professor of economics, says business should be encouraged by the resilience of final demand (which excludes inventory changes and the residual item). He argues that annualised real growth in final demand of 2,5% between quarters two and three of 1990 is a more meaningful indicator than GDP, which fell more than 2% (annualised) over that period.

GDP incorporates net exports which, he says, "are influenced by climatic and valuation factors." Final demand, on the other hand, "relates to economic agents' propensity to consume and invest. This is what matters to business."

Other economists have reservations.

Standard Bank's Nico Czypionka says: "I am concerned about production falling while demand is rising. By implication the personal savings rate is running down. Eventually expenditure will have to adjust to the income and employment the economy generates."

Adds Econometrix's Tony Twine: "In this situation either monetary growth or imports or both provide the mechanism for spending to grow faster than production. This is not healthy in the longer term."

SA Chamber of Business's Keith Lockwood says: "It's dangerous to ignore the foreign sector's performance. Exports are an important source of income and therefore future growth."

One source of anxiety is that the need to import, to make good the shortfall in supply, will eventually devalue the currency and thereby fuel inflation.

But Kantor argues: "It should be recognised that the capital account of the balance of payments, which for so long undermined our exchange rate (and thereby encouraged inflation), is now a source of support."

By adding to supply and providing competition for local suppliers, imports tend to counter inflationary pressures. Nor is the build-up of foreign debt a problem: "Ideally SA would like to be allowed to increase its exposure to foreign debtors."

He argues this as a general principle but says it is particularly appropriate now, when growth in foreign debt would be off a low base. "It would mean more investment demand and capital inflows to finance it. That would help both inflation and growth; inflation because the exchange rate would be firm, and growth because we would be growing our capital stock and therefore output."

The two points of view are not irreconcilable. But there are practical problems relating to the capital now coming in.

One is that it is largely short term and not yet in large enough quantities to counter a deficit on current account. More important, it need not go into investment but may go into consumption, at a time when political pressure will direct huge sums into unproductive (but essential) social spending.

So the relative merits of final demand and GDE will, like so many economic imponderables, depend on how the cookie crumbles. ■

Standard urges Government to keep clamps on

(49)

Star 25/1/91.

By Magnus Heystek
Finance Editor

The Government's tough stance on the economy has received unexpected support from Standard Bank.

Don't let up now, says the bank in its latest economic survey.

While the clampdown is hurting many sectors and individuals, the fruits of a continuation of this policy will be harvested in the future, it says.

"The reduction in economic activity, and specifically the authorities' resolve to tackle the fundamental problems through a changed policy approach, has not only brought problems, but also important and visible rewards," says the report.

The rewards so far, it says, include a money supply that is now firmly under control. Inflation and inflationary expectations have been declining and are likely to continue doing so.

Furthermore, competition appears to have intensified, cost controls have become important and union wage demands have become more realistic.

In order to entrench these gains, Standard says, the conservative fiscal and monetary policies will have to be maintained throughout 1991.

That means further adjustments and a generally very difficult operating environment for both the business community and for individuals.

"Casualties in the personal and business sector will continue to mount as a result of the combination of soft or even falling demand in a sluggish economy and monetary stringency," says the report.

The conservative approach is aimed at convincing South Africans of the determination of the authorities to come to grips with the causes of high inflation and it appears to be slowly succeeding.

As in the political and social sphere, there has at times been considerable scepticism over whether the policy could be maintained in the face of the pressures emerging as a result of its application.

In the event, says Standard, the new approach was maintained consistently throughout 1990, and its credibility has increased significantly in the process.

"On the positive side, this has resulted in extensive rationalisation and efficiency improvements, the running down of fixed investments and, therefore, of machinery imports, and a general reduction of inventory levels.

"In many cases, the objectives of improving cash flows and protecting profitability have been achieved, and the corporate sector has remained in relatively good shape.

"On the negative side, the inevitable consequences of the policy have been substantial layoffs, as a well as a worrisome rise in repossessions, bad debts and bankruptcies, mainly in the personal and small business areas," says the report.

These problems are likely to continue escalating for as long as companies are caught in the vice of negative cash-flows resulting from slowing activity and high interest rates.

The same applies to individuals.

Many face crippling cash-flow problems on account of high mortgage commitments and costly consumer finance, particularly when incomes are being held down by a slack job-market.

Social spending the key to belief that negotiation works

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BILLY PADDOCK in Cape Town

B'Day 25/1/91

GOVERNMENT's priority this year, as it prepares for the the opening of Parliament next Friday, will be economic restructuring aimed at stabilising the country and building a foundation on which negotiations can progress.

This is to be achieved, according to government sources, through widespread budget cuts and reallocation of these funds to social spending. At the same time government will scrap most remaining apartheid legislation and work towards overcoming the vexing problems surrounding the convening of a multiparty conference before the middle of the year.

Government is anxious to get the real negotiations going. It is concerned that if ANC deputy president Nelson Mandela and his team cannot deliver tangible results to members at the ANC's June conference showing that negotiations and quiet diplomacy do work, he will not get the required mandate to continue.

One senior government source said: "Unless we can make social spending tangible to the majority, especially in the areas of job creation and housing, they will lose confidence in the negotiation process."

Finance Minister Barend du Plessis will have a tough job drawing up a budget that finds sufficient extra revenue to increase social expenditure adequately while keeping total government expenditure and inflation within acceptable limits.

Sources say government is planning substantial savings in capital expenditure. It has already identified numerous departments where budgeted funds are not being utilised and can be reallocated.

Cuts over and above this are also being envisaged in most departments, "especially in the light of the success of last year's defence cuts."

Other plans in the pipeline to raise the necessary money are further privatisation (including Foskor, where it is hoped R1bn will be raised) and the withdrawing of public money from some parastatals that could survive without assistance.

With the capex cuts, government is accepting a lowering of standards is necessary. It may, for example, refuse to authorise requests from departments that want "first world" office complexes and insist on them making do with what they have or amending their requests.

At least one department's request for new a headquarters has apparently been rejected, and others have been told to expect significant changes.

Transnet, the SA Police, the Prisons Service and the SADF are likely to see changes to their employee housing policies whereby they provide housing for staff who are transferred. Subsidies will probably stay, but departmental housing is likely to be phased out.

Government is devoting a lot of energy to job creation and, according to some sources, plans are being drafted that authorities believe can open up thousands of new jobs.

However, a major concern is that wages and wage demands are unrealistic given the state of the SA economy and the inflation rate. There are fears that farmers, especially, will mechanise rather than pay the increased wages likely to be demanded by unions.

Politically, there are also indications that Government is considering a single Ministry of Education as an indication of the sincerity of its commitment to changing the system that has been beset with crises and been a major source of militancy among the youth in the townships.

What may be emerging is a kind of pyramid structure with a single "ministry" at the top controlling policy and finance, with the various departments spreading out from that until the tri-cameral parliamentary system is eliminated.

At the recent weekend "bosberaad", Cabinet members and other senior government officials fine-tuned their strategy for negotiations and creating a climate conducive to getting the multiparty conference off the ground.

This strategy includes the repeal of the Group Areas Act and the Land Acts with about 150 000 other laws, by-laws and ordinances which need to be scrapped or amended because they are based on the Land Acts.

There is also speculation in some areas that the Population Registration Act could be suspended in government's endeavour to get all apartheid legislation out of the way. It cannot be scrapped entirely because it would be needed for parliamentary by-elections and establishing white opinion on a new constitution.

A senior government source said this week it was essential that these issues were tackled early in the parliamentary session, at least by the end of April, so that the multiparty conference could be convened.

Progress in the ANC/government armed action working group this week has made government confident it can meet the April 30 deadline for the return of exiles and the release of political prisoners. There is genuine optimism with the progress being made within the ambit of the Pretoria Minute.

However, government strategy in the negotiations will be tempered by concern about the influence of radical militants within the ANC and what will transpire at the organisation's June conference.

Senior government negotiators have expressed their support for the ANC's call for an all-party conference and are confident that they can find middle ground on issues which appear unresolvable. This, it is believed, has already happened with the dispute over nationalisation.

Another serious obstacle to getting a multiparty conference going is the conflict between the ANC and the Inkatha Freedom Party. Sources said it was impossible to move on the conference until the two parties had resolved some of their problems so that they coiuld sit at the same table.

President F W de Klerk has put a lot of pressure on both Inkatha president Mangosuthu Buthelezi and Mandela for the past year to meet. Sources this week said the meeting between the two was absolutely vital and the parties should do everything in their power to see that it was not scuppered.

It is understood that Constitutional Development deputy Minister Tertius Delport, responsible for alleviating social problems in Natal caused by the violence, has not allocated any funds budgeted for that purpose because he cannot get agreement on any project from the ANC and Inkatha.

Government is also concerned that there is a "cabal-like" group in the leadership of the ANC which is insisting that the ANC convenes an all-party conference despite the urging of Mandela and the organisation's International Affairs head Thabo Mbeki that potential parties to such a conference should agree on how it should be convened. Government supports this position.

Sources said they were very encouraged by Mbeki stating that all parties to such a conference should be able to demonstrate they have support, (for example through a list of signatures) rather than demanding an immediate election for a constituent assembly.

Government is hopeful that if it can remove all the obstacles to negotiations and at the same time plough funds into social spending which shows tangible results, the multiparty conference can get going by May or June. But no-one is confident enough to make any promises.

Stand firm on monetary policy, urges Standard

B/Day 25/1/91

(49)

ANDREW GILL

THE Reserve Bank and government will have to maintain their conservative stance throughout 1991 in order to entrench 1990's gains, Standard Bank said in its January review.

The gains, it said, were that money supply growth was now firmly under control, inflation and inflationary pressures had been reduced, competition in the economy appeared to have intensified, cost control had become important and union wage demands had become more realistic than during the past few years.

It would, however, mean there would generally be a very difficult operating environment in 1991 and casualties would continue to mount in the personal and business sector.

The foundations for a better performance had been laid by brave political decisions, tough financial policies and by economic sacrifices.

"It would be regrettable if that process were to be derailed for lack of courage to see them through the difficult time which inevitably lies ahead in 1991," the review said.

Against the backdrop of continuing domestic political change, higher oil prices, a drought, occasional civil unrest and disruptions on the labour front, the SA economy had held up remarkably well, it said.

"This does not change the fact that the gross domestic product declined by some 0,7% last year in real terms, but it suggests that in a historical context the contraction has been relatively mild, and substantially concentrated in the primary sectors (agriculture and mining)."

Agriculture and the mining industry suffered from serious cyclical and structural problems. The mining industry had also been negatively affected by the weakening of foreign and domestic demand.

The resilience, the review said, was largely provided by a stabilisation of manufacturing production after a period of decline and a continued robust performance by the trade and services sector of the economy.

Relatively strong performances of retail and car sales, tourism, general and financial services and, to a lesser extent, government, played a key role in stabilising activity, it said.

Economic growth and democracy still go hand in hand

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B Day 24/1/91.

Noted scholar and businessman MICHAEL O'DOWD argues that his Theory of the Stages of Economic Growth remains as valid as ever.

AFTER the momentous events of 1989 and 1990, the discipline of history must be conducted with a good deal of humility. For we have been reminded, rather forcibly, that history does not always go where expected.

On the contrary it is capable of producing surprises, like the Soviet government announcing a programme to convert the Soviet Union to a market economy in 500 days. What becomes now of the inevitable march of history, and the higher stages of evolution? It is as if, in about 1600, Cromwell and his entire government had announced conversion to Catholicism.

The "enlightenment" idea, of which Hegelianism and Marxism were two interpretations, must itself be called in question.

It makes two basic assumptions. The first is that each stage of history is "better" than what came before. The second is that there is in history a linear progress which can be extrapolated into the future, making predictions possible.

These assumptions allowed the principle that the end justifies the means to be taken to extremes. If ends are unforeseeable, they cannot be used to justify means. It is clear that in the light of Gorbachev's 500-day plan, Stalin's crimes were in vain.

So, where does all this leave the Theory of the Stages of Economic Growth, with which my name has been associated for 25 years? This theory has not been disproved by recent events. On the contrary, it has been rather spectacularly supported, but that does not mean that it is exempt from warnings I have given.

The theory is not one of economic determinism in the Marxist sense. A certain degree of industrialisation makes certain social and political arrangements possible where before they were not possible. It may also make them necessary. If a certain polity requires a certain economy, just as much a certain economy requires a certain polity.

We also have to note — and acknowledge — the discrediting of US theorist W W Rostow and of his version, which is the original version of the theory. In his earliest writing, he showed, correctly, that economic "takeoff" was the product of a most complex interaction of forces. Later, under pressure, I suspect, from people who wanted a theory that would guide political action, he put forward the thesis that all that was necessary to induce takeoff was to increase the savings rate from 5% to 10% of the national income. This was nonsense, and was recognised as such, and that was the end of Rostow.

From the time that I first took up the theory in the early 1960s, what struck me was that all highly industrialised countries were democratic, nearly all partially industrialised or non-industrialised countries were undemocratic, and that nearly all the democratic countries had become so during the period of industrialisation.

This gave birth to the O'Dowd Thesis — that SA would evolve into a democracy in the course of industrialisation. I even predicted a date for the first major step in that direction — 1980. As it has turned out, the date was 10 years too early, but that was because in 1964 I assumed (naively, but in accordance with the spirit of the time) that growth would continue at the same rate as in the 1960s. As we know, it did not.

Since 1964 a good deal has happened which accords with this thesis, and not much which contradicts it. Democracy has been successfully established in Spain. Major, but as yet incomplete moves towards democracy have been made in Taiwan and South Korea. In two special cases — Greece and Portugal — the establishment of democracy appears to be premature, but this can be explained easily enough. It was a precondition for admission to the EC.

Until two years ago, the great problem and anomaly was presented by the communist world other than China. (China, it should be noted was no anomaly. It was a poor Third World country where democracy would be quite unusual.)

Both Rostow and I originally said that the thesis would operate in "communist" countries, and that eventually Russia would democratise. In 1976 I expressed the opinion that the thesis probably did not apply there — that a fully totalitarian government had the power to prevent these developments, but if it did so it would pay the price of stifling economic growth. That was right, but we can now add that you cannot stifle economic growth forever without generating uncontainable social discontent. And this shows us how these "inevitabilities" work out in the complexities of the real world.

One of the things which vastly confused the issue in the past was the claims that were made regarding the per capita incomes of the communist countries, which made them appear to be far beyond the point where we expected democratisation to set in. It has now turned out that the claims were simply and totally false.

For example, East Germany claimed a per capita income of 60% of that of West Germany. The more recent estimates are nearer to 25%. The latest estimates for other former Eastern bloc countries, except for Romania and Bulgaria, lie between \$2 800 and \$1 800. Romania is below \$1 000 and Bulgaria, claiming \$3 800, has not yet come clean.

Two striking facts emerge. All the countries which have made (so far) successful transitions to democracy are in the same ballpark as SA (about \$2 200) and all the countries which are far below this (Romania, Bulgaria, China, Albania) are those where the genuineness of democratisation is severely in question or has not taken place at all.

Another error in the early presentation of the thesis is that both Rostow and I laid far too much emphasis on the supposed smooth inevitability of the process. As we have seen from the case of the Soviet Union, inevitability can be both rough and devious.

So, what does all this tell us about SA? The really important thing is that the changes taking place represent the "normal" transition of an industrialising country towards democracy, and, therefore, that democracy is where we have to go.

Political leaders have to discard any hankering that they may have for a "decolonisation" type of change — where very weak, undeveloped populations underwent a change of masters. SA is too advanced for that.

Another lesson is that ethnic diversity is not incompatible with democracy. The real danger is to refuse to accept diversity. Attempts to impose uniformity, whether of language, religion or political belief, fail in the long run, and cause untold damage.

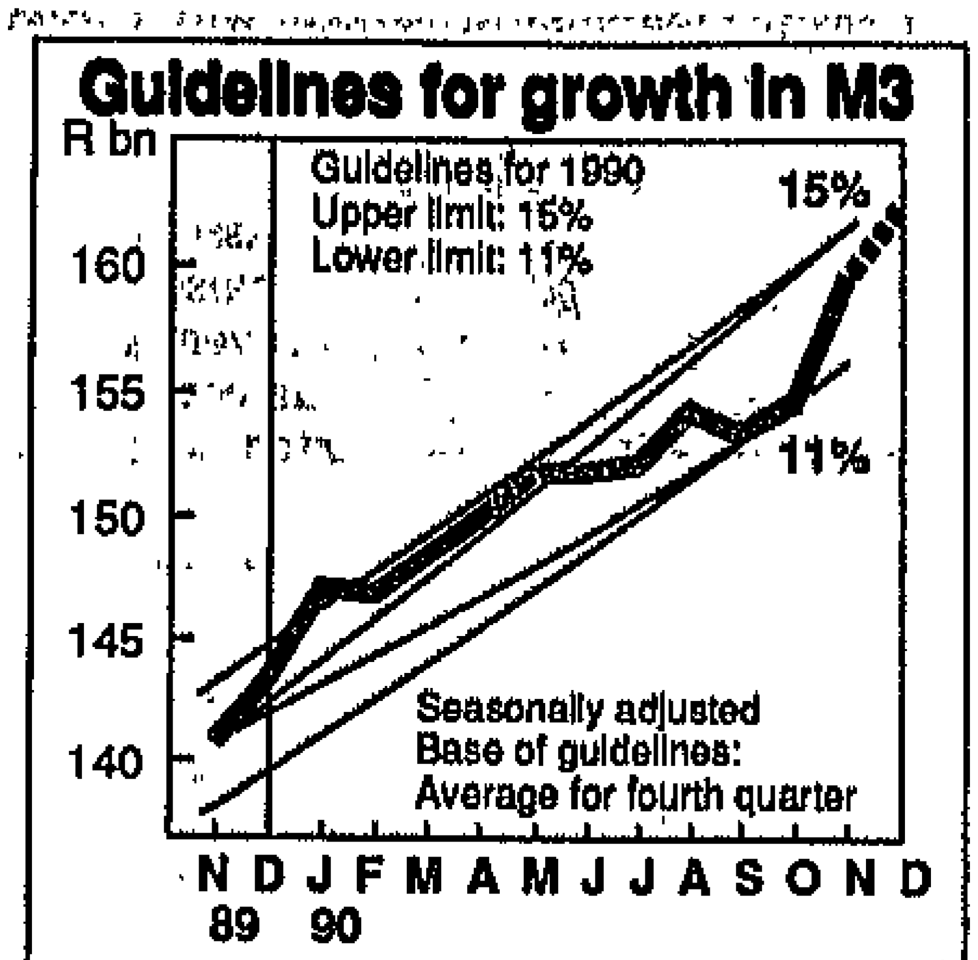
A further lesson is that democracy requires limitation in the power of government. It used to be argued that the government needed massive power to bring about development. This was the rationalisation of all the dictatorships of Africa, as well as of Stalin. In Africa, development did not follow.

The next lesson is that democracy means capitalism. The historic link between socialism and totalitarianism did not come about by accident. It came about because the massive concentration of power in the hands of the government brought about by socialism is incompatible with democracy.

Finally, we must begin with a realistic appreciation of what we are. We have to accept that we are a middle-class, Third World, partially developed country, in the same broad category as Mexico and Poland. The old white myth of First World SA can only confuse us. So can the new black myth of SA as a colony about to obtain independence.

We must pay careful attention to the facts, we must beware of grandiose, overambitious theories, and, while being aware of our essential uniqueness, we must not make too much of it. We know what happened to the man who lay down in front of a steamroller relying on the fact that he was a unique human being; the experience of others was no guide to him.

☐ This is an edited version of an address on Tuesday by Anglo American director O'Dowd to the conference of the SA Historical Society.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Money supply sets satisfactory tone

ANDREW GILL

MONEY supply growth slowed marginally in December to end well within its 1990 target, but above the lows experienced earlier in the year. Bday 23/1/91

Broadly defined money supply — M3 — grew at an annual rate of 13,07% in December from a revised 13,22% in November ending the year on a satisfactory note.

Annual growth from the base of the current guideline year (fourth quarter 1989) registered a slight uptick to 13,60% from 13,22% in November, but remained within the Reserve Bank's 11% to 15% guidelines.

Economists believe this year should see a further slowdown in M3 growth.

Reserve Bank Governor Chris Stals said in an interview last week that 1991's guideline range was likely to be lowered.

First National Bank group economist Cees Bruggemans said the current levels were due to technical reasons. 49

At 13,07% growth is above October's 10,23% but remains below all increases before September and well below levels above 25% recorded two years ago.

An indication of November's unseasonal hiccup was the increase in total domestic bank credit extended, which grew at an annual rate of 17,7% compared with October's 12,4%.

Gap between the races 'narrowing'

B/Day 23/1/91

PATRICK BULGER

WHITE manufacturing wages increased 1% in real terms in the past decade while those of black workers in the same sector rose by 29%, SA Institute of Race Relations director John Kane-Berman said yesterday.

Addressing an SA German Chamber of Commerce luncheon in Johannesburg, he was giving examples of how moves to remove inequalities were proceeding.

While the anti-apartheid "industry" would call for a new SA economic system as long as material inequalities between black and white remained, he said there had, in fact, been a significant narrowing of inequalities between the races.

Fiscal measures and free trade unionism were helping erode inequalities, he said.

Kane-Berman said a huge anti-apartheid "cottage industry" would seize on material inequalities to prove the continued existence of apartheid.

"Many groups in and out of SA have a vested interest in denying the erosion of material inequalities between black and white," he said.

They would then argue that what SA needed was not only a new political system but a new economic system as well, Kane-Berman said.

A command economy rather than a market-based economy would then be offered as the solution to inequalities.

Kane-Berman also warned about the gaps developing between rural and urban communities.

He said people in Soweto were among the healthiest in Africa.

The price

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By contrast, rural Ciskeians enjoyed the same health as people in the poorest countries of Africa.

As the gap between black and white in urban areas narrowed, rural communities were paying the price.

Any future constitution had to protect rural communities. A highly centralised system of government would not guarantee this protection — a federal system would, Kane-Berman said.

Drawing the state's boundary line in a changing society

B/Day 23/1/91.

HARRY SCHWARZ

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THE role of the state in a society in transition is a difficult and controversial one. Those who feel deprived want meaningful action to improve their lot, and those with vested interests seek to hold onto what they have.

In any normal society the state's role is clear. That role includes law enforcement, administration of justice and foreign affairs.

Other areas too, while they may be disputed by some economists, are in my view proper functions of the state. It must ensure thare are equitable education opportunities. The state must provide health services — not only for those who cannot afford private sector care, but also preventive medicine such as, for example, anti-malaria campaigns.

Caring for the aged and incapacitated who cannot provide for themselves is in the same category.

The need to protect consumers, particularly where there are disparities in levels of education, is vital. So is the need for legislation to control monopolies and concentration of economic power which adversely affect the community. The US is a good example of this.

More serious complications arise in a transitional society. Expectations are often raised too high by some politicians, while the reluctance of those with vested interests to give up anything at all is exploited by others.

A new government wants to satisfy its constituents, and often it ignores the availability of resources. The conflict between expectations and resources is one to be carefully handled and here the temptation to which a government can be exposed to meet expectations is high.

In examining government's role in the economy, it must be recognised there are activities which a government cannot do better than the private sector. These relate to the creation of wealth.

Governments can spend money, they seldom create real money in non-inflationary terms. Real wealth is created as a result of the entrepreneurship and the labour of the worker, using means of production created through the employment of capital.

Two vital issues need to be addressed. Firstly, should the state redistribute wealth and if so, to what extent, how and to whom? Secondly, who should own the means of production, and should existing means of production be nationalised or new means started by the state?

So far the advocates of redistribution have spoken mainly in generalities. They need to be more specific as the public are entitled to know what those who seek political power intend to do.

There is redistribution of wealth taking place in most countries. The taxation system is the most effective means, but inflation is also a redistributor as are state incentives to some manufacturers and distributors — the clearest example being exporters. All social market-orientated countries, as well as others, use this mechanism.

Such systems provide the social services from taxation produced by the efforts of private entrepreneurs. In socialist and communist systems only limited social services are provided because those systems cannot create the wealth necessary to provide adequate services.

SA, with its massive unemployment and its deprived people, cannot afford the luxury of experimenting with systems which will not work. So I support redistribution through the tax system. But the tax system must not be so onerous that it kills incentive. I also support the use of state funds to equalise education on a realistic programme tailored to available resources — as I do equalisation and upliftment in respect of unemployment benefits, social pensions and medical services.

In all social market-orientated countries those in need receive care from the state. But we need to be careful that the benefits go to those who need them and not to create a society where there is no incentive to work.

The second question relating to the means of production is one of conflicting ideology. The means of production are best owned by private individuals not only for their benefit but for the general good.

There are few examples in this world in which it can be demonstrated that the state can produce more effectively than the private sector. Certainly there are some activities which — for a variety of reasons, many historical, others because of the lack of profitability but national need — are owned by the state in many countries. These, however, are the exception not the rule.

The term "mixed economy" is now used by many. I am afraid of it. It can be a one horse, one rabbit pie. Which will be the horse and which the rabbit? A large state sector and a tiny private sector will be a disaster. Those who talk of nationalisation and of a mixed economy are obliged to spell out what will be state-owned and what will be privately owned.

My view of ownership of the means of production is not supportive of monopoly, or abuse of concentration of economic power. I support ownership by the people as opposed to ownership by the state.

Ownership of shares in enterprises by its workers and by the public should be encouraged, not by words alone, but by real assistance. We need to look at Germany's example of worker participation to demonstrate how equitable solutions can be found.

An interesting fact often overlooked is that it was not the Bolsheviks that introduced the public ownership of means of production to Russia. Under the Tzarist regime, mines, industries, oil wells and other economic activities were in many cases owned by the state, yet it took place where a people was impoverished and where a revolution occurred because of social and economic conditions.

The results are known to all. The easy test is to look at how social market West Germany had to rescue socialist East Germany.

One last word. We have an SA Communist Party in SA. If the SACP is speaking of a mixed economy, then is it not time that it changed its name? If it does not, may we not assume that it still adheres to the doctrines which have proved not only undesirable but unworkable?

I am in this debate because I believe there is a degree of common ground between us. We have all identified the problem that there is a massive wealth, income, skills and opportunity gap between the people of our country. We accept that it must be addressed. We agree at least in a measure on the end result.

Freedom is not complete when it is exercised in poverty and degradation. I believe in a universal franchise, but one cannot eat a vote and the franchise offers no shelter. We need a more equitable economic society. What we differ on is the method of bringing about a change to an unacceptable situation. We need to talk, debate and seek to convince each other of the best means of solving the problems.

We need to avoid rhetoric and generalities, and above all we need to recognise the rights of all, but also the rights of others; resources are not unlimited; and that an unwillingness to address correctly the conflict between expectations and resources could result in hyperinflation and the destruction of the economy.

The state has a role, but let us leave the creation of wealth to the entrepreneurial spirit and the sweat and hard work of our people. They can do it better than government.

□ Schwarz is SA's ambassador-designate to Washington. This is an edited version of his contribution to the debate with the SACP's Joe Slovo and Deputy Finance Minister Org Marais convened by Idasa and held in Johannesburg on Tuesday.

Harry Scwharz . . . 'Under-utilised land can be used to redress imbalances'.

'State intervention necessary'

Star 22/1/91 (49)

By Esmaré van der Merwe
Political Reporter

State intervention in the economy was not necessarily the long-term economic solution for South Africa, but should serve as the essential catalyst to address the destruction caused by apartheid, SACP general secretary Joe Slovo said yesterday.

Large-scale state "leadership" was the only way in which historic injustices and economic imbalances could be addressed as quickly as possible — a step which was needed to ensure stability in the country.

Mr Slovo was participating in a historic two-hour debate, organised by the Institute for a Democratic Alternative for South Africa, with Org Marais, the Deputy Minister of Finance, and Harry Schwarz, the former Democratic Party finance spokesman who will soon become South Africa's ambassador in Washington.

Mr Slovo argued that massive state intervention had put countries such as Italy and France on the road of economic recovery after World War 2.

Confronted with the argument that those countries had since reverted to market economies, he said that this had only been possible after successful State intervention.

Affirmative action to address racial imbalances would not be taken by market forces, which were primarily motivated by profit.

Acknowledging that the "liberation movements" had for years not addressed themselves to detailed economic proposals, he said state intervention could take many forms, including selective fiscal measures, nationalisation, land redistribution programmes, and joint enterprises between the State and the private sector.

The SACP's programme excluded the word "nationalisation" because the mere transfer of enterprise would not necessarily transform the economy or improve the lives of the country's workers.

Using the pending repeal of the Land Acts as an example, Mr Slovo said: "In the months after the repeal of the Land Acts, 87 percent of the land will still be in white hands."

His call for state-initiated repossession programmes, to allow blacks to take advantage of the scrapping of discriminatory laws, was supported by the chairman of Idasa's board of trustees, Dr Ntatho Motlana, who chaired the debate.

Dr Marais, twice questioned on this matter, did not directly respond. He reiterated the Government's stance that the redistribution of land should be based on the principle of private ownership.

Mr Schwarz argued that land redistribution did not necessitate the dispossession of existing white farmers. Available land resources, which were currently not being utilised, could be used for repossession schemes.

Mr Schwarz argued that fiscal measures such as taxation would sufficiently address economic imbalances.

This was echoed by Dr Marais, who said: "Through fiscal measures, we will have more money to uplift all our people."

Dr Marais conceded "market failures" in the current economy, but said the primary goal was to develop "a market economy with a better assignment of resources".

He told Mr Slovo: "You want to give politicians and civil servants the role of the markets, and that is dangerous."

Joe Slovo . . . 'Market forces will not help right historic injustices.'

'This is no Karl Marx Joe – it's mixed economy Joe'

Star 22/1/91

Political Reporter (49)

"I didn't think this would happen in my lifetime," commented Harry Schwarz as he prepared for a two-hour economic debate with a former university colleague, SACP general secretary Joe Slovo.

The self-proclaimed social democrat — like the audience, who paid R100 a head to attend — did not let any chance slip of making life difficult for the fiery socialist.

Mr Slovo's well-delivered prepared speech, in which he stressed the SACP's support for a mixed economy, did not deter the eloquent Mr Schwarz.

"There's hope for Joe. This is not a Karl Marx Joe, this is a mixed economy Joe; a different person altogether.

"The time has come to change the name of the SACP."

As the debate heated up, Mr Slovo took time off the real issues to note that Lenin himself was a proponent of a mixed economy, but South Africa's new ambassador had done his homework, and quoted from Lenin's works to prove the opposite.

Acknowledging the audience's interest in Mr Slovo's views, chairman Dr Ntatho Motlana allowed him a 20-minute introductory speech. Fellow-speakers Mr Schwarz and Deputy Finance Minister Org Marais got 10 minutes each.

Again, Mr Schwarz was quick to respond wittily: "I hope the apportionment of time is not a precursor to the apportionment of wealth."

Commenting on the value of face-to-face debate, Mr Schwarz commented that only by being brought together and allowed to hear other people's views would decision-makers find the solutions to the burning questions facing the country.

SACP secretary general Joe Slovo and SA ambassador-designate to Washington Harry Schwarz crossed swords on economic policy last night. Picture: CATHERINE ROSS

Major state role urged in redistribution of wealth

B Day 22/1/91 PATRICK BULGER (49)

SACP secretary general Joe Slovo last night called for massive state intervention to rectify imbalances in SA's distribution of wealth.

This was countered by SA's ambassador-designate to Washington Harry Schwarz who said the state was not an efficient creator of wealth.

They and Deputy Finance Minister Org Marais were taking part in a debate in Johannesburg, organised by Idasa, on the state's role in a post-apartheid economy.

Slovo said the repeal of apartheid legislation would have little meaning if it was not accompanied by state intervention. In the past this had helped the Afrikaner climb the economic ladder, he said. While steering away from hardline nationalisation policies, he called for a mixed economy.

Schwarz argued that a mixed economy was like a rabbit and horse pie — one was never sure how much rabbit and how much horse the pie contained. Instead, he called for fiscal intervention to rectify imbalances. Taxation was especially important in this regard, he said.

"You cannot redistribute wealth until it has been created," Schwarz said. He questioned what benefit the average person would derive from state ownership as opposed to private ownership of the means of production.

Marais agreed with the two men that the biggest problem facing SA was poverty. He stressed that the globalisation of the world economy ran counter to the isolation which interventionist policies would cause.

He denied that import-replacement policies had benefited only Afrikaners.

Pressed by the chairman Nthatho Motlana as to whether communities dispossessed by apartheid would be able to reclaim their land, Marais said government had a million hectares of land it wanted to distribute on a free market basis.

ANCE

SA economy well geared to set pace

B/Day 22/1/91

(49)

MARIETTE DU PLESSIS

DESPITE an international bear market, SA's economy was well geared to set the pace instead of lagging behind world developments, stockbroking firm Frankel Max Pollak and Vinderine economist Mike Brown said in the latest newsletter.

While the local economy had been in a recession for some time, it would bottom-out earlier than most other economies, Brown said.

In addition, lower interest rates and a drop in inflation should occur early, possibly pre-empting by some months similar falls in many major economies.

"The lifting of sanctions during the course of the year will also open up a fresh vista for an economy long starved of foreign capital," he said.

However, current bearish tendencies on global stockmarkets would remain for some time due to prevailing international economic uncertainties.

Over an 18-month period most markets had sustained a fall of at least one-third to 40% from their peaks to their troughs.

"Since the main equity markets over the past year have reflected an average 25% fall, the global slump should have some way to go in both depth and duration." This, the volatile Middle East situation and the fragility of financial and real estate markets in Japan and the US could cloud prospects for the local market.

Consequently, investor sentiment early in the year would be dominated by the general tone of international incertitude and while the downturn would continue, an early fall in interest rates would be muted and geared towards limiting financial damage rather than economic stimulation. But, "the potential exists for the market to shrug off the blanket of bearishness as the year progresses", he said.

"In general, it would appear that two major features have dominated the actions of investors in recent months, namely a shift towards quality stocks and a drive to increase levels of liquidity," Brown said.

He said industrial stocks were a reasonable hedge against local and foreign adversities, whereas foreign-orientated stocks and local mining shares were more exposed to deteriorating economic conditions worldwide.

Govt spending on line to meet budget

B/Day 21/1/91 (49)

GOVERNMENT spending is on target to meet budgeted expenditure with nine months of the fiscal year completed, December's Exchequer account shows.

Revenue is running slightly above budget but coming off the highs experienced earlier in the year.

Exchequer account figures released in the Government Gazette and by the Central Statistical Service (CSS) on Friday show spending from March to December amounted to 75,7% of the R72,9bn budgeted for in the current fiscal year.

Revenue amounted to 76,1% of the budgeted R64,9bn leaving the collective deficit before borrowing slightly below budget at 72,4%.

December's figures also confirm that government paid its off-budget commitments to the government pension fund (R1bn) and to the Reserve Bank for losses on the forward cover book (R3bn).

Nedbank economist Edward Osborn said earlier perceptions that an improvement in the deficit before borrowing would come from the revenue side may have been reversed and prudent spending could provide a small improvement in the deficit.

ANDREW GILL

Revenue, he said, had slid as a result of the recession.

CSS figures for April to November show that revenue was up 4,9% from the corresponding period in 1989.

This was despite 14,1% higher tax revenue.

It is apparently the result of a 63% fall to R1,56bn from R4,2bn in "other revenue". This can be ascribed to the proceeds of Iscor's privatisation, which helped boost revenue last year.

Defence

Excluding the R2,9bn proceeds from Iscor, revenue was up a strong 11,5%.

This compares with a 5,8% budgeted increase.

With three months left before the fiscal year-end, defence has still to be paid R4,2bn of its budgeted R10,07bn and February is likely to see a jump in interest payments as a result of the consolidation of government stock.

Interest is paid twice yearly and the last in August saw R2,97bn in interest paid.

The state's role as facilitator in SA's reconstruction

(49)

810 21/1/91

KEVIN DAVIE

THERE are not likely to be any whites left in South Africa soon. Nor will there be any blacks. The successful scrapping of the Population Registration Act will mean that only South Africans will be left.

Some will be more wealthy than others. Some will have more skills. These will tend to be those who formerly were white. The new economic order will need these skills and this wealth, but will also have to face the fact that these ex-whites discriminated against the ex-blacks.

Eastern Europe is dealing with the same issue: what action, if any, should be taken against the formerly privileged? Should their wealth and benefits be taken away and redistributed? What role should they play in reconstruction?

I can't speak for the whole of Eastern Europe, but I did discuss the matter with a Romanian cabinet minister a few months back. He told me that while there had been four million communists in Romania (to be in charge of 10 men you had to be a communist), it was now hardly possible to find any former communists at all.

Does this mean that in the future South Africa we will also find few who admit to having been white?

In the reconstruction of Romania it matters little what you used to be. So long as you commit yourself to the new, better order you can expect to be evaluated in terms of the contribution you can make. Former communists are in big demand as they are those with education and skills. In a mutilated economy these attributes are in short supply.

South Africa now has two camps. There are those who say that socialism has been a rotten failure in Eastern Europe; and those who say capitalism has been a dismal failure in South Africa. Most agree that reconstruction is necessary, but the camps have some way to go to decide how to do this.

The goal must be to optimise the use of resources by involving all South Africans in the process. Racial discrimination will not be allowed. But those with noble thoughts such as these have to face the fact of the unpopularity of capitalism with some and socialism with others.

We are in a fortunate position here. We do not have to re-invent the wheel. A body of economic development theory and practice can be applied relatively easily to South Africa's needs in a way that will maximise foreign and domestic confidence in the country, and free billions of rands in a redistributive programme aimed at massive upliftment. This in itself will give the economy a big push.

The programme could be called affordable affirmative action. It starts from the view that little can be achieved in a stagnant economy and never loses sight of the fact that reconstruction will be constrained by the ability of the economy to deliver.

Growth and wealth are essential to fund affirmative programmes geared to providing social services to the poor (mostly former blacks), plus bringing them into the economy after years and years of building barriers to thwart entry.

Billions will be required, meaning that if we look to state funding little will be achieved. Our state Budget (R73bn this year) can and will be squeezed to maximise social spending, but the state's resources are finite. The trick is to devise policies which will multiply the benefits from each taxpayer's rand spent.

This sounds like so much pie in the sky, but there is no shortage of examples showing how the process can work. For instance, by raising insurance guarantees of R22m, the Urban Foundation has magically been able to get commitments from banks and building societies to provide housing finance worth R3,5bn.

Government should not try to provide the R3,5bn. Its role should be to provide the R22m guarantee fund, to underwrite the risks which have kept the private sector out of this market until now. One rand can become 20, R2bn (the amount allocated for special socio-economic spending in this year's Budget) can become R40bn.

But government's facilitating role goes further. It has to systematically find and abolish barriers to market entry. A thriving minibus industry and the resilience of the urban informal sector following the scrapping of the pass laws are pertinent examples where deregulation has given the economy a big boost.

Government is busy doing this. The Group Areas Act will go shortly, as will the land Acts. It is also investigating housing reform, the idea being to reduce its role to that of facilitator and provider of infrastructure. Proposals by the Development Bank which would revolutionise the housing process are under consideration. These stress that in the main the individual and the private sector have the responsibility for providing shelter. The state's main role shifts from funder to facilitator.

The private sector is keen to play its role, so long as government guarantees or bridging finance makes the investment risk acceptable. The life and pension industry, for instance, is looking at a capital market scheme which could make billions of rands available for housing finance. Institutions would invest in housing stock in much the same way that Eskom, government or Post Office stock is traded today on the capital market. A housing trust would manage the stock and make loans to home buyers, and use taxpayers' funds as a kind of insurance fund should shortfalls occur.

Many other examples of how this process can work, in areas such as land, agriculture, health and employment, abound in the development strategies of bodies such as the World Bank. The thrust tends to be the same: with the best will in the world, governments cannot fund the needs of burgeoning populations in developing countries. These attempts can end only in the whole economy being dragged down, creating a no-win situation for everyone.

The process or policy outlined above would need a name. Those whose predilections favour capitalism might opt for social market. Others might prefer market socialism.

But whatever the name, it would be built on two pillars — a free market and a social commitment to providing a place in the sun for everyone. There should be no state intervention in the market, save where the market falls short and does not reach, for instance, the poor and the unemployed. Here the facilitating state engineers schemes to encourage private sector initiatives to reach further.

There comes a point, of course, where the private sector will not and cannot provide, and where the state will need to intervene directly in the form of safety nets, including subsidies, pensions, food rations and other welfare programmes.

The social market policy outlined here could go a long way towards reconciling conflicting demands and pushing the economy into a massive growth phase. However it requires people to think ahead — not as whites and blacks, but as South Africans.

Slovo, Schwarz do battle on economy

Star 19/1/91

POLITICAL REPORTER

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THE general secretary of the South African Communist Party, Joe Slovo, is to meet two leading proponents of free enterprise during a public debate on the economy on Monday.

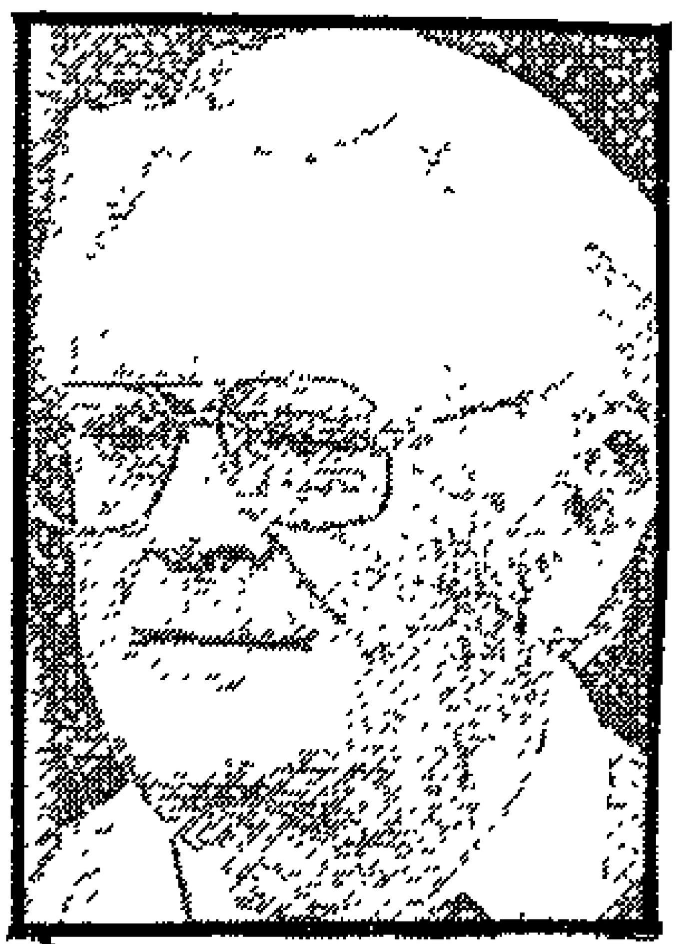
Mr Slovo, in his first public debate on the South African economy in years, will cross swords with the Democratic Party's Harry Schwarz and the Deputy Minister of Finance, Dr Org Marais.

The organisers of the debate, the Institute for a Democratic Alternative for South Africa (Idasa), will capitalise on the event: those interested in attending the signifant occasion will have to fork out R100 each.

In a statement, Idasa said the occasion would be a "reunion" for Mr Slovo and Mr Schwarz, who will take up his position as South Africa's ambassador to the United States in February. The two men attended Wits University at the same time and practised together at the Johannesburg Bar before going their different ways.

The topic of the two-hour debate, to start at 5.30 pm at the Carlton Hotel, is "The role of the state in the post-apartheid economy". The debate will be chaired by Soweto community leader Dr Ntatho Motlana, who is the chairman of Idasa's board of trustees.

HARRY SCHWARZ



JOE SLOVO

Sowetan 18/1/91

Slovo, Schwarz to clash in debate

THE general secretary of the South African Communist Party, Joe Slovo, will feature in what has been dubbed "The Economic Debate of the Year" scheduled for the Carlton Hotel on Monday at 7pm.

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Organised by the Independent Democratic Alternative South Africa (Idasa), the debate will see Slovo, Harry Schwarz, finance spokesman of the Democratic Party and Mr Org Marais, deputy minister of Finance, give their diverse views on the theme "The role of the state in the post-apartheid economy".

Slovo, a dedicated Marxist, is on record having said that the State in post-apartheid economy will take ownership stakes in some industrial and financial groups. These can be of varying types, including full nationalisation, he had said.

Schwarz is ambassador designate to the USA. His views are known for a market-orientated economic system.

Major poverty probe launched

B Day 16/1/91

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KEVIN DAVIE

GOVERNMENT has begun a major inquiry into poverty which could have substantial policy implications, possibly as soon as in the next Budget.

In September Cabinet briefed a committee headed by the Finance Department's Estian Calitz to produce a policy position on poverty. While the full report will be completed only by April 1992, interim findings could be implemented in this year's Budget, said an informed source.

More social spending is likely, while spending on capital projects will be cut back.

It is understood that the committee will use the World Bank's worldwide poverty alleviation programmes as basic material, and in particular its World Development Report on Poverty, published last year.

Staffers of the bank, the world's primary development agency, are expected to begin researching SA's economy this year. This will be the first involvement of the bank with SA since the mid-60s.

Government's inquiry is likely to use the World Development Report guidelines, but modify these for application to the local situation.

The essential features of the World Bank approach, as outlined in the World Development Report, are that macro-economic policy must be growth orientated, that programmes should be aimed at job creation, and that there should be balanced spending on social services.

"The World Development Report provides a useful blueprint, but will have to be modified to meet the needs of SA's diverse population," the source said.

The World Bank report said rapid and politically sustainable growth has been achieved by a strategy which promotes the use of the poor's most productive asset, their labour. A second phase is to provide basic health care, family planning, nutrition and primary education.

The report also emphasises expansion of agriculture as a key to poverty-reducing growth in rural areas.

Poverty in SA has been an area of neglect by the authorities. Signs that this was to change emerged in the last Budget. Finance Minister Barend du Plessis said the economy had to be restructured to raise the standards of all South Africans and R2bn was allocated to help remove socio-economic backlogs.

The ANC has put poverty alleviation high on its agenda and its economic policy document produced in Harare says satisfying basic needs by growth through redistribution is essential. The document identifies the Budget as a major instrument for achieving this goal.

● See Page 6

Stals cools hopes of interest rate drop

BDay 16/1/91.

(49)

ANDREW GILL

ALTHOUGH the rate of economic growth will remain relatively low, SA should make it through 1991 with relative ease despite possible inflationary and balance of payments pressures, Reserve Bank Governor Chris Stals said yesterday.

SA should, however, not expect any major relief in the form of interest rate cuts, he said in an interview.

The Bank would continue with its relatively restrictive monetary policy this year and "would not create more money to add support for more loanable funds".

While the "intermediate" variables had generally fallen into place, lower inflation was still the ultimate objective and until that happened monetary policy had not really achieved its objectives, Stals said.

The intermediate variables were lower money supply growth, higher reserves and a slowing in demand for bank credit. These would remain in place until the objective of declining inflation had been attained.

Inflation, which is expected to decline in December and January as a result of petrol price decreases, is now under upward pressure because of Gulf war fears and higher oil prices.

The uncertainty over the Gulf crisis made it difficult to make forecasts with any certainty, he said.

What was needed in the long term was a stable financial system that could realise sustainable economic growth and a drop in interest rates now could contribute to inflation but not to growth, he said.

"If necessary we will pro-actively intervene (in the money markets) to avoid monetary expansion," he said.

On the balance of payments (BoP) he said 1990 was likely to reflect a comfortable R5bn surplus on the current account. However, in 1991 the surplus was likely to

☐ To Page 2

Stals

BDay 16/1/91.

(49)

☐ From Page 1

dwindle significantly and could decline to about half this amount.

The Gulf crisis may not have as major an effect on SA as other countries, he said. Neutralising factors on the BoP like higher gold and base metal prices may come into play, he said.

SA should have modest expectations for exports in 1991, but the outlook for the BoP should not be too pessimistic because the situation would be manageable, he said.

The Bank has unutilised overseas credit facilities of about R3bn which could be used if neccessary, he said.

Debt repayments this year were unlikely to pose major problems with an official $1,6bn to be repaid this year compared with 1990's $2,5bn. Of this a large proportion could be rolled over, he said.

Analysts had predicted a cut in Bank rate early in the year because underlying trends seemed to be pointing towards it, Stals said, but this was deferred largely because of a kink in the statistics over the past six weeks which had all shown signs contrary to their trends.

Money supply growth kicked up from just above 10% to above 12%, reserves dropped by over R480m, consumer inflation increased to 15,3% from 14%, producer inflation was higher and so was bank credit.

He said there was more reluctance to change policy in this situation. The Bank would wait for a return to the underlying trends before making any decision.

● Picture: Page 3

Another year of consolidation

Star 15/1/91

(49)

OUTLOOK '91

The present downturn in the South African economy has already lasted about 21 months and indications are that this state of affairs will continue in 1991.

It is therefore clear that although the present downswing is not as severe as the 1984-86 recession (which lasted 21 months), it will definitely be more prolonged. This expected course of events in 1991 will be reflected as follows by the major expenditure components:

- Real private consumption expenditure will show only a small increase compared with that of 1990.
- Strict control will help government expenditure to increase only moderately. (However, the emphasis of expenditure will continue to shift to items such as education, training, housing and health services.)
- The decline in the total demand for goods and services will have a further negative effect on real fixed capital formation, particularly by the private sector.

I also foresee further drops in capital expenditure by the general government.

Real Investment

With regard to the public corporations, I do not think the sharp increases in real investment of the past two years will be repeated in 1991.

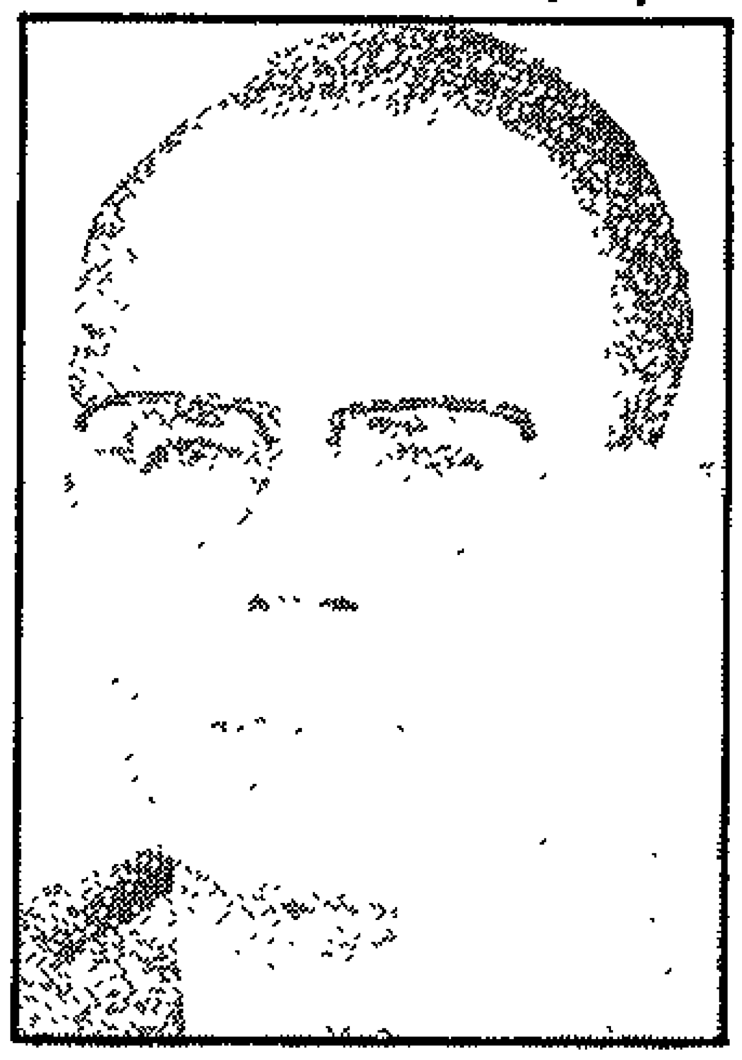
The depletion of real inventories will continue as the downturn in the economy intensifies and the production of new goods declines further.

I expect the present more sluggish growth trend in economic activity to continue and even intensify in the months ahead. A moderate relaxation of monetary and fiscal policy can be expected during the first quarter of 1991.

All in all, I estimate that the total real gross domestic expenditure on goods and services in 1991 will exceed that of 1990 by about 0,2 percent only.

A marginal improvement in our net foreign trade is expected — exports will increase slightly while imports will be slightly lower than in 1990 — which will contribute to a modest positive growth rate of less than one percent in total real gross domestic product.

If the growth in the population is taken into account, it appears that the real gross domestic product per capita will decline for the third consecutive year.



By J T Louw, chief economist, Sanlam

The prospect of little real economic growth in 1991 does not augur well for employment. This situation could be complicated further by the undisciplined action of workers on the labour front.

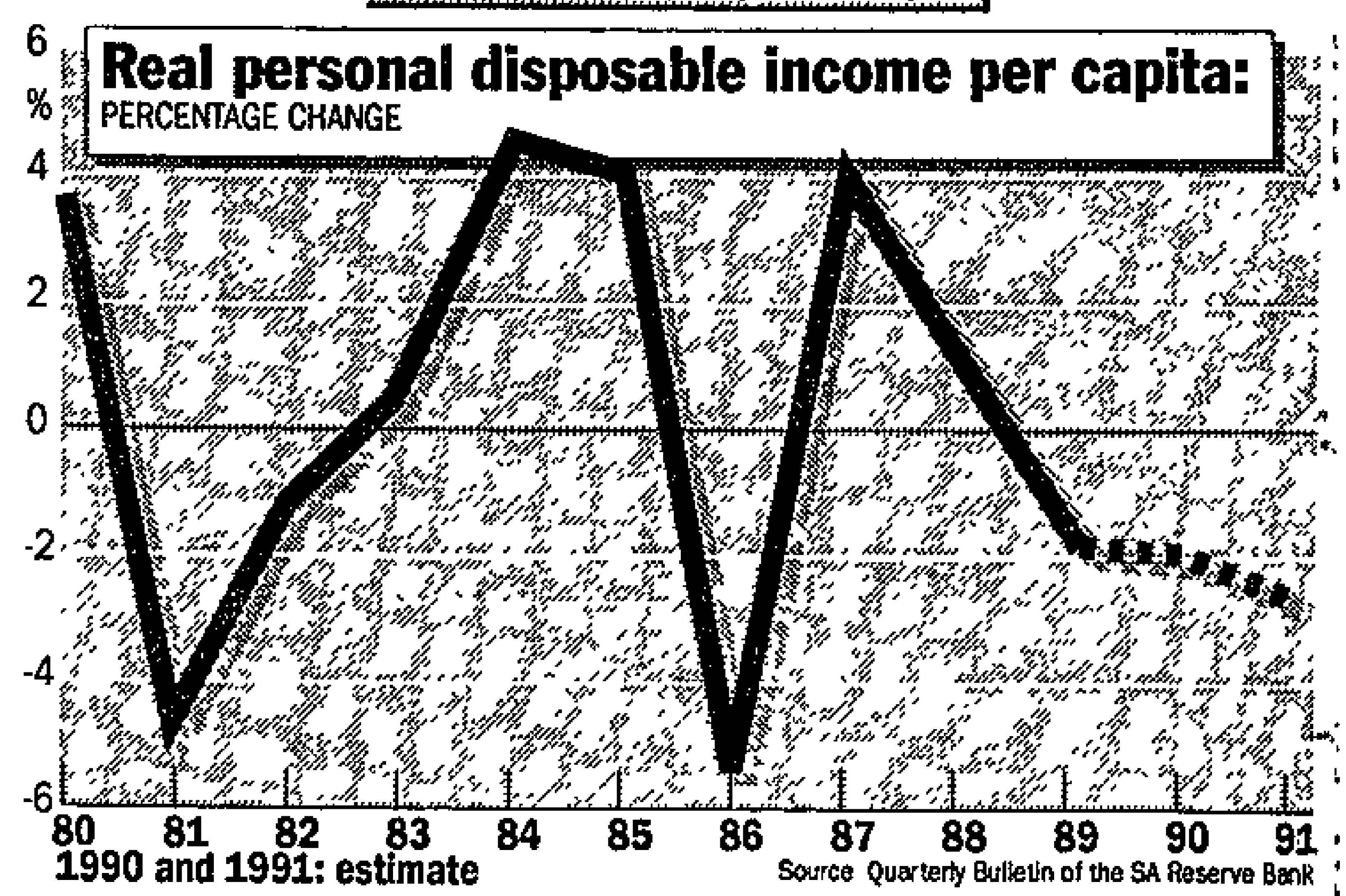
An aggravating problem is the ever-increasing gap between people who have jobs (and whose wages increased sharply by means of collective bargaining over the past decade or so) and those who are unemployed.

It is therefore clear that jobs will remain scarce in the new year and that further retrenchments can be expected.

In view of the poor economic condition and the accompanying ample supply of workers foreseen on the labour market, I expect wage and salary increases to be considerably lower in 1991 than in the previous two years.

I estimate that the average remuneration per worker outside the agricultural sector will increase by about 13 percent in 1991, compared wih an estimated increase of 15 percent in 1990 and nearly 17 percent in 1989.

With due allowance for an es timated inflation rate of about 13 percent, this implies that workers' real remuneration will show no growth next year — a development which businessmen will have to take into account.



If it is furthermore borne in mind that only limited tax relief can be expected from the budget in March, it is clear that the financial position of consumers will remain under severe pressure in 1991.

Fortunately, in view of the considerably slower growth rate in the money supply and the decrease in the demand for money there is a good chance that the bank rate (the rate at which the Reserve Bank rediscounts Treasury bills) will be reduced in the first quarter of 1991 — most probably by one percentage point — and that the prime overdraft rate of banks will be adjusted from 21 percent to 20 percent.

However, several factors will have a curbing effect on further interest rate reductions.

Inflation rate

In this regard it could be mentioned particularly that the inflation rate is still much too high (I estimate the average increase in the consumer price index to be about 13 percent in 1991 as against 14,3 percent in 1990, which compares most unfavourably with that of our principal trading partners and competitors) and that private consumer expenditure is still fairly buoyant.

The current account of the balance of payments — which reflected an estimated surplus of about R5 000 million in 1990 — could also come under pressure should the drought conditions intensify and war breaks out in the Middle East.

Together with the improvement on the capital account of the balance of payments, the net foreign reserves are nevertheless expected to increase. I therefore believe that the weighted exchange rate of the rand will also be fairly stable in 1991.

Indications are therefore that monetary policy in the months ahead will still be fairly tight and that interest rates will remain at high levels. I do not envisage the prime overdraft rate of banks being much lower than 18 percent by the end of 1991.

All in all, it is therefore clear that consumers' spending ability will be rather limited in 1991.

Against this background, commercial and industrial companies can likewise expect continuing difficult business conditions in the year ahead. A significant improvement in business conditions before the end of 1991 seems unlikely.

Suppliers of motor cars will fare badly, but companies supplying furniture and household appliances will benefit from the lower interest rates and the increased buying power of the lower income groups.

Companies in the building and construction industry could experience sustained unfavourable business conditions.

In brief, this year will be another year of consolidation for the economy — the last, it is to be hoped, before a period of more rapid growth in the Nineties.

Lots of new lids taken off ANC economic thinking

Star 14/1/91

(49)

BOOK OF THE WEEK

McGregor's Economic Alternatives by Bobby Godsell, Laurence Harris, Azar Jammine, Leon Louw and Robin McGregor. (Juta and Co Ltd)
Reviewed by MICHAEL CHESTER

NEW disclosures about the radical economic policies being explored by the African National Congress to steer South Africa into a post-apartheid era, if it ever secures political control, look certain to increase the tempo of the political indaba.

So far, much of the debate has revolved around the issue of nationalisation — even the mention of which causes Big Business to trundle its cannons into battle readiness, which the ANC then counters with a smokescreen of various hypotheses.

Now, however, Professor Laurence Harris, head of a special think-tank inside the ANC Department of Economics called Erosa (Economic Research on South Africa), has delivered much more munchier pieces of ANC policy to chew on.

Professor Harris, from the School of Oriental and African Studies at the University of London, who has assisted the ANC to shape its economic policies, takes a lot of new lids off ANC thinking in this book.

He makes plain that nationalisation is still very much on the agenda, as a significant element in economic strategy — even though, he concedes, the issue is riddled with problems.

He discusses a number of possible targets, but while he grumbles about the role of Anglo American, the mining giants as a whole, conglomerates in general and banks in particular, he insists that the ANC has so far compiled no real "hit list" inside the private sector.

But he makes it equally plain that any major State corporations handed over to privatisation by the present Government will go back into the nationalisation slammer if the ANC has its way.

Though there is stress on ANC commitment to a "mixed economy", its interpretation runs far wide of what the SA Chamber of Business, for example, may have in mind.

The business world, it becomes obvious, can expect a whole package of directives from the State on how to run its affairs to ensure new investments. Production patterns all pursue the goals set for the transformation of society.

What will cause a new furore, too, especially inside the private business sector and among those in top income brackets, are the revelations from Professor Harris about what the ANC may have in store for taxpayers and financial markets.

Urgent priority would be given to even tighter exchange controls and a closing of any loopholes to call a halt to flights of capital.

Next in line: intervention in the credit and capital markets — with a swift reversal of all the deregulation trends in banking and finance seen over the past decade.

"The plans for regulation of the markets," says the professor, "are based on the firm belief that South Africa's credit and capital markets — left to themselves — will not generate the high levels of investment in productive capacity needed for transforming the economy".

All that would go hand in hand with the reintroduction of prescribed investment regulations.

"Financial institutions will be required to hold specified proportions of their assets in securities issued to finance specific programmes such as low-cost housing and programmes for public expenditure on infrastructure.

"In allocating credit to private borrowers, banks and other lenders will be obliged to give priority to certain types of borrower ... favourable interest rates will be specified for certain types of loan."

The JSE: "To conform with the ANC's views on transforming the economy," says Professor Harris, "the stock market would be a regulated market oriented more to dealing with State financial instruments and Government-backed securities."

In turn, he reasons, policy towards the financial markets is connected with ANC policy on conglomerates. Policies to divide them into separate entities, via some form of anti-trust policy, are on the ANC's agenda, with a pledge that strategies will be much different from the approaches taken so far by the Competition Board, which he considers "quite ineffectual".

Taxation? There is the promise — or threat, depending on where one stands — to raise the taxation on companies and individuals. ("The tax breaks the rich used to enjoy such as the favourable treatment of capital gains would be permanently closed.")

There will be few arguments with Professor Harris about the determination to reach such basic goals as "a new South Africa where democratic rule goes hand in hand with measures to correct the injustices inflicted by apartheid on people's living standards, employment, health, education, housing".

It is the route selected by the ANC economic think-tank, with massive State intervention, that is bound to raise the temperature of the political debate.

However, "Economic Alternatives" also contains a series of far different options — spelt out in sections devoted to such gurus as Dr Azar Jammine, director of the Econometrix think-tank, and by Leon Louw, executive director of the Free Market Foundation.

There are also fascinating sections written by Bobby Godsell, director of industrial relations and public affairs at the Anglo American Corporation, and Robin ("Who Owns Whom") McGregor.

"Economic Alternatives" may not exhaust all the options open to South Africa, but it is bound to make an invaluable contribution to the debate. □

Don't follow the r

DAVID CARTE warns that the economic wheels must keep turning freely while constitutional options are debated

..K ye first the political king-" said Ghana's president ..e Nkrumah, the first black .. to attain uhuru for his ..ry.

.. Nkrumah's advice has been ..wed by virtually every Afri- .. liberation organisation of the .. 40 years down to the African ..ional Congress today.

..e results of placing political ..orities ahead of economic ones ..e been disastrous. With the ..ing exceptions of Botswana, .. Ivory Coast and, until recent- .. Malawi, most African coun- ..ies have retrogressed ..armingly since independence. ..eir poverty seems insoluble.

Citing the World Bank, the ..nk of Lisbon reports this week ..at sub-Saharan Africa's debt ..s grown from $6-billion in 1970 .. $136-billion * at the end of 1988. .. Africa's debt came to 350 percent of its annual exports. Interest obligations on this debt — not fully met — were 50 percent of total exports.

Plight

The Bank of Lisbon says Africa's plight is "due largely to government actions", particularly the accumulation of external debt to finance dubious development projects.

It adds that African countries can reduce their foreign debt burdens by increasing their domestic savings to finance capital projects ... "by encouraging private savings and reducing budget deficits ... and maintaining positive real interest rates."

The bank contends that countries which fail to furnish "effective economic incentives" suffer economically.

Its formula for success is very much that of the present SA authorities: "To keep exchange rates competitive, avoid excessive protection of manufacturing and underpricing of agricultural goods, maintain positive interest rates and avoid high inflation and to conform to market oriented principles."

South Africa's economic statistics are better than those of sub-Saharan Africa. Per capita income is still among the highest in the region.

In 1985 when the debt standstill started, total foreign debt of $24-billion was 50 percent of GDP and interest payments were 13 percent of exports. By 1989 total debt of $20,6-billion was 23 percent of gross domestic product and interest on foreign debt absorbed only 7 percent of GDP.

Still, with the ANC pushing determinedly in the direction of other post-uhuru economies, there is no room for complacency.

Every day more babies are being born. More young people are looking for jobs and not finding them. Hunger, poverty and anger intensify, to nobody's comfort.

Conferences about conferences about constitutions are all very well but you can't eat them.

SA has under-performed in the past decade in spite of relatively high gold and commodity prices.

Lucky

Growth from 1945-1960 averaged 4,4 percent a year. From 1960-1973 it averaged 5,3 percent a year. Notwithstanding record gold prices, GDP from 1973-1980 grew at only 3,2 percent a year. From 1980-1989, growth slowed further to 1,6 percent a year.

Worse, after growing at more than 2 percent a year since the Second World War, per capita GDP growth declined at 1 percent a year in the 1980s.

In 1990 SA recorded virtually zero economic growth. With gold and other commodity prices down, tight fiscal and monetary policy in place and a poor agricultural season in prospect, we will be lucky to grow at all this year. SA needs a growth rate of 2,8 percent a year to provide enough jobs for all new entrants to the workforce. About 860 000 job opportunities were lost from 1981-1987 because real job creation grew at only 1 percent a year. Some estimates of unemployment today run as high as 40 percent.

It is not hard to find reasons. Apart from economic restraint, imposed largely because of financial and other sanctions, labour has become more expensive and troublesome than machinery.

Unit costs of labour increased sixfold from 1981-1988, while in the same period in Britain, France, Italy, Germany and the Netherlands, the cost was nearly static.

Financial sanctions reduced economic growth in 1988 from a possible 8 percent to 5 percent, in 1989 from a possible 5 percent to 2 percent and in 1990 from a possible 3 percent to zero.

That represented lost production of goods and services totalling something like R30-billion or R1 000 per man woman and child during those three years. Meanwhile, the population grew by 7 percent.

Whatever politicians say or do, a harsh fundamental rule of economics remains in play — in the long run a society can consume only what it produces. Production is at the heart of economic progress. Politicians talk about money but money is not what matters. Goods and services do.

For years socialists have held that profit is the residue left over from production after the capitalist has paid his exploited labour.

They have tended to assume that production takes place automatically. It doesn't. It takes place either in pursuit of profit or by diktat. The world has discovered that under duress or government order, production takes place inefficiently and reluctantly, if at all, but that has yet to dawn on the ANC.

Brink

While we in SA and in the West complain and argue among ourselves, the Japanese, the Taiwanese and the South Koreans are beavering away, producing, goods and services for themselves and the whole world.

Orientals too have their political differences but the successful ones have learnt not to let them get in the way of economic progress.

Having been to the brink of starvation on numerous occasions, our Asian competitors have their priorities right — produce first, argue later.

For decades Western countries have quarrelled about how the cake should be cut instead of how to increase its size. And we are doing the same thing.

Newly rich Orientals realise that in international economics there is competition and you can't beat ..
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St Times 13/1/91

49

For decades Western countries have quarrelled about how the cake should be cut instead of how to increase its size. And we are doing the same thing ,

a team that stands together. iem against the rest of the Fractious, argumentative es get left behind.

results of Oriental induscss and cohesion have vesome. There is hardly a lue-added consumer marie world that the Japanese dominate — and their are catching up fast.

South Africans step up ion and thus income and while they settle their differences? Can they Third World sector agging the First World the Third World?

All the political playin favour of greater all. They just have dif- on how to achieve it. vernment at the 11th 42-year reign has opted for free-market, supply-side economics while the ANC still favours statism. But they do have economic goals in common. They both wish to reduce inequality, eliminate poverty, make the economy less import-dependent, reduce reliance on raw material exports and increase the export of industrial goods.

The government has social democratic inclinations. It already is taxing the rich to redistribute to the poor. The difference in this area is largely one of degree.

The government wants to expand its make-work programmes along New Deal lines. It is trying to improve education, housing and black welfare generally. The gulf in intentions is not so vast that we cannot proceed economically. The biggest rifts at the moment are over the questions of nationalisation and sanctions, both advocated by the ANC and rejected by the government.

The ANC seems to be realising that the time has come to drop its call for sanctions. The challenge today is to establish peace between the ANC, Inkatha and the government, which will give us a stable economy against which to discuss constitutional options.

If foreigners see that SA is stabilising, investment funds will flow back, particularly if the three mainstream political players are seen to be co-operating.

Respond

First prize would be for President F W De Klerk, Nelson Mandela and Mangosuthu Buthelezi to join hands and appeal for world economic co-operation and help. The world would respond.

We have too much that they want and they have too much that we want for them to ignore us and nowhere would \$2- or \$3-billion do more to uplift more people.

If we seek the economic kingdom and achieve the growth of 10 percent a year that is possible on the high road in a sanctions-free environment, we'll double our wealth every eight years and the political kingdom will pretty well look after itself.

* *The dollar traded at R2,58 this week.*

How to match up supply and demand in a new economy

B/Day 11/1/91 (49)

GRETA STEYN examines the similarities and differences between the economic policies of the main political actors in the final of four articles examining the dismantling of apartheid.

THE debate on SA's future economy has thrown up so many "non-negotiable" issues that the casual observer might be forgiven for believing accord is impossible.

But this approach ignores important points of agreement between government and the ANC, the two principal protagonists, as well as areas where the apparent differences are limited only to nuance.

One fact of SA's economy has been hammered home by both sides in the debate — the country's wealth distribution is among the most uneven in the world, as is clear from a comparison of Gini coefficients, a widely used measure of inequality. The higher the Gini coefficient, the more uneven is the wealth distribution — the rich are very rich and the poor are very poor. SA's Gini coefficient of more than 0,6 seems high when compared with an average of about 0,4 for industrial and about 0,5 for other developing countries.

Last year Sacob found only 5% of blacks fell into the "top" annual income group of R16 000 or more while more than 80% of whites found themselves in this category. Only 2% of whites were in the lowest category of R2 999 or less compared with almost 40% of blacks. Sacob also found that up to 40% of the labour force could not find work in the formal economy.

Wealth disparities are underscored by ANC economist Tito Mboweni who points out that more than half of the population has to live on an income that is insufficient to maintain families at a minimum subsistence level. He adds that 81% of households in the "bantustans" are living in "absolute poverty". In urban areas, the housing backlog means 16 inhabitants per home.

Sacob reckoned that government needed to spend about R52bn in any fiscal year on housing, education, health and social pensions, or 80% of the current Budget, to bring about equality in per capita government spending on the different races. Spending on these items amounts to about 32% of the current Budget.

There are reams of figures that illustrate the heritage of poverty, inequality and stagnation after four decades of apartheid government. How will SA achieve rapid and sustained economic growth, and a society with a less uneven wealth distribution?

Government and most of the "free market" participants in the debate argue for redistribution through growth. Wealth, it is believed, will trickle down to the poorer sections of the community. They see redistribution as a "spinoff" of the creation of new wealth. Simply put, economic growth in a free market system will see the poor's incomes rise at a faster rate than those of the rich.

Opponents on the left argue for drastic redistribution of existing wealth. In their view, the creation of new wealth (growth) is a spinoff of redistribution, and not the other way around. They see a "virtuous circle" in which wealth is redistributed to create new wealth to be redistributed again.

The emphasis on both sides is on growth. Government's growth strategy, engineered by Economic Co-Ordination Minister Wim de Villiers, is essentially an export-led expansion path. De Villiers focuses on the comparative advantage inherent in SA's agriculture, minerals and base metals which should permit us to add value through greater beneficiation before export. One of his main concerns is that 88% of SA's exports are in raw or semiprocessed materials. This figure is up from 70% in 1960. "We are exporting our employment opportunities," he says.

Finance director-general Gerhard Croeser says greater beneficiation of SA's mineral resources is "a starter mechanism", vital if SA is to stop "exporting employment."

Another feature of De Villiers's growth strategy is improving the productivity of both capital and labour through incentives for industrial companies that work extra shifts.

The focus is on the supply side — on improving the productive capacity of sectors in which SA has a comparative advantage.

By contrast, the ANC's focus is on the demand side — on redistributing purchasing power to stimulate demand for domestic manufactured goods and services. In other words, greater spending power in the hands of the masses will generate growth.

"The engine of growth in the economy . . . should be the growing satisfaction of the basic needs of the impoverished and deprived majority of our people," the ANC said in its October 1990 draft policy document.

ANC leader Walter Sisulu earlier last year spoke of "unquenchable expectations" that had to be satisfied "now" — including free and equal education for all, the extension "to all our people" of social security, medical facilities and unemployment benefits and a living wage.

The October document said the focus would be on "programmes and policies" that increased social infrastructure and basic consumer products. The document seems deliberately vague but it appears to suggest a public works programme, such as mass home building.

Mboweni wants to see a "virtuous circle": redistribution of income will provide the means for mass consumption, which, in turn, will spur growth in the labour-intensive manufacturing sector. The advantage of stimulating consumption among the poorer sections of the community, Mboweni says, is that it is not import-intensive.

He also notes the redistribution of housing and infrastructural expenditures as a factor contributing to heightened accumulation of wealth. "Deconglomeration", restructuring of the financial and capital markets, taxation and state intervention are means through which redistribution could be achieved.

The ANC sees an important role for the private sector in a mixed economy. Mboweni describes the ANC's position towards business as "one of the less controversial".

The major difference between government and the ANC's growth strategies is that the present government has ostensibly rejected Keynesian "demand management" while the ANC's redistribution policies are aimed at stimulating consumer demand. But closer scrutiny of government's fiscal strategy reveals strong elements of demand-oriented growth policies. The allocation of R2bn in extra-budgetary expenditures to Jan Steyn's Independent Development Trust (IDT) is one example, as is an extra R1bn allocated for urbanisation.

Croeser noted government was moving closer to a "social market economy", even if reluctant to increase deficit spending. There is a clear recognition that growth in a market economy alone is not enough: "We cannot simply await the results of a trickle-down process."

Of importance were the provision of government transfers and safety nets to the poverty stricken. He admitted that "SA does not shape well when it comes to safety nets. . . . The whole question of poverty is being urgently studied by government."

He also noted a "virtuous spiral" similar to the one posited by Mboweni: urbanisation sparks a strong demand for housing and mass-produced basic consumer products, in the course of which the creation of jobs and incomes gathers momentum in a "virtuous spiral" of incomes, demand and employment.

Like Mboweni, he notes the low import propensity and the high labour intensity of the process. The IDT and similar funds, including an increasing share of funds from government itself, will provide strong impetus to the process.

Croeser quoted Joe Slovo to illustrate that some common ground had been reached: "Growth without redistribution is meaningless. Equally, redistribution without growth is not a sustainable policy."

The by-product of change is a bulkier bureaucracy

(49) BDay 10/1/91.

A future SA will probably need a larger, rather than a more streamlined, public service, reports EDYTH BULBRING in the third of four articles examining aspects of the dismantling of apartheid.

SA's bureaucracy, grown flabby on the back of separate development, is likely to burgeon in the new SA, despite initial trimmings of the apartheid apparatus.

Critics of apartheid have pointed to the economic resources the policy consumes — resources which could instead be used to reconstruct SA along nonracial lines.

However, the initial savings of these cuts could soon be negated in staffing a bureaucracy to administer equalisation programmes under a new dispensation.

The DP's former finance spokesman Harry Schwarz, soon to become ambassador in Washington, says that while it cannot be doubted that savings will be achieved in ridding SA of the apartheid apparatus, bureaucracy is likely to grow under a programme of equalisation in a new SA.

It is also likely that a policy of decentralising administrative functions to several economic regions — a policy government favours — would lead to a bigger bureaucracy.

Commission for Administration chairman Piet van der Merwe said last April that 7% of the economically active population was employed in state departments, provincial administrations and government trade establishments.

Between 1980 and 1988, employment in central government increased 57% from 325 000 to 511 000.

UCT sociology professor Mike Savage says the direct cost of apartheid is most clearly seen by examining state expenditure on the large apparatus required to implement and enforce apartheid programmes.

He points to the costs of supporting 10 bantustan governments providing duplicated services in such areas as health and education; of supporting a bureacracy administering apartheid laws, and paying different police and defence forces and other civil servants in the independent homelands.

Savage estimates that direct state expenditure to finance the apartheid machinery in the 1985/86 financial year was 10%-21% of the Budget.

Schwarz uses education as a prime example of the cost of apartheid. Under the present dispensation, education management and administration entails large-scale duplication of structures and functions.

Including the TBVC states, there are 18 departments and 15 Ministers of education. But Schwarz says it would be foolish to assume that there would be only one education department in a new SA.

"Regionalisation" is likely to be a very real factor in a new dispensation, and whether it applies to education or health, nonracial regional administrations are a likely scenario. "Decentralisation costs a lot of money," he says.

With the implementation of a higher level of education and improved facilities, it is likely the drop-out rate among black children would decrease, leading to the need for more teachers and bureaucrats to administer a larger education apparatus.

The same applies to pensions. To achieve parity in old age pensions would cost an extra R2bn-R3bn a year on the present expenditure of R3,8bn, and the number of old age pensioners would probably grow with increased life expectancy among blacks through the improvement in living and welfare services. This would therefore increase the bureacratic apparatus needed.

Schwarz doubts the scrapping of apartheid administrative structures would bring substantial savings.

With the scrapping of the Group Areas Act, for instance, affected bureaucrats are likely to be absorbed into other departments, as happened with the scrapping of the development boards.

Scrapping the four defence forces in the TBVC states and the 10 homelands police departments would also not result in significant savings. Personnel would probably be absorbed into the SAP and SADF. This presumes there would be a single police force and not regional police forces, he says.

A senior government official estimates that scrapping the apartheid apparatus would bring a saving of R1bn at most, but that this would be a short-term saving. Attempts to equalise historic inequalities would definitely result in larger bureaucracies, he says.

Government favours a decentralised dispensation with a small central government. For example, in education there could be one education department at central government level deciding on broad policy, curriculums and standards, while there might be nine executive structures in nine economic regions.

Combining the three examination departments into one nonracial department would still require the same number of people to mark and administer the scripts, he says.

While government is looking at a regional solution to provide more cost-effective and efficient service, an increase in bureaucratic structures is a big possibility. There is no doubt that getting rid of apartheid would cut out a large number of directors-general and about 150 political decision-makers, he says. But trimming personnel could prove expensive in retrenchment packages unless employees were absorbed into other departments.

The official also points to the dangers of a new government being responsible to a large constituency, with resultant "buy-offs" through jobs and top positions.

The scrapping of one of the more obvious signs of apartheid — the six self-governing homelands and the four TBVC states — would also not provide significant savings.

It is true that the six homelands have 57 separate government departments, each headed by a director-general and its own administrative structure. Incorporating them into a single government could provide an initial saving, but it might still be necessary to use the bureaucrats in a regional administration.

While critics have correctly pointed to the waste of money and human resources in the apartheid system, not to mention the cost in human dignity and lives it has entailed, it is unlikely that any future dispensation will provide a "quick fix" in the form of a leaner, more efficient and cost-effective nonracial bureaucracy.

'US must support free market in SA'

Star 10/1/91 49

By David Braun
Star Bureau

WASHINGTON — With apartheid's collapse near, Washington should help strengthen a free market economy in South Africa by repealing financial and economic sanctions, a leading US conservative pressure group has advocated.

According to Michael Johns, policy analyst with The Heri tage Foundation, the most significant challenge for the US no longer is convincing South Africa's leadership to scrap apartheid.

Rather, the challenge now must be to ensure that apartheid is replaced with a political and economic system that respects the fundamental liberties of all South Africans.

In a paper released in Washington this week, Mr Johns said the US should be concerned about the political system that could emerge in a post-apartheid South Africa.

A future South African Government could be tempted to withhold supplies of vital minerals to the US and it would also control one of the world's most important waterways, the sea route round the Cape of Good Hope.

Mr Johns also warned that South Africa's nuclear programme could continue to develop under a post-apartheid government, and that the country could eventually possess an intermediate-range nuclear capability.

Influence

The US had lost much diplomatic and economic influence in South Africa in the past five years.

To regain this influence and to help ensure a peaceful transition to freedom and democracy, he suggested the Bush administration should:

- State that the goal of US policy in South Africa was a non-racial democratic society that protected the individual rights and economic freedoms of all South Africans.
- Financially assist anti-apartheid organisations that supported democratic, free market ideals.
- Immediately lift economic and financial sanctions against South Africa once the conditions of the Comprehensive Anti-Apartheid Act (CAAA) were met.
- Grant South African commercial aircraft permission to land at American airports.
- Withhold American financial assistance to the ANC or its front groups until it terminated its alliance with the SA Communist Party.
- Invite anti-apartheid leader Mangosuthu Buthelezi to Washington to meet with George Bush, administration officials, and members of Congress.

Determining the hidden costs of undoing apartheid

B Day 8/1/91 (49)

Replacing apartheid with a more broadly acceptable political economy will be complex and expensive. BILLY PADDOCK reports in this, the first of four articles examining the issues.

GOVERNMENT and its negotiating partners face a complicated and expensive task in dismantling apartheid and removing obstacles to constitutional negotiations while showing their constituents the process is working.

President F W de Klerk has said the Group Areas Act will be repealed this year along with the Land Acts. The repeal of both will go a long way to removing obstacles to negotiations and speeding the lifting of sanctions. But it appears neither De Klerk nor anyone else in his government has started seriously considering what the cost of dismantling apartheid will be, nor where the funds are going to be found.

Political success in SA is to a large extent dependent on economic success, with black people needing to see real changes and rewards coming their way if they are to be convinced to support their leaders.

Getting there is another matter. Just last week the Civics Association of Southern Transvaal (Cast) said at a Press conference that the process so far had not materially affected the lives of black South Africans and there was no reason for them to hold out much hope from the negotiations.

Blacks want to see concrete developments which substantially improve the quality of their lives or they will reject their leaders. They want not only to see the dismantling of legislative apartheid but also to taste the fruits of "reparations" for past discrimination.

They also want to see a new system of local government; the beginning of a new single nonracial education system; a radical reduction in unemployment; an improved and unitary health service and a markedly improved quality of life.

Most people also want their lives to change materially — to own the modern household appliances and consumer goods so long taken for granted in white households.

The gap between black people's expectations and the resources available to meet them is great. It is argued the racial gaps in income and wealth will require special corrective or affirmative action to enable those in a disadvantaged position to better their situation. But we will not get there simply by waving some magic economic wand.

The Democratic Party in its Economic Manifesto believes that narrowing discrepancies can best be achieved by education, training and, where appropriate, corrective action in land resettlement, housing and other socially orientated services.

The next Budget will, according to SA's ambassador-elect to the US Harry Schwarz, have to achieve a fine balance between social spending and closing of the discriminatory gaps on the one hand and the promise and pressure to reduce income tax on the other. There are also increased demands from the public sector.

SA has an ill-developed social security system. Whites who qualify through a means test receive an old age pension of R276 a month while blacks get just over R150.

The Mouton Commission investigating pension alternatives reckons that to scrap the means test and pay everyone who qualifies a flat monthly pension of R300 would mean lifting GST from its present 13% to 15%.

Government, at the same time, is having to cope with the huge drain on resources as a result of township rent and service boycotts and the consequent deterioration of these services as well as the destruction of many buildings such as schools during unrest.

Middle class whites worry about the cost of maintaining their mortgage payments, of the high levels of income tax, 44% at the top marginal level, and about the future of their children in a new SA.

The DP claims economic growth is the only way to acquire additional wealth. Where are the resources for reparations going to come from while still getting the economy off its negative growth course?

Finance Minister Barend du Plessis estimates GNP needs to grow by 5% a year if the formal sector is to provide enough jobs for new school leavers each year.

This ignores the fact that the informal, unrecorded sector is growing, though its ability to provide jobs and taxes needed to finance social spending to reduce inequalities cannot easily be measured.

Government can push already high company and personal taxes even higher. GST, which provides the state with nearly 26% of its tax revenue, could be increased further at the risk of putting it through the ceiling and further impoverishing the poor.

Pretoria could also use savings from further cuts in the public sector such as defence, roads and public works if such cuts are possible. And it can get additional money from increased exports and, indirectly, through taxation from increased productivity.

Measuring the cost of apartheid is difficult but the new social spending will spawn its own bureaucracies.

Government has expended a lot of energy counteracting sanctions, and now that their lifting seems imminent many may be relaxing and hoping this will solve the problem. However, foreign investors are unlikely to invest in a country that is unstable and where the likely next government is talking of socialism and nationalisation. Therefore economic growth will by and large have to be generated internally.

That, in turn, seems scarcely attractive if taxation and tax rates are increased.

The DP argues that SA requires a lean, efficient and streamlined public service to administer and maintain security. The public service, it says, is too big and constitutes a disproportionate drain on resources.

It says the way to streamline the public service is to abolish ideological and discriminatory functions — which will go when Acts like the Group Areas Act are repealed; rationalise and reconsolidate functions overlapping as a result of racial differentiation and by privatising services which can be dealt with by the private sector more efficiently and economically.

The DP claims that if appropriate policies are applied and reasonable economic growth achieved over a five-year period, many of SA's socio-economic problems can be resolved.

DP economists believe the economy can grow by 23% over the next five years or a compound annual rate of about 4%. If that is added to savings believed possible in the 1995/96 budget, the DP estimates, an additional R22,4bn could be available for social spending even after deducting expenditure on new priority developmental programmes.

Government has accepted some of the DP's proposals and in some areas, like streamlining the public service and structuring it along business principles, they are already working on them. The ANC, which also does not have a clear policy on achieving economic growth, regularly bandies about the slogan "economic growth by redistribution". Its supporters and leaders also advocate consumption driven growth and argue that if wage levels were higher the huge spending power of black majority will create a big demand and encourage productivity.

There are merits to both sides of the economic argument, and it might well be difficult to see the wood for the trees as future governments grapple with the problem — and that's even if economic policies do not become bogged down in economic rhetoric.

Principally, though, emphasis in the next few years is likely to be on the sort of social spending described as reparations by some and as equalisation by others. That will be the priority if constitutional negotiations are to have any chance of a lasting and amicable settlement.

LETTERS

Report looks to private sector for two-thirds of welfare funding

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MATTHEW CURTIN

THE private sector in SA should provide two-thirds of the funds for welfare services — worth 6,4% of GDP or R13,2bn based on 1989 real GDP figures — says the recent draft report on the restructuring of welfare financing.

The report, issued by the National Health and Population Development Department, said according to "international norms" government should provide 3,2% of GDP for welfare provision.

SA was a Third World country with a large proportion of "less developed communities". It was vital the state and private sector provided the 9,6% of GDP necessary for "the establishment of an adequate welfare system".

The report, compiled by a working committee of the SA Welfare Council and Interdepartmental Co-ordinating Committee (ICC) on social welfare, was submitted for comment to welfare groups in October. A final report is being prepared

ICC chairman Joos Hattingh said yesterday the guidelines for financing were based on an investigation of Third World welfare provision by the Finance Department's central economic advisory service.

AHI president Gerrie Steenkamp said at the weekend "the writing was on the wall for the private sector" regarding its responsibility for welfare funding. In principle more funds would have to be provided to avoid a "dramatic rise" in taxation.

Not only could government not withdraw entirely from welfare subsidisation, but trade unions had a responsibility for putting the private sector in the position where it was able to carry a greater burden of welfare funding.

Steenkamp said greater productivity, less labour unrest and more reasonable wage demands were important preconditions for SA's economic prosperity.

In the 1990/91 Budget government allocated R4,4bn for "welfare promotion" out of a social services budget, including health and education, of R27,8bn.

Johannesburg Child Welfare Society social work consultant Jackie Loffell said at the weekend it was difficult to establish a clear picture of government welfare funding because of the racial fragmentation of welfare departments.

Institutions stuck for investment opportunities

CAPE TIMES 7/1/91

(49)

From ANDREW GILL

JOHANNESBURG. — Financial institutions have entered 1991 with a projected cash flow of about R35bn and no obvious vehicles in which to invest as the economy continues on its stagnant path, offering limited opportunities and poor returns.

A fundamentally weak equities market, declining returns in the money market, a limited gilts market and an exhausted property market all contribute to the dilemma of life assurers and pension fund managers.

Based on the compounded annual growth of 15% in assurers' and pension funds' 1988 cash flow of R21,95bn, 1991 is estimated to yield a flow of R33,4bn.

Some analysts say the 15% growth estimate is conservative and the figure could well be more than R40bn.

About R11bn will be paid out to policyholders, leaving R22,4bn which has to be invested somewhere.

Added to the R33,4bn is the projected R5,6bn funds of the Public Investment Commissioner (PIC) which will be channelled into government stock.

Investment switches could come into play as the money market becomes relatively less attractive because of expected rate cuts by the Reserve Bank. This may further increase potential cash flow.

However, demand in the money market is likely to remain strong and this could push rates down even further.

The gilts market is unlikely to experience any major increase in borrowing from the major players because of rationalisation by the government and Eskom, and thus supply will be limited. This is likely to be exacerbated by the PIC's R5,6bn.

Equities, says Southern Life equity investments GM Paul Beachy Head, will be a major absorber of the capital.

An investment strategy of buying when the all share index is down 10% from 12 months previously and selling at growth of about 40% is sure to yield results, he says.

The index is at 2 710 points, 9,3% down from last January, and could mark a turnaround in fortunes for the struggling stock exchange.

Nedbank economist Edward Osborn says a lot of money is likely to find its way into equities and push share prices up "for no good reason".

Investors will be climbing into a market which is "really very dull" and offers poor growth prospects.

The PIC is likely to absorb all government issues in the gilts market in the next few months and overall borrowing is unlikely to be that much higher.

The result would be "tremendous pressure" on money market rates, Osborn says. The 90-day liquid BA rate has already fallen to 17,65% — 35 points below Bank rate.

Property is unlikely to absorb much as CBD activity is depressed, and while housing ought to be be attracting investment it has not been doing so because of poor returns and political unrest.

Graham Linscott looks at four books that should stimulate the Great Debate

Star 7/1/91

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Freemarketeers speak out with a will – and wit

A HEAVY salvo from the free-marketeers ... a blitz from Wits.

Four books issued by the Free Market Foundation (with a strong input from University of the Witwatersrand academics) have made their appearance. They suggest a serious joining of battle in the great debate over the economic, social and political future.

Their titles are in themselves evocative: South Africa's War Against Capitalism (Walter E Williams — R34,95); Liberty and Prosperity (Frank Vorhies and Richard J Grant, editors — R39,95); Privatisation and Economic Justice (Frank Vorhies, editor — R19,95); and Consumer Power in a Free Market (Terry Markman and Frank Vorhies, editors — R29,95). All are published by Juta.

Their content is mainly heresy from the neo-Marxist or social democratic viewpoint. They condemn government intervention across a range of social and economic activity, even suggesting that the military and school education would be better privatised.

The "balance of payments constraint", over which so many politicians and economists agonise, is ridiculed as an awkward beast which simply does not exist — and Richard Grant (Business Economics, Wits) provides a cogent argument for his contention.

In another area Professor Duncan Reekie (Dean of Commerce, Wits) suggests the most radical of reverse government intervention — privatising government enterprises by distributing free share certificates to every citizen.

Otherwise only a handful of citizens would become first-time buyers and the bulk of the shares would end up with the financial institutions.

It is uncompromising stuff, some of it stated in the most trenchant way. Take, for instance, Symond Fiske (not a Wits man — a freelance writer on agricultural economics) on the morality of government intervention with the intention of redistributing.

"Economists and politicians are now happy to agree that economic intervention does have a 'social cost.'

"Some gluttons persist in arguing, however, that there are cases in which the 'social cost' is worth paying to achieve a distribution of goods, services and resources that is more to their liking. A few of them have the integrity to admit a selfish interest. They openly confess that they want things redistributed in their direction because they are greedy, jealous or vindictive. Idi Amin was a fine example. King David was another: He 're-distributed' Uriah to the battle-front because he wanted Uriah's wife to be reallocated for his own use. Such honesty is rare in an era that almost universally frowns upon selfishness."

Many regard the free marketeers with a degree of wariness because they seem to want to strangle the last neo-Marxist with the entrails of the last Fabian. They are considered to be somewhat over the top.

But they certainly are stimulating, emphasising throughout their concern with creating more wealth, not destroying it.

Many write with an invigorating wit which, in truth, is generally lacking from the writings of their opponents to Left and Right.

The University of the Witwatersrand is also known, of course, for ideas in direct contrast with those of the free marketeers. Will there be a return salvo? □

Ian Hetherington looks into the economic future

These are the people who could save SA

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Star 7/11/91.

AMONG the chattering classes, the debate on the nature of the "new economy" is largely polarised between socialism on the one hand and a mixed, but mostly free enterprise, economy on the other hand.

The most likely outcome is neither of these. The most likely is that we will muddle along with a variation of the mercantilism which has, for the legal and recorded economy, served us so disastrously for the past 15 years.

Mercantilism is a centralised, state-controlled economy with an array of protections, privileges and concessions given to a handful of private interest groups only. It was prevalent in medieval times and is still widespread in South America, much of Africa and other parts of the economically miserable, non-communist world. It is not free enterprise.

What is, of course, sure to change is that the new state rulers will represent the majority and the future protected private interest groups will be a slightly different set of cronies.

To the extent that the corporate sector is already changing to meet the new circumstances, the general approach seems to be to change to the minimum extent possible in order to secure patronage from the likely new rulers.

The hope seems to be that, by modifying the corporate image, the privileges and protections can be sustained. This may — and probably will — include a slight widening of the ranks of the cronies, much as the mining industry was, several years ago, opened to Afrikaner interests.

The coninuation of mercantilism will mean the economy will be no better, and probably worse, than that of the past 15 years, because the economic growth rate will continue to be below the population growth rate, thus increasing poverty and unemployment and heightening social tensions, crime and violence.

Normally, one could expect this phase to last for at least a generation — 30 or 40 years. It has taken this long for the Nationalist Party to learn that mercantilism does not deliver the goods. It is now on the brink of changing towards free enterprise but, ironically, it will shortly be forming alliances with a new group of politicians who have not learnt the lessons yet.

There are, however, two reasons for guessing optimistically, that the economic misery will not last for a further full generation.

The first is that the world is moving away from command economies. It usually takes us some while, in South Africa, to catch on to world trends, so this one may hit our new rulers in about 10 years' time.

The second reason, and by far the most important, is that there has been a silent revolution going on in the South African economy for about 15 years, the so-called informal sector activity.

The informal sector is made up of hundreds of thousands of entrepreneurally minded citizens of all races, who have decided to do their own thing regardless of official constraints.

Not long ago, official statisticians denied its existence. They now acknowledge that it represents an under-recording in the official statistics of 8 percent.

Each time they look they find a bit more that they did not know about before. Our own guess is that it is closer to 25 percent and growing three or four times faster than the recorded economy.

They are not an organised lobby, these entrepreneurs, nor are they politicised. They simply practise free-enterprise — competitive free enterprise and individual economic liberty. There is a chance — about a 50/50 chance — that there are now enough of them to prevent future political groupings from destroying them with centralised, command economy controls.

If this small business sector can be assisted and encouraged, if the numbers of entrepreneurs can be expanded still faster, it is they — not the politicians — who will lead us, in a time span much shorter than a generation, towards a future free enterprise economic structure, with jobs for all who want to work.

● *Ian Hetherington is managing Director of the industrial training company, Job Creation.*

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MONEY SUPPLY FM 4/1/91

TECHNICAL BLIP (49)

Growth in the broad money supply aggregate M3 accelerated in November, after falling consistently since April. Year-on-year, it grew an estimated 12,67% to R159bn, while growth in October was revised upward, from an estimated 10,02%, to 10,23%. But this does not spell a reversal of the trend; it was largely due to technical factors.

One was a delay in clearing cheques through the banking system in October. This unduly depressed October growth while clearing the backlog in November produced an uptick that month.

The other technical factor was comparatively high growth in October 1989, 24,41%, and lower growth in November that year, 23,30%. These figures provided the base on

FM 4/1/91 (49)

which this year's growth was calculated.

In the 12 months to October:

- ☐ M1A grew 13,02% to R26,7m;
- ☐ M1 0,31% to R46,8m;
- ☐ M2 10,66% to R125,1m.

Total domestic credit extension that month rose only 0,5% to just under R156bn. This follows a 0,6% fall in September. Over 12 months to October, credit extension grew only 12,34%, considerably below the 17,13% growth in the 12 months to January.

Another measure closely monitored by the Bank is total claims against the private sector. In October, these rose only 0,7% to just under R156bn, after falling 0,5% in September. Twelve-month growth fell from 21,13% in January to 13,18% in October. ■

SA economy needs a rapid lifting of restrictive policies

49

BDay 3/1/91.

ERIC STILLERMAN

IN THE current climate of rapid change in SA and abroad, there is uncertainty about the prospects for 1991 and beyond. How deep is the present recession? Is it real and fundamental or perceived and self-inflicted? Is economic policy a matter of overkill or of cautious self-restraint? Should business plan on further contraction or on the underlying potential for growth?

There is a growing view that the current restrictive economic policies have been unnecessarily prolonged, to the detriment of the fundamental economy.

Sacob has called for an easing of monetary policy early next year, and Reserve Bank Governor Chris Stals's hint of a cut in interest rates begs the questions of when, by how much — and how soon the recovery?

The economy has shown resilience to the restrictive measures, but is now ailing under reduced demand, tighter credit, rising costs, bad debts, insolvencies and unemployment.

In many cases the damage is irreparable, with the disappearance of otherwise viable small businesses in particular.

A further lean period is expected by many for the next two years. Is this necessary or inevitable?

The answer may lie in the rapid lifting of the restrictive measures, and in addressing the reasons for their introduction, namely the balance of payments crisis and the approach towards reducing inflation.

The balance of payments has performed remarkably well in the face of unfavourable gold and oil prices, with an increase in reserves of about $2,5bn this year and a strengthening in the R/$ exchange rate.

Stals is on record as saying that the balance of payments position is now "comfortable".

While US demand has slackened, export activity continues and financial sanctions could soon be lifted with the meeting of the criteria set by the US Congress. Since the balance of payments crisis has largely abated, the corresponding restrictive measures are ready, too, for rapid abatement.

Continuing efforts to quell inflation by reducing demand have been largely unsuccessful, as demand in SA is basic and relatively inelastic.

High interest rates may even have contributed to inflation — by increasing costs and reducing supply, leading to increased prices.

Take the following example: if 20 people queue up to buy one house, the price can only rocket. If interest rates are high, the queue may be cut to 15 people, but the price is still going to be high.

The objective, surely, is to give people the opportunity to build 20 houses at a reasonable price.

An immediate material decrease in interest rates could have significant benefits in increasing supply and reducing cost-push inflation. Real interest rates should ideally not exceed the desired economic growth rate of, say, 3%.

A measure of wage inflation is to be expected in SA, due to the normalisation of wage bargaining, which is a major market force for the redistribution of income and is unlikely to abate.

Wage inflation may be offset by increases in volume, reducing unit costs. Labour has less to do with national productivity than the efficiency of capital, management and economic policy.

Any adjustment for the sake of international competitiveness is reflected in the rate of exchange, which is strengthening at present.

Business has a natural interest in lobbying for key policy actions to hasten the recovery with relatively low inflation, including:

☐ An immediate, significant reduction in interest rates;

☐ The promised reduction in taxation and government spending;

☐ An early start to political negotiations and the removal of obstacles to the lifting of financial sanctions; and

☐ Redirection of resources to a national development programme in co-operation with the private sector, to achieve the common goals of accelerated growth and the fair distribution of wealth.

Consumer industries have held up well in the slowdown and should grow substantially in a recovery. Construction stands to gain most from reduced interest rates, and could recover relatively quickly as many projects have only recently been shelved.

Mining and agriculture may recover more slowly because of external factors, but can only benefit from reduced interest rates. Mintek's recently announced new extraction process is a welcome innovation in reducing mining costs, which may hasten the recovery in mining.

Business has good reason to plan for growth, while weathering the slowdown by improved efficiency and innovation rather than contraction.

Opportunities abound in many industries, including basic consumer goods, housing and related industries, export markets, partnerships with new foreign investors and investment for medium-term expansion in industrial demand.

Rather than the traditional recessionary strategies of blindly reducing overheads, innovative methods may be used to control costs and working capital while maintaining growth and turnover.

Significant efficiency may be achieved in many SA companies in areas such as inventory management, production planning, rationalised distribution methods and more efficient credit control — without hampering sales and service.

Growth and turnover may be maintained in recessionary times through increased market share, market coverage and penetration. This may be achieved by more efficient marketing methods, such as tele-sales, and by cross-selling products into existing and new markets.

Companies with the foresight to retain rather than retrench skilled personnel will be best placed to benefit from a recovery. People costs may better be recovered by performance-related remuneration, and by redirecting resources to new productive opportunities.

In the face of the national skills shortage, training budgets require fine-tuning towards specific skills shortages, integrated with the strategic objectives of the business. The upgrading of skills at all levels is a necessity for business to remain competitive with the available human resources.

Industrial relations policy, in addition, needs to transcend the era of confrontation, in line with the new climate of recognition, negotiation and relationship-building.

The concept of a constructive partnership between labour and management is essential to business survival and national development in the urban and decentralised areas.

Needless to say, if business can survive and prosper in the recession, the prospects for growth in a stimulatory economic climate will be unbounded in the 1990s and beyond.

☐ A Johannesburg management consultant, Stillerman specialises in strategic management and management training and development.

A stout heart is needed to face the new year

Star 2/1/91.

(49)

By Ann Crotty

It's that time of year again when people review what's happened and try and get a feel for where things are going in the 12 months ahead.

And because of the nature of the festive season people tend to look at things with a fresh eye that encourages some enthusiasm and optimism — so what if 1990 wasn't so great, it's a new year now and there's lots of good will so things will be OK.

At this stage what is on the horizon must look pretty sobering to even the most enthusiastic festive season reveller.

War, recession, high interest rates, an international trade war, difficulties following the dismantling of the old Communist regime in Eastern Europe and, major problems in the turbulent Soviet Union.

Remember what was on the horizon this same week last year?

There was a great air of optimism in the West — the Berlin Wall had been pulled down signalling the collapse of a regime which had effectively split the world into two hostile economic camps.

From here on it would be a time of international goodwill with Western nations moving in to help the Eastern bloc towards a more market-oriented economic system.

Down trend . . . "It was a year when anything that moved on the economic front, moved weaker".

A more enlightened FW de Klerk was at the helm here. In the not-too-distant future SA would be welcomed back into the international community and this would boost our international trade as well as bring international investors flocking to the JSE.

The Government's privatisation programme was looking good with Iscor already in the hands of the public.

Added to all of this, developments in Eastern Europe were expected to result in a surge in the gold price.

All-in-all things looked good for 1990 in those first few weeks.

It turned out to be a pretty grim year. Almost wherever they could, things turned sour. And now only the most courageous of spirits can be holding out much hope for 1991.

Of course on the bright side — things are looking so bleak now that they can only get better.

Consider what was happening in the first months of 1990 — the rot set in fairly quickly: There was an air of euphoria on the JSE as international demand and local institutional demand underpinned strong share price movements in the first few weeks.

Reserve Bank governor Dr Chris Stals noted a dramatic improvement in the country's foreign debt position.

The Minister of Finance, Mr Barend du Plessis warned the banking sector and borrowers that the government was serious about curbing the excessive use of bank credit.

And Dr Stals announced that the targeted growth in money supply would be lower than in '89 in order to reduce inflation.

Some economists were forecasting a year-end inflation figure of 13 percent as a result of the government's restrictive monetary and fiscal policy.

Nedbank MD Mr Chris Liebenberg called for the scrapping of the financial rand, saying that it had outlived its usefulness.

There was more euphoria in February — a month dominated by President De Klerk's speech at the opening of parliament and the subsequent release of Nelson Mandela.

Figures showed that the trade surplus in January topped R1 billion for the eighth month in succession.

On the JSE, the President's speech was greeted enthusiastically and was expected to be very bullish for the market with hopes for a massive influx of overseas investors.

This sentiment quickly turned following the February 11 release of Mr Mandela who then spoke frequently of the need to nationalise major assets.

In his budget the Minister of Finance revealed that the deficit before borrowing in fiscal '89-'90 was down to 1,5 percent of GDP — which was below the budget target.

Figures showed that fewer businesses were liquidated in 1989 than any year since 1980.

But the weakness in the economy was becoming increasingly apparent in corporate results as fewer and fewer companies were able to report "real" increases in profits.

The weakness on the international economic front, which was aggravated by a troubled Eastern European/Soviet Union situation, kept world commodity prices and demand low and meant there was little chance of an external boost for the SA economy.

In addition the gold price failed to match earlier bullish expectations. Having quickly fallen back below \$400 it remained at punishingly low levels throughout the year resulting in massive retrenchments and cutbacks in the gold mining industry.

This had an inevitable and drastic spin-off effect on the rest of the economy.

Now 1991 has arrived and few economists are hazarding a guess at what the year holds for South Africa. The gold price is encouragingly higher than it was a week or two back — but it was a lot higher at the beginning of 1990.

Interest rates are still high — as they were at the beginning of 1990.

And if war breaks out in the Gulf all wishes of a happy New Year will be drowned in a surge of oil price rises leading to deep recessions in the world's economies, South Africa included.

Tough year ahead for consumers, says expert

Sowetan 3/1/91

(49)

DEVELOPMENTS on the domestic and international fronts point towards a tough year ahead for consumers, says Old Mutual chief economist Mr Dave Mohr.

"The country will have to live well within its means to repay, at least partially, its foreign debt. That implies that spending will have to be curtailed to generate a savings surplus, from which the debt is repaid.

Mohr added that such a process was not conducive to economic growth in the short run, as it implied strict economic policies.

"Our economy has also suffered from the sharp fall in the foreign prices of gold, silver, copper, steel and platinum - some of our main export commodities.

"Coupled with recent increases in the oil price these price movements complicate the servicing of our foreign debt and reinforces the need for a strict economic policy, such as high interest rates," he said.

"The consumer has borne the brunt of these developments. For example, the prime overdraft rate rose from 12,5 percent at the beginning of 1988 to its present 21 percent. To worsen matters, consumers went on a borrowing spree during the second half of the eighties, with bank credit (mainly overdrafts) rising by 86 percent during this period.

"With interest rates at their current high levels, the pain to consumers is obvious."

Mohr said consumers were further suffering from the Government's attempt to reduce inflation.

"After such a long period of high inflation an attempt to reduce it includes no soft options and a degree of lower economic growth can be expected."

On the positive side, he said political developments over the last year benefitted the economy as foreign creditors were more willing to roll over some of our debt. However, at least a billion dollars will have to be repaid in 1991.

"Although the Reserve Bank can be expected to be very cautious in reducing interest rate, the over borrowed consumer and deeply indebted companies can expect light relief from a reduction in the prime rate during 1991. It is Reserve Bank policy to keep a 5 to 7 percent margin between the inflation rate and the prime rate, thereby maintaining positive real rates.

"That means at most a reduction of 3 to 4 percent in the prime rate can be expected.

"The other area where the economy could potentially receive a boost next year is in the form of lower personal tax rates, as the state President promised in a recent speech. However, there is very little scope for any significant tax reductions as the pressures on Government spending will not ease." he said.

Jobs and wealth vital for stability, says Mandela

(49)

B/Day 1/2/91.

WINDHOEK — Any political settlement in SA would not survive unless the economy was turned around to generate jobs and wealth which would make a rapid and visible impact on black living standards, ANC deputy president Nelson Mandela said yesterday.

Addressing the 10th annual consultative conference of the Southern African Development Co-ordination Conference in Windhoek, Mandela said the process of political change in SA was taking place in a continuing economic recession and a high level of inflation which had a dire impact on the most disadvantaged sections of the population.

"Mass poverty becomes ever more endemic. This is the engine which feeds growing social instability, crime and despair," Mandela said.

The process of improving people's quality of life "must entail a redirection of both public and private sector resources for the benefit of this section of our population".

Beyond the short term SA's economy would require incisive restructuring to ensure the growth of a modern manufacturing sector, which should replace precious minerals, raw materials and agricultural products as the principal foreign exchange earners.

"At the same time the economy would have to grow in such a way that it creates jobs and meets the basic needs of a portion of the population whose involvement in the economy is marginal today."

It was also accepted in SA that the economy could not achieve satisfactory growth without significant inflows of foreign investment.

"The economic processes we have been talking about require that we move with speed to create a situation of justice, peace and stability in our country.

"Both the domestic and the foreign investor need to be reassured about the permanence of such peace and stability, as well as the prospect of a thriving economy."

Mandela said that whatever happened in SA would obviously have an important effect on the other states of the southern African region.

The process of indemnifying South Africans in exile on a significant scale had yet to begin, and the repeal of repressive legislation still had to be addressed.

"The struggle to remove these obstacles therefore continues."

The ANC had advanced specific proposals concerning the process of negotiation, including the convening of an all-party congress, the election of a constituent assembly and the installation of an interim government.

Walvis Bay

"Tomorrow (President F W) De Klerk will address the apartheid tricameral Parliament," Mandela said. "We . . . urge him to respond positively to these constructive demands so that, as soon as the obstacles to negotiations have been removed, our people would carry out the urgent task of deciding a political order which would ensure that our country is transformed into a peaceful and stable nonracial democracy."

Namibian President Sam Nujoma told the conference that negotiations would begin soon on the integration of the SA-owned Walvis Bay port into Namibia. "Without the integration of Walvis Bay and the offshore islands, our independence remains incomplete," he said. — Sapa.

Inflation seen at 16% by mid-year

CAPE TIMES 1/2/91

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Business Editor

INFLATION is likely to bottom out at about 12% in the middle of the year, United Building Society (UBS) chief economist Hans Falkena says in his Economic Monitor.

He expects the bank rate to come down to 16% by the middle of the year.

But he thinks the rand will weaken to R2,75 to the $1 by the end of the year, "largely as a result of the inflation differentials between SA and its main trading partners".

In spite of the slowdown in world economies, Falkena expects SA's merchandise exports to grow by about 5% in 1991 due to the collapse of sanctions.

"Merchandise imports and net service payments are expected to edge up owing to an improvement in growth, to commence by about the fourth quarter of 1991.

"In the light of the aforementioned developments the current account surplus for 1991 should be marginally higher than in 1990."

He thinks the foreign debt obligation for 1991 will be $1,6bn at most.

"On the assumption that the current keen interest of foreign banks in SA continues and that short-term trade credits remain readily available, the actual net debt repayments could be even lower."

He expects the gross foreign exchange reserve position to improve from about $3,2bn at the end of 1990 to about $3,9bn, roughly the value of three months' imports.

However, Falkena says current recessionary trends are expected to persist in the first three quarters of this year. "A slight upturn is expected only in the fourth quarter."

And he warns that growth could be adversely affected, not only by a sudden deterioration of the Gulf situation but by "possible disruptive domestic developments."

He expects the SA authorities to persevere with their restrictive monetary and fiscal policies in an effort to continue the fight against inflation.

"In spite of the resultant high interest levels, private consumption expenditure is expected to grow by about 2%."

Social spending 'needs overhaul'

Govt housing policy a mess, says De Loor

BDay 1/2/91

(49)

KEVIN DAVIE

A REPORT which severely criticises government development policy and proposes that social spending be drastically reorganised has been handed to Economic Co-ordination Minister Wim de Villiers.

The report, by retired Auditor-General Joop de Loor, finds that government housing funding is a mess, that there is a need for rationalisation in development assistance organisations and that all racially based departments must be done away with, says an informed source.

It recommends a one-city, one-tax base concept which would amalgamate black townships and white towns. It finds that much of what government allocates for social spending does not reach the intended beneficiaries, but is wastefully spent by organisations supervising this spending.

If the report was accepted by government, single departments would control spending in areas such as education, agriculture, housing and health at the national level. Regional development would be rationalised within a single department handling a range of development needs including, for example, small business development.

The system recommended by De Loor would be cheaper and ensure more efficient delivery to the people the spending was meant to help, the source says.

The report apparently recommends that government's housing policy should be changed immediately. It is said to recommend that government's role be reduced to administering a revolving fund to provide a one-off subsidy to first-time buyers. Speculation has it that President F W de Klerk might unveil such a proposal when he opens Parliament today.

It also singles out bodies such as the Industrial Development Corporation (IDC) for criticism, finding that it has tended to keep too much of its investments tied up in strategic holdings, rather than actively creating new risk ventures, says the informed source.

The report is understood to have been circulated to some Cabinet Ministers and some decisions have been taken which could be unveiled early in the parliamentary session.

It quantifies for the first time the amount government has been spending on development, including in departments such as Development Aid, which this year was budgeted to spend R5,7bn. The total amount is understood to be substantial.

The De Loor inquiry is part of a major move by government to increase social spending and ensure funds are well spent.

The source said the report was particularly critical of spending at the second and third-tier level. The tiny homeland of Qwa Qwa, for instance, was found to have five separate government development corporations operating there.

☐ To Page 2

De Loor

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☐ From Page 1

De Loor's report was commissioned by De Villiers in May last year. He was given six months to investigate the total development assistance structure.

"It's the first time they've quantified the amount of development aid flowing from government departments to second and third tier levels in the whole of SA," says Business Day's source.

IDC MD Carel van der Merwe said in a recent interview that it was a valid criticism that the IDC could have done more to unlock mature investments. He said these would be released as new investment opportunities were identified.

Senior general manager at the IDC Jan de Bruyn said yesterday the IDC had not seen the report and could not comment.

Government sources approached declined comment.

Six government departments were investigated by De Loor, including Development Aid, Foreign Affairs, Agriculture and Provincial Affairs and Planning.

Other development agencies included within the ambit of the inquiry include the Development Bank, the Small Business Development Corporation (SBDC), Land Bank, Independent Development Trust and the SA Housing Trust.

Some changes such as the addition late last year of the portfolio of Development Aid to Agriculture under Minister Jacob de Villiers may have already taken place because of the report, the source says.

In a statement to Business Day after he took control of Development Aid last year, De Villiers said he knew of the De Loor report, but said he was not aware that its proposals had been considered.

Bank likely to keep tough monetary policy

LESLEY LAMBERT (49)

CAPE TOWN — The Reserve Bank was likely to continue pursuing tough monetary and fiscal policies to force a slowdown in wage and salary increases, said Southern Life economist Mike Daly.

If trade unions and employers did not show voluntary restraint in wage negotiations, the financial authorities would continue applying strict policies until rising unemployment dampened wage demands, Daly warned in Southern Life's latest Economic Comment.

Since the rise in the international oil price had delayed the first easing of monetary policy, a decline in interest rates would now depend on the renewal of the downward trend in inflation, Daly said. The Reserve Bank was clearly concerned at the way wage and salary increases were inhibiting a renewal of the trend. However, there were many indications that relief from the strict austerity measures was imminent.

There had been a fall in the growth rate of the broad money supply, and growth in credit to the private sector had declined since the second quarter of 1989.

Another indicator of relief was the R2bn increase in the net gold and foreign exchange reserves during the third quarter of 1990.

Daly added that the deteriorating international economy had adverse implications for SA's export performance this year.

SA poised to become economic powerhouse

Star 5/2/91.

49

By Frank Jeans

On the back of President FW de Klerk's latest reform initiatives to dismantle the last bastions of apartheid, South Africa is poised to become the powerhouse of the continent.

This is the view of Britain's new Consul-General in South Africa, John Doble, who has already noted the country's huge potential.

Confident that South Africa will achieve a political settlement along with a free market economy, Mr Doble sees the country becoming the centre of an African economic zone.

"Many black South Africans have lived in other African countries and seen how easily an economy can be ruined by inappropriate, socialist economic policies," he says.

"They understand that in a deteriorating economy, black economic empowerment would remain an empty phrase.

"The disasters brought about by socialism elsewhere in the world must deter those inclined to embark on a socialist experiment in South Africa."

Looking at bilateral trade prospects, Mr Doble reports that for the first time in many years South Africa-Britain trade is about to balance.

"South Africa's exports to the UK increased 25 percent last year, while ours went up nine percent — a good performance in a period of tight monetary policy here.

"We are now South Africa's largest trading partner. Our exports to this country at over £1,1 billion are about the same as what we sell to the whole of Latin America and approach our export value to the entire erstwhile Soviet bloc."

After a decline in the number of trade missions from Britain to South Africa in recent years, the Consul-General says that last year there were only three, although there are already inquiries for eight this year.

"This activity is bound to increase further once we are allowed to resume government funding for trade missions and for British stands at trade shows in South Africa, as I hope will occur this year," he says.

Overseas interest rekindled

LONDON — President FW de Klerk's commitment to a new, non-discriminatory South Africa is likely to rekindle British investor interest in the Republic.

According to The Times' financial columnist, Tempus, the dismantling of "the pillars of apartheid" might persuade investors to "look afresh at the Johannesburg stock market in general, and South African industrial shares in particular".

The reforms, said Tempus, had left the way "all but clear for European sanctions against South Africa to be lifted, and for American interest in investment, currently banned, to be rekindled".

"If the political barriers that prevented several trust funds and those with moral objections to investing in South Africa are removed, and if violence and ANC nationalisation fears are replaced by civil peace and assurances of free enterprise, net equity investment should grow," said the columnist.

He pointed out that, while it lasts, the financial rand should continue to make investing in South Africa appealing. The removal of sanctions would — if the economic train chugs forward with reasonable speed' — provide investors with great potential in the building/construction and consumer-related fields.

The outlook now is 'bleakest in years'

S/Day 6/2/91

(49)

VERA VON LIERES

THE SA economy is teetering on the edge of a massive slide which will see "bloodletting on a vast scale" this year, industrial relations consultants Levy & Associates predict.

Reporting the results of a survey aimed at identifying current retrenchment practices and trends, the consultants said the outlook for recovery in the current economic circumstances was bleaker than at any time since the inter-war period.

The survey, which covered more than 26 000 retrenchments and 200 companies, found that trade unions were fighting retrenchments harder than ever before.

This was the case even where well-established retrenchment provisions were contained in agreements.

Discussions on retrenchments, when they arose, centred mainly around the issue of disclosure of information, with unions demanding employers' supply financial records to justify retrenchments.

Union demands for further benefits and disputes over disclosure often resulted in a delay in implementing retrenchments, which in turn often resulted in further cuts and delayed the chances of recovery.

The most common reasons cited by employers for retrenchments last year was the economic downturn (52,4%) and restructuring or rationalisation (11,6%).

Retrenchments related particularly to insolvency, not covered by any retrenchment agreements, were expected to increase over the next 12 months.

Findings were that more than 60% of the companies surveyed agreed to pay one week's wages per year of service.

Another common category of severance pay was up to two weeks per year of service although this was granted by less than 20% of companies.

Other concessions recently negotiated by unions include improved severance allowances of up to four months for more than two years' service, the writing off of company loans, time off to seek alternative employment and guaranteed preferential re-employment.

The survey noted many benefits were conceded against a backdrop of overtime bans, strikes, work stoppages and sit-ins.

It said the sector most badly affected by retrenchments last year was construction, followed by chemicals and mining. However, major retrenchment exercises in the mining sector were expected for 1991.

Nactu general secretary Cunningham Ngcukana said yesterday retrenchments could be avoided by upgrading workers' skills through existing channels such as the Industrial Training Board or the National Training Board. Where retrenchments were unavoidable, unions should have access to company's books.

Cosatu spokesmen were unavailable for comment.

Bloodletting on vast scale seen

Economy 'on edge of massive slide'

Cape Times 6/2/91 49

Own Correspondent

JOHANNESBURG. — The SA economy is teetering on the edge of a massive slide which will see "bloodletting on a vast scale" this year, industrial relations consultants Levy & Associates predict.

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Real change is in the pocket

South 7/2-13/2/91.

The government's latest reforms may be well received initially, but if blacks are not given early access to the real economic wealth, they will dismiss the reforms as fraudulent, argues ANTHONY HEARD:

PRESIDENT FW de Klerk has, with immense fanfare, announced a new, apartheid-free South Africa. Briefly, the Gulf war is eclipsed by De Klerk's war on apartheid.

But social and economic justice are not around the corner.

Even without apartheid, there will be two nations — one well-off by world standards, the other poor; the former white, the latter black. And whites make up only 15 percent of the population. This is a recipe for revolution.

The repeal of the last "pillars of apartheid", currently being debated in parliament, will leave things for the masses on the ground not much different in material terms.

Over the past year the perception of change has been carefully nurtured by the Nationalist government; the reality of change still has to catch up.

Ask any worker whether he or she is better off now than a year ago. Ask any township resident.

Opening parliament last Friday, De Klerk sounded the death-knell of the Group Areas Act, the Land Acts and, effectively, of some of apartheid's Heunissian idiocies such as "own affairs" for racial groups.

He went further. He promised to repeal the Population Registration Act. Without it, apartheid cannot function. There cannot be statutory apartheid without racial classification.

But the usual catch was there. Because the current constitution is race-based, De Klerk will maintain temporary classification (for example, for by-elections). That will apply until a new constitution is negotiated.

De Klerk's arguments for clinging to temporary arrangements are not convincing. If he is earnest about wishing to achieve a new constitution without delay, he could suspend by-elections and thus make temporary classification unnecessary.

The people are getting impatient, as witnessed by the mood on the Grand Parade as De Klerk spoke. In Oliver Cromwell's words, they could demand of this long parliament: In the name of God, go!

FW de Klerk

De Klerk's cautious manoeuvering looks like a sop to the walkabout right-wing. In fact, the style and pace of the war against apartheid are leisurely. For years we have, officially, been "moving away from discrimination" — as Pik Botha and Piet Koornhof, two past optimists, could confirm.

I was present in a parliamentary press gallery when most of the obnoxious apartheid measures were passed by this government. Then the government would not hesitate to go into urgent, steamroller night-sittings, complete with the use of the guillotine to debate, to get its way — and quickly.

De Klerk would have demonstrated his sincerity had he kept parliamentarians busy over the weekend and right into this week, non-stop, repealing the laws which have all but ruined this country.

For such parliamentary inconvenience, they are well-enough rewarded. Officials should have done their homework months ago.

Moreover, if blacks are not given early access to real economic wealth, they will conclude that De Klerk's democratisation process is a fraud.

Here is how economic deprivation works out. The Land Acts of 1913 and 1936 reserved 87 percent of land to whites. Those Acts are to go. But there is no way many blacks, poor to start with and further deprived of segregation, can afford to buy "white" land on a significant scale without massive aid from the government or elsewhere. That means a massive compensation for apartheid's effects.

Even though major help is on the cards for purchase of houses — and probably land — by poorer-off blacks, a further problem presents itself.

A Father Christmas handout which is traced, even indirectly, to white-run coffers — state or business — is fraught with complications in the black community. In the first place, it smacks of paternalism. It would be different if aid came in the form of compensation from a black majority government elected mainly by the people who benefit. That would be their due.

There are likely to be arguments over who gets what aid, and why, in the sprawling black areas. There will be a danger of corruption in the actual allocation of funds, and red-tape nightmares in an already hideously complicated township world.

A key problem facing De Klerk, therefore is: How can three-quarters of the population who are poor be economically endowed in time to avert increased social unrest. It is a problem for the ANC, too, for instability can disrupt the march to a new order.

Even when international sanctions are lifted, economic recovery is likely to be slow, and South Africans can still face the grinding reality of white privilege and black poverty.

Until that is addressed — and the only way is by democratic allocation of national resources after free elections by a government accountable to all the people — the country will teeter on the brink of disruption.

(Anthony Heard is a former editor of the Cape Times)

Time to change the attitude - Ramano

Sowetan 7/2/91

By JOSHUA RABOROKO

A FUNDAMENTAL shift in attitude was needed if South Africa was to defuse the tensions between different groups, Mr Mashudu Ramano, said this week.

Ramano, executive director of the Association of Black Accountants of South Africa, was speaking on black business involvement in education and training at a conference held in East Sussex, England.

The conference, under the theme "Nationalisation, Implications and the Alternatives," was convened by the UK-based Newick Park Initiative, a group of senior South African Christian public figures who look into issues that need to be addressed for a peaceful transition to African majority rule in South Africa.

The conference was attended by senior members of the ANC's constitutional drafting committees and leading international personalities.

Top executives forecast turbulence on all fronts

BEVERLY HUCKLESBY

EXECUTIVES from the top 100 JSE-listed industrial companies are forecasting a year of economic, social, business and political turbulence, the latest report of The SA Business Environment in 1991 says.

The report, compiled by Unisa's business economics professor Okkie Lucas on predictions by company executives, stated they were pessimistic about a wide range of indicators. The study claimed previous reports had been "very accurate".

However, the views expressed could have been changed by President F W de Klerk's opening speech in Parliament last week. Lucas said yesterday there had been a positive reaction to the speech.

"Business confidence has improved in reaction to the stronger financial rand and executives are cautiously optimistic. The internal political turbulence, however, remains a threat," he said.

Executives were also optimistic that sanctions and disinvesment trends would be reversed as a direct result of the abolition of apartheid.

Inflation was fixed at about 14,3% last year and was expected to average about 13,5% in 1991.

Executives were still not optimistic about this year's economic growth, which they predicted would range between 0,9% and 1,1%, averaging a negative annual growth rate of 0,2%. They felt there would be a deterioration in the commercial rand against the dollar which had averaged R2,64 last year. This year the exchange rate was expected to range between R2,64 and R2,80. (49)

They expressed some optimism over the continued strengthening of the finrand in the short term and the prime overdraft rate which they thought would be three percentage points lower than the present rate of 21% by December this year.

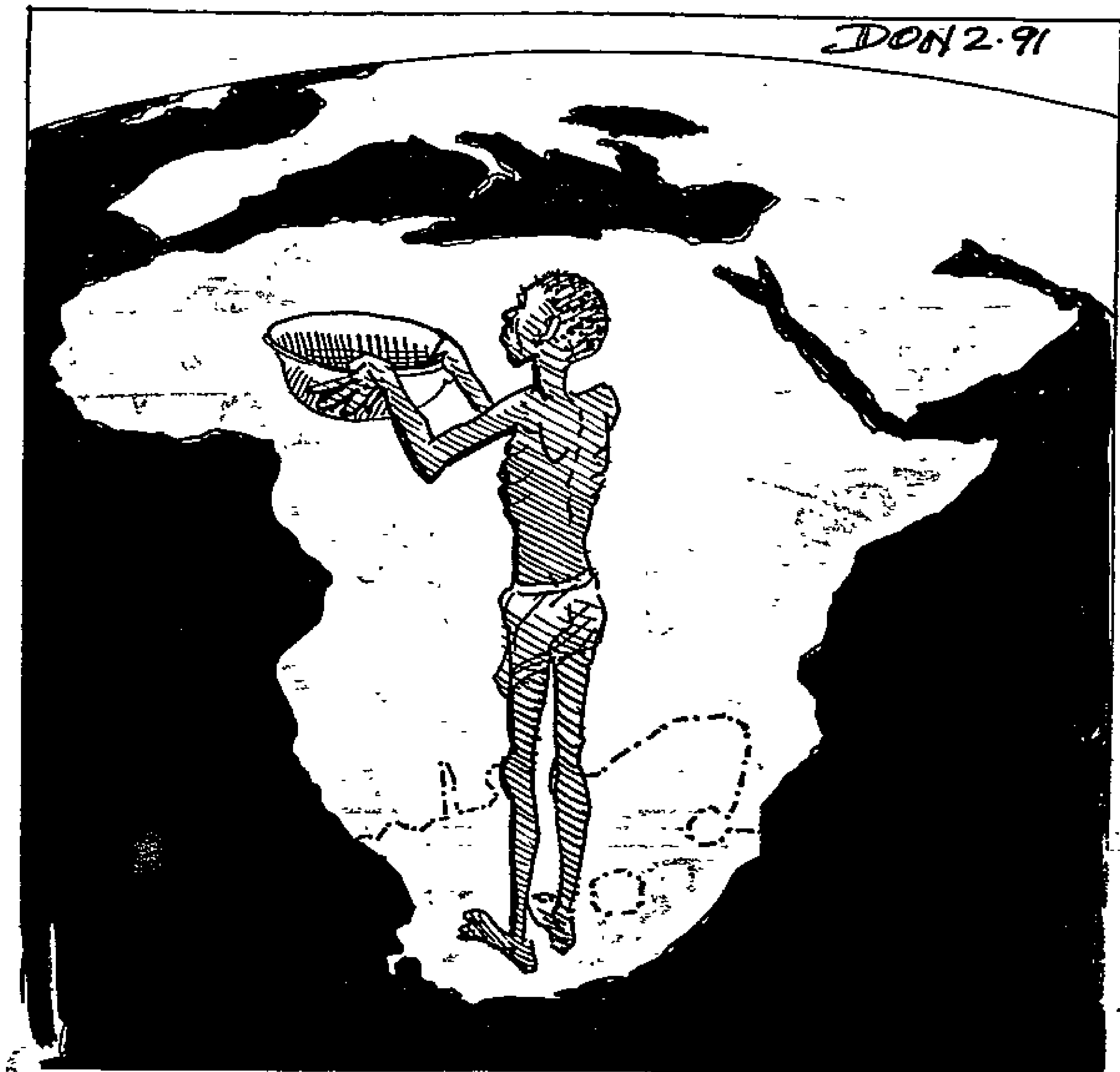
The report said there was also some optimism over the gold price which executives predicted could average about $401 an ounce or more.

Breadbasket to begging bowl

(49)

South 7/2–13/2/91.

A post-apartheid South Africa, instead of being the much-vaunted economic engine of the sub-continent, will be one of the countries in the region heavily reliant on foreign aid. This is one of the stark conclusions of a study compiled for the Interfund International Fundraising Consortium by specialist consultants



THE South African economy is in a mess with little chance of a quick recovery.

This is the central message to emerge from an in-depth investigation conducted for an influential fundraising consortium based in London.

"Many people believe that South Africa is a wealthy country, with significant reserves of gold, diamonds and other precious metals. These natural riches have provided the foundation for the most developed economy in Africa.

"It is therefore assumed that once apartheid has been destroyed and political and economic power redistributed, South Africa will live up to its true potential as the economic powerhouse of Africa.

Stimulate

"The South African economic machine is then expected to stimulate the economies of the other countries in the region and usher in a period of growth and prosperity."

The report says although this scenario sounds naive, it is widely echoed in business, labour and academic circles in South Africa.

It includes the belief that investment will flow back into the region once apartheid disappears and sanctions are lifted, and that regional and even continental markets will be open to South African manufactured goods.

The profile of the South African economy, however, indicates that any such economic future is unlikely in the medium term, and that the components for successful economic growth are not present in South African society at present.

"It is by no means clear that South Africa is capable of attaining high levels of growth (let alone equity), and the basic requirements of development — political, social and economic — demand urgent attention," says the report.

It says the South African economy has been characterised by a "boom-bust" cycle, expanding or receding according to external factors such as fluctuations in the international market price of its principal mineral and metal exports — gold, oil, coal, platinum and ferro-alloys.

If the markets for these raw material exports are buoyant, the economy prospers, but if the world prices sink and if the cost of key imports (such as oil) soars, the economy crashes.

This emerges explicitly from any historical review of the South African economy, says the report.

"The roller-coaster trend in the South African economy in the 1970s was largely defined by the two oil price shocks and two gold booms, leading up to a peak of industrial output and employment in 1982.

"Since then the economy has been struck by a series of interrelated economic and political factors. The nationwide uprisings that began in 1984, and the subsequent states of emergency declared by the Nationalist government, provoked an intensified round of international boycotts and disinvestment, the debt crisis and capital flight.

"At the same time the economy had to come to terms with a steadily declining gold price and now another oil price rise precipitated by the Gulf Crisis."

In combination, these events have all undermined economic growth and complicated the chances of recovery, says the report.

"The South African economy is in recession, having experienced three consecutive quarters of negative growth. Gross Domestic Product (GDP) fell 1,7 percent in the fourth quarter of 1989, 1,3 percent in the first quarter of 1990 and a further 0,8 percent in the second quarter of 1990. These overall figures conceal more disturbing underlying trends however.

"The economy has hardly grown for 20 years. The present downturn in the business cycle comes after four years of positive growth during which the economy climbed from the recession of 1985 back up to rates of growth of 3.7 percent in 1988 and 2.1 percent in 1989.

"Over the three years from 1987 to 1989 the average annual increase in GDP was 2.6 percent. This barely kept pace with the rate of population growth.

This increase in GDP was off a low base however, coming as it did after the recession of 1985-86 and viewed as a whole, the 1980s recorded a very low average annual growth in GDP of 1.5 percent, well below the increase in population," says the report.

The 1980s marked the first decade in which South Africa's per capita GDP actually declined.

"In fact, the per capita GDP has been falling since 1975, with the exception of the boom years of 1980, 1981 and 1984.

Spending

"With lower government spending in 1990-91, a weaker gold price, more expensive oil imports and an expected slowdown in the world economy as a result of the Gulf war, the South African economy is unlikely to reach its forecast of one percent growth in GDP.

"Some forecasters have already lowered their estimates to 0.5 percent GDP growth, but it is possible that zero or even negative growth will occur."

The report says South Africa has had double digit inflation for more than a decade, so quick fixes are not that likely. Wage price pressures are increasing, and government spending is bound to be boosted shortly by new social upliftment programmes. Both factors are likely to fuel inflation.

"Alternative estimates puts the Consumer Price Index (CPI) well above 30 percent, which is more representative of the lifestyle of black consumers.

"Much of the blame for persistently high inflation has been laid at the government's door."

Regular and excessive budget deficits, a shift towards greater spending on current, rather than capital items and runaway money supply growth, have all been cited as principal causes.

Recently however, the government has cut its budget deficits to acceptable limits (around three percent) and tamed money supply growth.

Whether this greater degree of financial stringency will be effective in lowering inflation is yet to be seen.

FM 8/2/91 (49)

RESERVE BANK FM 8/2/91

NEW LINE-UP (49)

An early concern of Reserve Bank retiring senior Deputy Governor Jan Lombard was that SA's political system locked in economic resources.

A graduate of the University of Pretoria and London School of Economics, he was at one time economic adviser to the architect of apartheid, Hendrik Verwoerd. Lombard perceived the dangers of a philosophy which placed a small core of whites in the centre of the economic order and vast numbers of blacks on the periphery; and realised, long before reform was a fashionable word, that the future lay in black urbanisation. He advocated a political system of nonracial regional federation, drawing up the Lombard Report on the political and economic integration of Natal-KwaZulu.

He saw a solution to SA's dualistic economy in labour-intensive industries and criticised artificially low interest rates which subsidised the cost of capital. He presented his ideas for stimulating domestic growth as inward industrialisation. This was not intended as a policy prescription; he is a proponent of free markets and constitutional economics who attempted to introduce some of the US concepts of public choice to SA's economic politics.

Lombard

Groenewald

Meijer

Lombard worked in the government service from 1950 to 1961. He then joined the University of Pretoria economics department which he left to take up an appointment as Deputy Governor of the Reserve Bank in September 1985. He succeeded retiring senior Deputy Governor Japie Jacobs in March.

Taking over from him on May 1 is Pierre Groenewald who started his career as a clerical assistant in the office of the Auditor-General. He joined and progressed through the economics department of the Reserve Bank to become deputy head in 1977. He spent two years as ambassador and SA's principal resident representative to the IMF and World Bank, returning as adviser to the Bank.

His career path then took a new turn into management and he was appointed GM and secretary of the Bank. He became a Deputy Governor in 1986. He is now responsible for internal organisation and administration and exchange control. His term of office lasts until 1995.

Jaap Meijer, new Deputy Governor of the Reserve Bank, has already made his mark on monetary policy. A staunch opponent of variable liquid asset requirements as an instrument of monetary policy, he worked closely with late Governor Gerhard de Kock. As assistant to De Kock between February 1981 and September 1985, he was involved in the compilation of the De Kock report on Monetary Policy published in 1985. "He worked on innumerable internal papers and reports and this made a substantial contribution to the changed thinking in the Reserve Bank," says a former colleague. "In my view he is SA's expert on money and banking."

The report found the liquid asset system was ineffective because it was inadequately implemented and because the system itself had inherent weaknesses. The most obvious was that the requirement created a shortage of this paper, distorting their interest rates and thereby undermining their potential to implement monetary policy. The report recommended replacing the system with a variable cash reserve system.

This recommendation has finally been implemented. The Deposit-Taking Institutions Act, which came into effect on February 1, replacing the Banks Act of 1965, calls for cash reserves and liquid assets to be held against deposits of fewer than 31 days, but the liquid asset requirement, being low at 16%, poses no constraint on the execution of monetary policy. Having graduated from the University of Pretoria, Meijer worked at the universities of Natal, Pretoria and SA before joining the economics department of the Reserve Bank. He started as head of money and banking in 1964. A series of promotions and a Ph D in economics (1973) saw him become head of the economics department in July 1986.

He has contributed to a number of publications, including *The Mechanics of the South African Financial System.* ■

Economy holding up quite well

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8Ta 8/2/91

Finance Staff

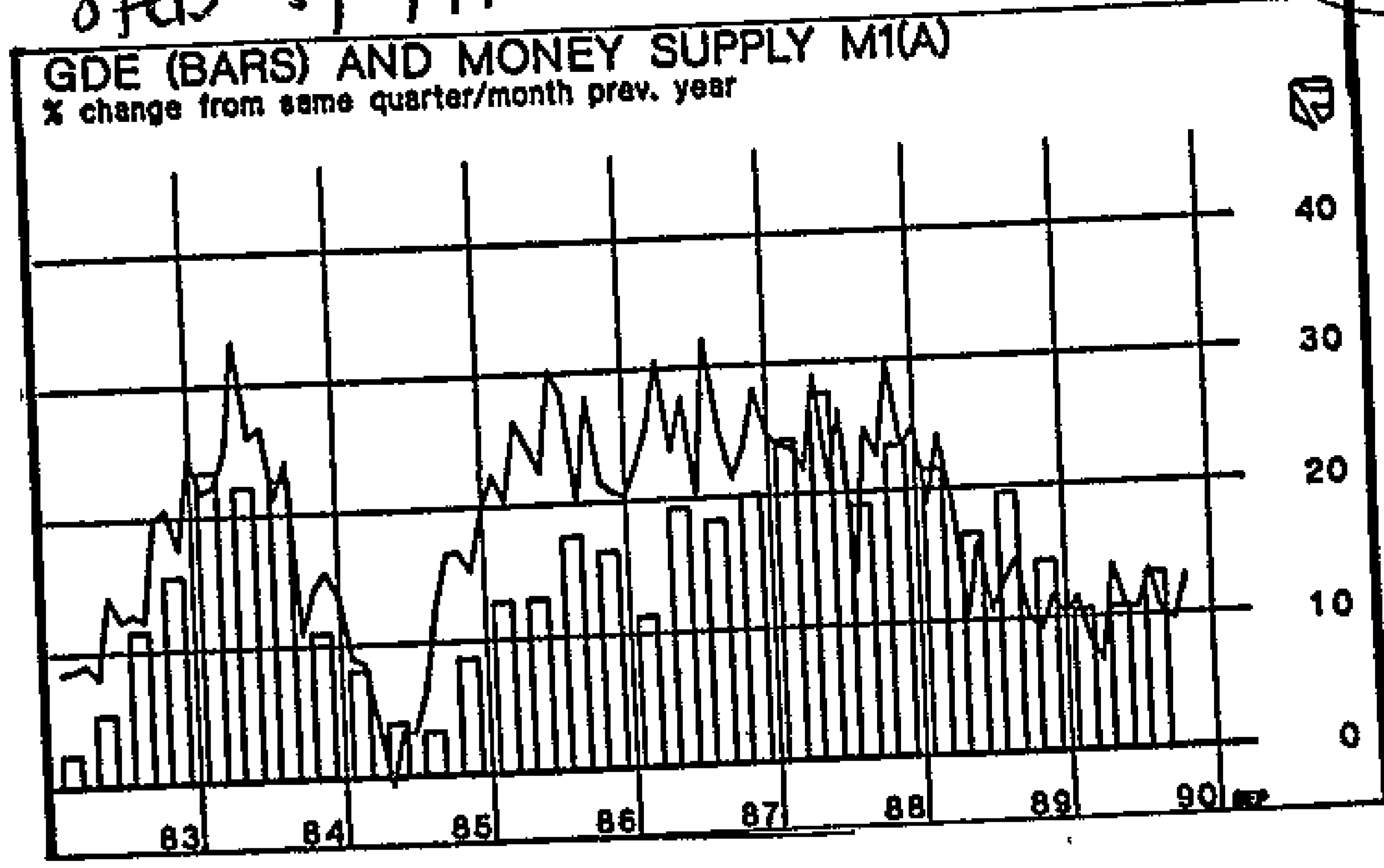
In spite of a negative view on the international scene, the South African economy is holding up fairly well, Old Mutual says in its latest Economic Monitor.

An analysis of economic activity since the start of the downswing in 1989 shows that, by local standards at least, the current recession in the South African economy is still fairly mild. After six quarters of recession (up to and including the third quarter of 1990), both production and spending fell considerably less than in the two downswings of the '80s (see diagram).

In contrast to declines of more than 10 percent during the first six quarters of the '80s recessions, real gross domestic expenditure (GDE) has fallen by only three percent during the current one. The current downswing in production trends is also more moderate.

Old Mutual economist Rian le Roux says that in the current downswing, GDE has clearly fared relatively well compared to gross domestic product (GDP). Although both have fallen in real terms, the difference in declines is nowhere near as large as during the '80s downswings, when real GDE fell by seven and 10 percentage points more than real GDP. Currently, the difference amounts to only two percentage points.

The country is getting some benefit from increased political acceptability. This is reflected by a great willingness of foreign creditors to refinance foreign debt. There are also tentative signs of investor interest. The foreign debt service burden, severely compromising economic growth over the past six years, should also become less demanding.



Inflation

Mr le Roux warns, however, that unrealistic expectations should not be harboured and a sustained net inflow of capital appears unlikely in the foreseeable future. The attitude of foreign creditors could also change quickly should domestic political events take a turn for the worse.

Progress has been made with regard to the balance of payments and while inflation is still fluctuating between 14 and 15 percent, partly because of the Gulf crisis, some degree of improvement is likely this year.

Economic policy over the next two years is expected to be less restrictive and aim for moderate expansion in domestic demand. The expected decline in interest rates should offer some relief to over-extended individuals and companies, although no meaningful impact can be expected until later this year.

Agriculture could still have a material effect on the growth rate, Mr le Roux says. The expected poor agricultural year (particularly regarding maize) will have a negative impact and could prevent the economy from recording a significantly positive GDP growth rate this year.

Recession comparison

	1981-83	1984-87	1989-90
GDE	−12,4	−10,4	−3,2
GDP	−1,8	−2,0	−1,3
GDP (excl	−1,5	−2,7	−0,8

(1) Percentage change over the first six quarters of the recession.

Prospects this year for a repetition of the relatively large salary adjustments over the past few years are not good. The question as to whether these will be lower than the rate of inflation is difficult to answer, but if inflation declines as expected, salary adjustments in the private sector are, on average, unlikely to be strongly negative in real terms. In the public sector, increases will probably be lower than last year, but likely to be on par with a lower inflation rate.

The consumer's debt position remains unfavourable, Mr le Roux says, and consumption spending is expected to increase only moderately this year.

Overall, economic conditions this year will not differ substantially from those in 1990 and although economic policy should be less restrictive, positive effects may only be felt towards the end of the year.

The unknown factors of the domestic political process and events in the Middle East could, however, prove decisive.

this year, says Old Mutual.

In its latest Economic Monitor, the life assurer warns, however, that although a cyclical lowering of official short-term interest rates is very likely, further declines during 1991 will be relatively modest.

Continued uncertainty in the Persian Gulf, the need for further improvements in foreign exchange reserves, credit growth constraint and curbing inflation all call for a continued sound monetary policy (positive real rates of interest).

Oil price

The situation in the Middle East could cause both international and domestic rates to remain high, although the recent sharp increase in oil production could result in an over-supply if and when a solution to the crisis is found. In this case, a significant fall in the oil price would be very positive for bond markets, Old Mutual says.

High international bond rates may also be sustained by huge demands for capital for the rebuilding of Eastern Europe.

On the domestic front, uncertainty about constitutional negotiations and their eventual economic implications could deter participants from purchasing bonds on a large scale and may even lead to some foreign selling.

In spite of the risks involved, Old Mutual nevertheless believes long-term interest rates could ease somewhat further this year.

BUSINESS

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McGregors open up the debate on possible SA economic scenarios

WMail 8/2- 14/2/91.

By REG RUMNEY

OWNERSHIP in the banking industry, even before the latest merger moves, was too concentrated, according to Azar Jammine, economist at independent consultancy Econometrix.

Jammine's argument is contained in a recently published book that holds up the South African economy for inspection from different angles.

Concentration of ownership and the dominance of conglomerates feature prominently in the various contributions to Robin McGregor's *Economic Alternatives* (Juta). Concentration of ownership is surely one of the issues which a future government must tackle.

Jammine's argument is that concentration of ownership has meant banks have not been cautious in their lending policies because their lobbying power is too strong. They have been certain either the Reserve Bank or their parent companies, such as Anglo American, Sanlam or Old Mutual, will bail them out. The rescue over the years of banks which have found themselves in difficulty — like Nedbank and Trust Bank — seems to bear him out.

Robin and Guy McGregor discuss in much detail competition theory, competition law in various countries and the possible effects of economic concentration.

They conclude that bigness is not bad in itself, while the abuse of bigness is.

They pose the question: Is concentration necessarily a bad thing? "Do we look at concentration from a structural or behavioural point of view?" They note the Free Market Foundation has found the behavioural patterns of South African companies to be essentially competitive. "This may be so and certainly appeared to be the view of the Competition Board until recently."

However, they quote report 15 1985 of the board in which it states various practices such as resale price maintenance, price collusion, market sharing and collusive tendering did occur "fairly generally".

The McGregors come up with specific recommendations. Chief of these is a move away from the subjective approach of the Competition Board.

They suggest, among other things, that to keep state intervention to a minimum "substantive criteria" — ie a pure competition test — should be used rather than a host of other factors such as employment.

Notification to the authorities before a merger rather than after should be encouraged by limiting the number of after-the-fact notifications.

The McGregors also note the takeover rule now adopted by the new stockmarket watchdog Securities Regulation Panel. This obliges all holders of between 30 percent and 50 percent of the voting shares of a company to make an offer for the balance. They suggest this should be made retroactive. The book was published before the actual rules were published, so their hopes have been disappointed.

The African National Congress, according to an "interpretation" of its policy by Professor Laurence Harris, is concerned about conglomerates but its concern does not stem from the lack of competition which generates economic efficiency.

"That argument is not the main driving force behind the ANC's views on conglomerates, for the ANC does not envisage market competition as the main mechanism for allocating resources to achieve its goals of economic and social transformation."

Since this is an interpretation and not an official policy document it is difficult to know where the party line ends and Harris begins. Harris heads Economic Research on South Africa, a research and training unit within the ANC's Department of Economics, and has helped the organisation for some years on economic policy. So he must in some way reflect thinking in the ANC.

Harris, unlike party members speaking to white audiences, doesn't avoid the N-word, nationalisation. He discusses the pros and cons of nationalisation and public ownership extensively, summing up:

- "The ANC does include nationalisation of some private corporations as a significant element in its economic strategy.
- "The extent of public ownership and its detailed implementation will be determined on a case-by-case basis in the light of the ANC's overall objectives for the post-apartheid economy. The basic goal is to overcome inequality; public ownership will be considered where necessary to achieve this in the context of economic growth.
- "Major corporations which are privatised by the present government will be returned to public ownership."

The overwhelming impression given by Harris's contribution is that the degree of state intervention envisaged by the ANC is by no means limited.

On the opposite end of the scale, there is a contribution by free market ideologue Leon Louw.

Though he has some good points to make, he seems at times to miss the point. Black fears of the effects of an untrammeled free market, and resentment at past injustices, cannot merely be dismissed on the grounds that apartheid wasn't really capitalist.

A more non-partisan, though firmly free-market, approach is displayed by Bobby Godsell and Jabulani Maphalala in discussing growth, unemployment and the informal sector. They do not overstress the importance of the informal sector, nor do they undervalue it. Instead they argue that "great and unrealistic expectations of the informal sector are misguided and dangerous".

tals predicts some decline interest rates this year

Star 9/2/91

(49)

TOWN — The outlook for ·onomic activity in South in 1991 remained flimsy, ·re should be some de- ı all interest rates during ·l of this year, the gover- the Reserve Bank, Dr ·tals, said here yesterday.

·essing a media briefing, he would take some time to re- ·usiness confidence and to entrepreneurs to expand ·ion capacity through new ·ent.

his situation, the economic rate may turn out to be slightly ·n the minus one percent of ·, but will still be well below ·m potential of the country."

·ong economic recovery would ·obably follow only after some ·onsensus had been reached on · new political dispensation for · of South Africa would look

then it would benefit the coun- ·ntinue with a policy of consoli- of preparing a sound financial · sound and sustainable eco- ·owth in the new South Africa.

·omestic demand

·als said a lower domestic de- ·· credit, a further decline in of increase in the money sup- ·ontinuing increase in the net · foreign exchange reserves ·ecline in the rate of inflation in combination, lead to some in all interest rates during the ·his year.

· final analysis, developments ·th African economy, as dur- past 10 years, would be deter- · an important extent by de- ·s in the political arena.

· developments give reason ·of optimism in this regard, · lifting of internationa·

CHRIS STALS: "Easing of international pressures could provide an early windfall for economy".

pressures on the South African economy may still provide an early windfall, which has not been provided for in the more pessimistic projections made so far."

In general, the expectations were that it would not be possible in 1991 to repeat the good performances of the balance of payments over the past few years.

There were many uncertainties surrounding the economic situation.

The Gulf crisis and the deteriorating prospects for important economies such as that of the US and the UK, created some pessimism for the global outlook.

Although the effect of adverse developments may be partly neutralised by some further decline in imports, a surplus on the current account of only about one-half of that of last year was now predicted.

This should, however, present no serious problem, as the net capital outflow for the year should also be relatively small.

Credit rating

Dr Stals said the authorities were confident that South Africa's credit rating would continue to improve a· that all the austerity measures of the past six years would now begin to pay dividends.

"South Africa succeeded, through a· extremely difficult time in its history in keeping good friends in most of the world's major money and capital markets. These friends are now coming back to us as active lenders and investors."

The Reserve Bank had no foreign liabilities at this stage — for the first time in 10 years.

South Africa's foreign debt at the end of 1990 was estimated at $2· billion.

"In terms of international standards South Africa is a very under-borrowed country." — Sapa.

Rapid economic growth needed

Star 9/2/91

CAPE TOWN — This year's Budget will see more than 40 percent of the budget earmarked for socio-economic expenditure, the Minister of Finance, Barend du Plessis, said at the conference.

However, unless there was immediate and rapid economic growth, the country's growth in unemployment could render the country ungovernable.

"Regardless of the composition of the government in the mid-nineties, unless we can now start to rapidly increase our growth, it will be almost impossible to govern this country because of the increase in unemployment."

The removal of sanctions could play an important part in increasing the growth rate which, in turn, would help the State to spend more on communities in desperate need.

The overall effect, in terms of growth, of trade sanctions was that they did not significantly inhibit South Africa's growth potential.

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"On the bad side, it caused a distortion in our economic performance where we were making things we should have bought."

The one side of sanctions which did inhibit growth was the fact that the country had had to operate on a cash basis, but this also enabled the economy to be restructured. — Sapa.

ANC-style economics are served up for R500-a-plate diners

(49)

S| Times 10|2|91

By DIRK TIEMANN

ANC director of external affairs Thabo Mbeki this week took his organisation's economic policies to the heart of wealthy Sandton.

At a R500-a-plate dinner at the Inanda Club on Friday night to raise funds for the ANC's welfare projects, he debated future economic policies for South Africa with Times Media Ltd managing director Stephen Mulholland.

Mr Mulholland accused the ANC of lacking a grasp of fundamental economics.

"It also lacks an understanding of how political power should be exercised in a civilised and constructive manner," he said.

Mr Mulholland said the ANC had lost the ideological struggle against democratic liberalism and the free market.

He believed democracy had increased the standard of living, health and welfare of ordinary people, while personal freedoms had also grown.

Trouble

"Instead, the ANC and its fellow travellers offer the panacea of the state. The more state the less freedom and wealth.

"Unfortunately, capitalism has been associated with the heinous system of apartheid and this misconception must be destroyed."

He cautioned the ANC not to make the mistakes of Eastern Europe.

Mr Mbeki warned that the country would be in trouble if it adopted Mr Mulholland's position.

"We must make sure the economy grows and, as it does, it must address the fundamental questions of poverty, unemployment, disparities and anything you can think of," he said.

"The state, the private sector, families and individuals have a role to play."

The ANC had never said it was studying China or the Soviet Union as a model for SA, he said.

"We should not apply a system to an issue, but rather decide what to do about the real problems in SA and then a system might emerge.

Cheaper

"The ANC is opposed to a system that excludes the state. The free market cannot address inequalities, but the state can.

"Jan Steyn, chairman of the Independent Development Trust, estimates the housing backlog to be 800 000 units and the free market is unable to tackle that on its own."

Mr Mulholland said he could not believe the government could build houses better than businessmen, who would do the job cheaper and faster.

BoP unlikely to match last year's, Stals warns

B/Day 11/2/91.

Business Day Reporter

SA's "outstanding" balance of payments performance in 1990 was unlikely to be repeated in 1991 with the current account surplus being slashed to about R3bn, Reserve Bank governor Chris Stals said on Friday.

And though he cautioned that the lifting of sanctions would not necessarily lead to an immediate inflow of foreign capital, he was notably upbeat about the Bank's actual and potential foreign reserve position.

Speaking at a media conference in Cape Town, he said the projected decline in the rate of expansion in world trade and lower economic growth rates in some of the major industrialised countries might result in lower commodity prices and the terms of trade might move against primary producers.

"This should, however, present no serious problem, as the net capital outflow for the year should also be relatively small," he said.

Total gross commitments for debt redemption amounts to only R4bn in 1991 and if, as in 1990, 50% of this was rolled over, the smaller current acount surplus could again easily exceed the net capital outflow.

He said 1990's projected R5,5bn to R6bn surplus on the current account was complemented by a stemming of capital account outflows — foreign debt repayments.

Net outflows on the capital account amounted to only R2,5bn in 1990. This compared with 1989's R4,3bn and was the lowest since the debt standstill was introduced in 1985.

The lifting of sanctions, he said, was unlikely to result in a huge inflow of funds as investors still wanted to know what economic policies a future government was likely to adopt. As a result, the main objective remained to reduce outflows and to bring the net position to zero.

The gold and foreign exchange reserves position should improve through the year, he said.

With reserves at "about R7bn", SA still fell short of the R16bn needed if it was to match the internationally acceptable standard of reserves sufficient to cover three months of imports. But Stals pointed out that for the first time in ten years the Reserve Bank itself had no foreign debt on its balance sheet.

As a result it could count on R3bn being available in the form of overseas credit lines, lifting the Bank's potential foreign reserves to R10bn.

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Loans

And, if SA gained access to IMF loans, Stals reckoned the Bank's reserve potential could be increased to between R13bn and R14bn.

He was hopeful SA would be able to tap World Bank development funds. The World Bank had recently been granting loans to countries whose per capita income far exceeded the World Bank's normal $2 000 qualifying upper limit. Countries with per capita GDPs of as much as $3 000 had received World Bank loans and, Stals stals SA could qualify as its per capita GDP was only $2 400.

On prospects for the year he said "despite the improving international economic relations, the monetary authorities are determined to persist with a policy of financial discipline."

There should be some decline in interest rates, he said.

Allow us to compete openly for capital in international markets

SA needs investments not charity - Ackerman

(49) Sowetan 12/2/91

SOUTH AFRICA does not need - or seek - charitable handouts from the international community, according to a leading local businessman.

Speaking yesterday at the World Economic and Agro Forum in Davos, Switzerland, Mr Raymond Ackerman, chairman of Pick 'n Pay Stores Ltd said: "I must stress that I'm not here with a begging bowl.

"The South African economy is eminently capable of developing its own potential if permitted to do so. We simply ask that we be allowed to compete openly for investment capital, trade and development loans in the world's financial markets.

Leaders

He was speaking to an audience including an array of world political and business leaders, like Wilfred Maartens, the Belgian Prime Minister; Hans-Dietrich Genscher, the German Foreign Minister; Jan Vlielski, the Polish Prime Minister; the Deputy Trade Minister of Japan; Sir James Goldsmith, the International financier, and some 700 senior delegates from the IMF, GATT, the World Bank, and major international corporations.

FOCUS

RAY ACKERMAN

Should punitive economic measures by Europe and America persist, a new black government in Pretoria may inherit an economy not even able to satisfy the demands and expectations of its own population, let alone be able to stimulate economic activity elsewhere in Africa, he warned.

That could have dire consequences for the country, he said. "Economic decay will almost certainly make it impossible for an already-fragile democracy to survive in a new South Africa, an unable to prevent the new multiparty democracies elsewhere in Africa from sliding back into authoritianism.

"South Africa's future, therefore, is integrally linked with that of Africa as a whole. Given international, economic and political trends, it is realistic to suggest that South Africa must become the economic engine room of a continent which has steadily dropped on the priority agenda of the developed world.

"Your governments and companies are in a position to help all in Africa achieve the "de facto" economic independence it so desperately needs to legitimise its "de jure" political sovereignty", he said.

Investment

South Africa would undoubtedly attract investment capital for it is seen by the international business community as being both reliable and able to guarantee a decent rate of return.

Already, in fact, a number of leading world companies in the food industry alone have expressed direct interest in investing in South Africa.

On the subject of sanctions, Mr Ackerman said in the light of President de Klerk's announcements at the opening of parliament last week, these were no longer an issue. There can be no doubt South Africa was speedily and irreversibly on course to a new and equitable political dispensation.

"Unfortunately, these bold political steps come at a time when the world economy is preoccupied with decreasing growth rates and the problems of reconstruction in eastern Europe. Moreover, funds available for Africa are not what they were, and European trade and investment in Africa is on a downward slide.

"We in South Africa are ideally positioned to spearhead an economic recovery on our continent. We are better placed than most to export skills, experience and technology into Africa: in spite of sanctions (so vigorously applied by northern nations) our economic infrastructure is still the most sophisticated on the continent. The need for a strong, vibrant economy in South Africa, therefore, has continental, and even international implications.

"South Africa already trades with almost every country in Africa - exporting products worth some R5,6 billion last year - and despite sanctions, trade with African countries increased by more than 45 percent during the last 24 months."

Keeping time means keeping pace with events

B/Day 12/2/91. (49)

STEPHEN MULHOLLAND

THERE was a sad and unintended irony in the recent call by Archbishop Desmond Tutu to an audience at the University of the Western Cape to throw away their clocks and stop looking at their watches because "we're in Africa now".

Tutu was speaking at a ceremony at which an honorary doctorate of law was conferred on Nelson Mandela, deputy president of the ANC. Due to what the organisers called "security precautions" there was a 45-minute delay which elicited Tutu's remarks.

Perhaps he was exercising his well-known sense of humour in his remarks, although it is said he defends his position on time with vigour at cocktail parties. The problem is, as a national leader and Nobel laureate, he is taken seriously.

"African time" is a well-known phenomenon all over the continent. It is practised across the whole spectrum of African society, from presidents to messengers. One can say there is a certain eccentric charm to it. It lends an element of unpredictability to affairs, as in: "Will he come? And if he does, when will he come?"

This disregard of time is probably a large part of the reason that, on the whole, this continent missed the great economic revolution of the past two centuries.

As a result of missing this revolution, Africa has been left mired in backwardness, poverty, disease, high infant mortality, low life expectancy, famine, starvation and general human misery.

The role of the clock and of the concept of time has been pivotal in the development of the industrialised world. First, of course, was the wheel, without which the clock would not have been possible, without which the concept of time passing constantly and systematically in an internationally uniform manner would also not have been possible. And without this concept there would have been no Industrial Revolution, none of the technological miracles of the past two centuries.

Instead of an explosion of populations, living standards and freedom of movement and association changing the West forever, it would have remained mired in agrarian feudalism. Most men and women would have continued to spend 90% of their "nasty, short and brutish" lives grubbing for bread only.

The history of time and the study of timekeeping — horology — are subjects worthy of Tutu's attention.

In How the West Grew Rich, the American economists Nathan Rosenberg and L E Birdzell jnr contend that one of "the most formidable technological achievements of the high Middle Ages was the invention of the clock in the late 13th century. The clock, with its gear train and escapement, is important technologically because, in the pursuit of ever more accurate timekeepers, the clockmakers' shops became the research universities of Western knowledge of the mechanical arts, of friction, of precision metalwork, and of the varying behaviour of metals and other materials at different temperatures and under different loads."

They add, with special reference, in my view, to the problem of keeping time in Africa: "It also had a more subtle social importance, cultivating the sense of time crucial to the organised collaboration of large numbers of people."

By 1750 "when the Industrial Revolution was about to impose immense demands on the skill and ingenuity of mechanical designers, Western clockmakers had already brought mechanical design to an advanced state of development".

America's great railroad system, which opened the hinterland to development, could not have functioned without passengers who had clocks and railroad operators' timetables by which to run the trains.

The greatest social injustice of all, poverty, has been reduced in the West from well above 90% to around, perhaps, 20% over the past century and a half. The task is not complete in the West. But in Africa it has not yet begun and, in fact, living standards have fallen.

Time consciousness is not, of course, alone a sufficient cause of growth but it is, self-evidently, a necessary one.

If our black brothers and sisters wish to share in the creation of an economically thriving SA — and without growth there will be no justice — then they would be well advised not to follow "Tutu-time", a phrase now in wide use and popular with leader writers.

When next I have the pleasure of meeting the archbishop I plan to ask him how he would feel about a surgeon who, scheduled to perform an emergency procedure on one of the Tutu children, decided to throw away his clock "because we're in Africa now", and turned up an hour late.

I also plan to ask him how he would feel about his congregants failing to turn up on time for his services.

And would he be impressed if those in charge of the Concorde to New York, which he uses, also took his advice and threw away their clocks? But then they're not in Africa, so I suppose he won't object to them being on time.

LETTERS

Dear Sir, ... In the interim 12 months, while a

Slovo backs a combined approach

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TIM COHEN

IT WAS a pipe dream to imagine that the process of restructuring racial-economic imbalances could be left to the private sector only, SACP general secretary Joe Slovo said yesterday.

Slovo said that in the immediate sense, his organisation was not proposing to address class disparities but national disparities.

Therefore, when emphasis was placed on the role of the state to address these disparities, his organisation was not posing the simple choice between capitalism and socialism.

Confusion over this point had led to a misplaced argument which posed "the market" and "the plan" on opposite ends of the ideological spectrum.

BDay 13/2/91

Intervention

While conceding that "the plan" had not worked in socialist countries, he warned that it was important to know what the market could and could not do.

The plan needed the discipline of the market and the market, as a socially serving institution, needed the constraints of the plan.

Although the transformation sought in SA would require a considerable degree of state intervention, this did not imply nationalisation.

State intervention could take the form of fiscal policies, joint projects with the private sector, state-owned enterprises and direct state involvement to ensure public utilities and social services.

"We all agree that without growth we cannot have redistribution. We also all appreciate that for SA's black majority, growth without the process of redistribution is quite an irrelevant statistic," he said.

Stals not opposed to a decline in interest rates

Star 13/2/91 (49)

The Governor of the Reserve Bank says there is no need to prevent nominal interest rates from falling.

Dr Chris Stals told the Frankel Max Pollak Vinderine investment conference yesterday: "As long as real interest rates remain comfortably above inflation, the Bank sees no need in the present economy to go against the trend of the market and prevent nominal interest rates from declining."

He added, however: "The solution to SA's economic problems does not lie in the creation of more money.

"Lower interest rates that must be supported by a new phase of monetary expansion will only bring short-lived advantages.

"The benefit to be derived from a temporary decline in rates will soon be negated again by rising inflation, and eventually by the necessity of even higher interest rates.

"The Reserve Bank is therefore not averse to lower interest rates at this stage, but remains against a policy of deliberately pushing down rates by the creation of new money."

Dr Stals said that, to meet the requirements of monetary policy, money supply would have to be contained within constricted guidelines to be announced shortly.

Dr Chris Stals . . . no need to go against the trend

He said there was still room for a further reduction in bank credit and that gold and foreign exchange reserves must be replenished.

"The continuing high increases in credit extended by institutions to the private sector took the form of further increases in mortgage finance, which rose by R2 billion per quarter in 1990.

"How desirable this type of finance might be from a social point of view, the fact remains that the financing of home ownership with bank credit extension adds to the money supply, and the secondary effects of such increases in M3 will be as harmful in the fight against inflation as any other additions to the money supply."

On the balance of payments, he said that based on preliminary data it was estimated that a surplus of R5,8 billion had been established on the current account in 1990, up from R3,1 billion previously.

This allowed SA to make substantial repayments on its short-term foreign borrowings and at the end of January this year the outstanding amount of foreign liabilities amounted to only R42,7 billion.

Exports increased by 16,9 percent in 1989 and were up by a further 6,5 percent in 1990, the seventh consecutive year in which the volume of exports increased.

Dr Stals said the estimated outflow of capital in 1990 was the smallest net outflow in any year since the imposition of the debt standstill in 1985.

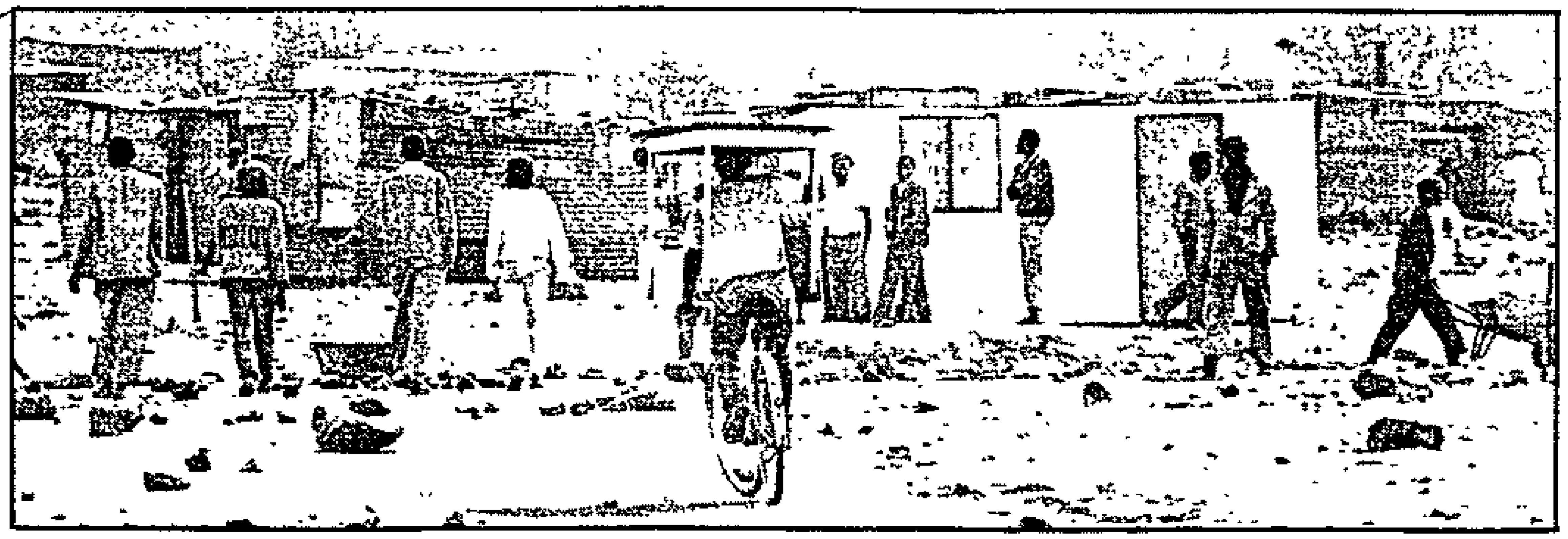
He said more than 50 percent of maturing loans were therefore extended, rolled over or replaced by inflows arising from drawings under new loans extended to SA borrowers.

Dr Stals said, however, while total gross gold and foreign exchange reserves came to R11 billion, this was only equal to an amount covering two months of imports of goods and services. The adequate cover was three months. — Sapa.

The cost of killing apartheid

Star 13/2/91 (49) Star 13/2/91

Dr Azar Jammine of Econometrix estimates it will take R20 to R30 billion every year over the next decade to start closing the gap in black/white living standards. MICHAEL CHESTER reports.



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Beyond the political rhetoric, however, vital questions are being posed that bring much of the bluster down to earth.

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The answers coming out may not always be palatable to reformers in a rush.

For example, one of the first shocks for the politicians was an assessment from the SA Chamber of Business (Sacob), which calculated the basic costs of remedies to racial inequities at R52 billion.

Sacob has cautioned that it would be hopelessly beyond economic reach to provide all the remedies at a single stroke.

Far better, it has argued, would be to face blunt economic realities and seek agreement on socio-economic programmes that may need to be spread over the next 10 years to meet the acid test of affordability.

The deeper the economic researchers probe, the bigger the problems that emerge — and the higher the cost of solutions.

From new masses of research, Dr Azar Jammine, head of the reputable Econometrix think-tank, puts the overall costs at R20 to R30 billion every single year over the next decade to start closing the gap in black/white living standards.

It makes the R2 billion special fund handed over to former Urban Foundation boss Jan Steyn to launch the Independent Development Trust last year — with the task of setting the wheels in motion toward black upliftment — look like a drop in the ocean.

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Still to be counted are 7,4 million black people crowded into 460 000 squatter shacks — an average of 16 to each shack.

Even the provision of basic housing structures to eliminate shortages by the turn of the century would cost over R5 billion a year — based on the provision of 250 000 modest new homes every year from now until the year 2000 and allowing for high population growth.

Next comes the acute shortage of electric power lines to black homes.

A nationwide count, taking rural as well as urban areas into account, shows a phenomenal four out of every five black households are still without electricity. That is about 20 million South Africans without even an electric light — let alone fridge, cooker or TV set.

Based on conventional connection costs, to link all the households to the power grid would take R14 billion — R1,4 billion a year if tackled in a 10-year programme.

Health services have also left black families way behind.

Dr Jammine point out the shortage of hospital beds for black families is so acute that even if all 11 700 unused beds in white hospitals were made available to all population groups it would hardly make a dent in shortfall — though it would cost an additional R700 million a year just to provide the extra staff.

The full scale of the problem comes into perspective with estimates showing that infant mortality in Soweto, at 80 to every 1 000 newborn babies, is no less than four times higher than the average white rate — and is even worse in rural areas.

The astronomical cost of solutions is one huge question mark.

Next come the education disasters caused by apartheid.

Econometrix estimates no less than 45 percent of the black population have not been taught to read or write.

Among black workers in actual employment, 30 percent have never been to school at all; 36 percent never went beyond primary school Only 31 percent had at least some sort of secondary school education.

The shortage is put at 33 000 classrooms. If mobilised to take in black pupils, the 7 400 white classrooms standing empty at a recent count would cover no more than one-fifth of total requirements.

The new studies quote Government estimates that spending on black education alone to bring about black/white parity would need to soar from a current R5,4 billion to at least R21,7 billion.

The Human Sciences Research Council calculated that if spending on black and white education had been levelled out in 1990/91, the overall cost would have been R37 billion.

Dr Jammine says the crisis in education over the past 15 years has already left in its wake what he calls "a lost generation of young blacks".

He refers to United Nations research that ranked all countries with a population of more than one million in what it called a "human development index". In terms of gross domestic product per capita, even bringing white affluence into the count, South Africa was slotted as low as 48th down the ladder

Even worse, when items such at literacy and life expectancy were added, South Africa slumped to 62nd. The only countries ranking any lower were the 48 other countries in Africa and a handful of impoverished Asian and Central American countries

In terms of literacy, Zimbabwe, Zambia, Tanzania, Lesotho and Botswana all ranked above South Africa.

When all the factors are combined, Econometrix comes to the conclusion that the only conceivable route is to spread an action programme over the next 10 years Even then, the bill would be a staggering R20 to R30 billion a year — equal to a 30 to 50 percent increase in the annual national budget.

Optimists who believe a magic wand may be waved to call a halt to unrest and tensions on the sub-continent may point to the vast potential savings that could be made by slashing expenditure on defence.

Also at hand may be huge savings by the elimination of the duplications and triplications of all the bureaucratic machinery that has been needed to sustain the apartheid system.

Dr Jammine estimates all those possible savings at around R8 billion — a significant figure but nowhere near large enough to solve budget headaches.

So where does the balance come from?

Econometrix reckons it would be utter disaster to shove the onus on higher taxation, which the ANC has listed as a choice target.

The magnitude of the increases that would be needed to fund the whole programme, it feels, would cause chaos It would require a 100 percent jump in personal income tax collections, or else a fivefold leap in company taxes, or else a trebling of the general sales tax rate.

The result, it argues, would be devastating. The entire economy would be crippled — and the vital reservoir of skilled labour would sink at an alarming rate with an explosion in emigration.

Nor do the researchers see any economic sense in turning to the alternative of trying to borrow all the cash needed to cover a Government budget deficit running at R20 to R30 billion a year for a decade.

The astronomical interest burden alone would inevitably force the Government to resort to the printing presses to turn out more and more rand notes — and sooner or later plunge the whole economy into hyperinflation.

Equally disastrous, argues the research unit, would be tinkering with nationalisation experiments. On that, it believes, all the ANC needs do is examine the track record of nationalisation around the world.

Weighing all the alternatives, Dr Jammine chooses privatisation of more state-owned assets as the possible best route — especially if planned to ensure a fair share of business enterprises goes to the black community and to ensure an end to the syndrome of the concentration of too much financial power in too few hands.

He answers critics of the privatisation option in a section of the new book "McGregor's Economic Alternatives":

"Were privatisation such an inequitable way of improving economic growth, why is it that it has been adopted as a course of action by countries the world over? This has been the case not only in the industrialised world but more recently in Eastern Europe and South America and not least in many African countries north of the Zambezi.

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"Do we really have to continue to remain out of step with the rest of the world as we have done over the last 40 years?" □

The cost of killing apartheid

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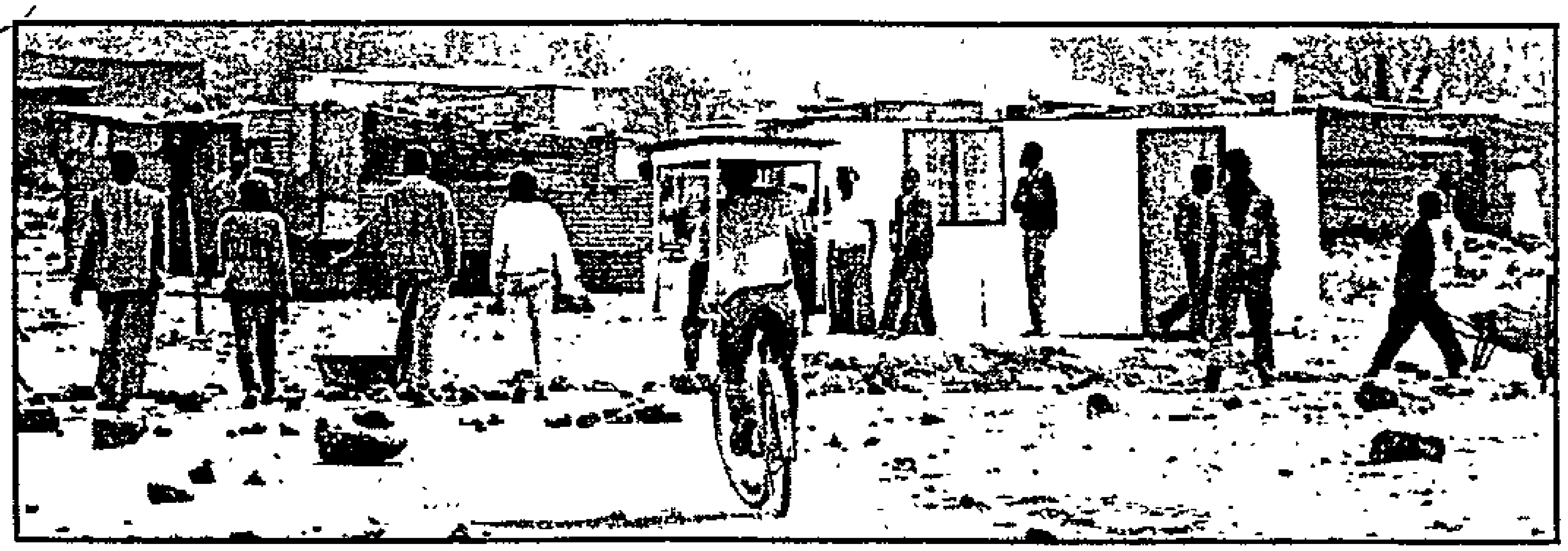

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Economic architect losing his sway in the changing SA

BDay 13/2/91. (49)

GRETA STEYN

ECONOMIC Co-Ordination Minister Wim de Villiers has asked the Treasury to stop using long-term loans to finance consumption spending — in other words, to slash the deficit. According to a well-placed source, he wants this proposal implemented in next month's Budget. But De Villiers has little hope of succeeding.

Finance and monetary officials say the proposal, though laudable, is impractical at this time.

Some of De Villiers' other ideas are meeting a similar response. How relevant is De Villiers-style "supply-side" economics to the "new SA"?

His concern about government's use of long-term loan finance to fund consumption spending reflects his preoccupation with SA's dismal savings performance. Few would quarrel with the focus on savings. That SA consumers slipped into the red in the third quarter of last year for the first time is evidence of serious structural problems in the economy.

When government uses long-term capital to finance consumption spending, it reduces the country's savings and there is less available for investment spending. The practice, known as "dissaving", occurred for most of the '80s. Government last year budgeted for "dissaving" of about R3bn when it budgeted for capital spending of R5bn and a deficit before borrowing of R7,99bn.

But Finance Minister Barend du Plessis justified this by saying that a "huge" part of government spending is investment in human capital. Redefining investment, he was emphatic that loan finance of social spending could not be equated with frittering away the nation's savings.

Social spending pressures are even greater this year. Just to eliminate the disparities between the different races' pensions would cost about R2bn, or a quarter of the present deficit. In the current political climate, it seems highly unlikely that De Villiers will convince Du Plessis to embark on a course of excessive fiscal discipline after years of breaking the rules. Only four years ago, general government dissaved to the tune of almost R4bn. A radical turnaround now will be difficult to justify. The deficit will probably be kept at the benchmark 3% of GDP.

De Villiers' concern with SA's savings performance led to his suggestion to cut taxes on income from savings, notably a withholding tax on interest. But there is growing scepticism that this will have any noticeable effect on savings. Deputy Finance Minister Org Marais admits that the implementation of a withholding tax on interest income to replace the individual marginal tax rates will not have any dramatic effect. The same goes for exempting dividends from tax. There is no evidence that individuals saved more by investing in equities when this tax was dropped last year. In fact, the savings performance worsened.

"Government is sending a message that it wants to see more savings," Marais says, "but realises that there are too many other factors influencing savings to bet on tax cuts to do the job."

Marais remains a supporter of the withholding tax as it is easier to collect and there is less evasion. But expectations are that the tax will not be implemented in this Budget.

The urgent need to create employment in the formal sector might also see key elements of De Villiers' restructuring plan put on the backburner. De Villiers wants more exports of processed materials; one of his main concerns is that 88% of SA's exports are in raw or semiprocessed materials. He sees a drive towards beneficiation as essential for sustainable job-creating growth.

"We are exporting our employment opportunities," he says, arguing that SA is not exploiting to the full the comparative advantage inherent in its agriculture, minerals and metals.

But how long will it take before the unemployment numbers start falling as a result of exporting more processed materials? And how will this be brought about? Reserve Bank Governor Chris Stals shows little enthusiasm for the idea.

"Thinking in terms of the new SA, the beneficiation of ore in SA and taking it further down the production line is a very capital-intensive operation. I think what we need in SA in the next few years is to concentrate on projects that will be labour-intensive. I am not that much concerned about what we export as long as we can export. Local beneficiation of ores is part of the longer-term objective of structural change in the economy; it would certainly be very good but I cannot regard it as a very high priority," Stals said.

Asked about talk that De Villiers is pushing for an official inflation target slicing two percentage points off the rate a year, Stals did not confirm or deny any such discussions. But he said: "If you ask us in the Reserve Bank to target inflation, we have only one target — zero inflation. Whatever the rate of inflation is, we don't like it."

Monetary policy, he said, was conducted around one target. In SA's case, this was the money supply. Other variables such as interest rates, exchange rates and the inflation rate follow on the targets for the money supply. He said he would regard an inflation rate of 10% and lower as "tolerable", but gave no time frame to achieve this.

But while some of De Villiers' suggestions seem doomed to gather dust on the shelf, others are being implemented. He kept Eskom's tariff increases down and masterminded a plan which will release R30bn for the industrial sector by restructuring the Industrial Development Corporation. These moves are in the spirit of the new SA; they will not encounter the same resistance as slashing the deficit.

He would face serious political resistance, however, if he wanted to implement his belief in decentralised wage bargaining. There has been little recent evidence of any serious effort on government's part to try and do anything about this.

Similarly, he is no longer "thinking big" on privatisation, although he insists it remains on the agenda.

How successful will De Villiers be in changing the structure and reducing the level of import protection? Government has just responded to lobbying by the textile industry and has approved higher duties on imported yarns to "stem any further disruptive imports". The lobbying will continue, and government might choose to "investigate" while De Villiers' free trade ideals remain on the backburner.

While the Budget will see some of De Villiers' ideas on long-term structural adjustment implemented, others — such as slashing the deficit — will be discarded. He has been under fire for keeping his restructuring programme under wraps, but it seems there is no agreement yet on a coherent and clearly defined package of measures. Perhaps only fragments will be implemented in a piecemeal way.

De Villiers' hopes for the long term might be less important than his value as a constant reminder of financial discipline. While the claims on the country's scarce resources are growing apace, there is a need for a sober voice extolling the virtues of thrift and the vices of inflation.

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No return to dividend tax — Barend

(49)

By Sven Lünsche SW 13/2/91

Finance Minister Barend du Plessis said yesterday that the Government would not re-introduce a tax on dividends in the forthcoming Budget.

Replying to a question at the Frankel Max Pollak Vinderine investment conference in Johannesburg, Mr du Plessis said he was not convinced that a tax on dividends would "level the economic playing field".

The Government was determined to remain consistent in its tax policy.

"We would look foolish if we now reversed a decision announced in the Budget only a year ago."

There has been strong speculation in the financial press and among stockbrokers that a tax on dividends would be brought back in the March Budget.

Department

However, the Tax Adivsory Committee and his department were looking at all the options to bring about a level playing field, Mr du Plessis said.

In his keynote address to the conference, he said discussions on a future economy with various extra-parliamentary groupings would begin only when the negotiations between the government and those groupings on a future constitution were under way.

"However, unless we address the question of poverty immediately, no future government will be able to achieve political and economic stability in this country.

"This responsibility rests on everybody's shoulders, not only the government's," he said, alluding to recent remarks by ANC leaders that the party would attempt to destabilise South Africa if economic sanctions were lifted prematurely.

Irresponsible

Mr du Plessis said it was irresponsible to blame the violence in the townships on poverty, on the one hand, while, on the other hand, advocating continued economic sanctions.

"Sanctions will not survive as a political tool because access to international financial markets is essential to achieve the economic growth rates necessary to meet the socio-economic needs of the country," Mr du Plessis said.

"I don't think sanctions will be an issue at the negotiating table," he added.

The new growth phase in the South African economy would have to be accompanied by a shift to sustained manufacturing and export policies.

On the other hand, domestic events such as the uncertainty caused by violence, the disruption of production through strike action, absenteeism and intimidation would perpetuate the sluggish performance of the economy.

No investor could keep production going in the face of such disruptive actions, Mr du Plessis said.

R2bn overrun in revenue on cards

BDay 13/2/91 (49)

GREETA STEYN

GOVERNMENT is likely to announce a R2bn revenue overrun for the 1989/90 fiscal year next week when the Additional Appropriation is tabled in Parliament, finance officials have indicated.

The revenue overrun is the result mainly of fiscal drag and improved income tax collections through the SITE system. Government attempted to eliminate the effects of fiscal drag in the 1989/90 Budget, but underestimated salary and wage increases. Higher personal income tax collections offset the less buoyant company tax revenues.

This will be the second year in succession that government's revenue exceeds the Budget, but it is not expected that the overrun will finance any major transfers, as occurred last year. Along with the revenue overrun, finance officials indicate a spending overrun of about R1,5bn can be expected.

The net result will be a slightly smaller deficit than the budgeted R8bn and only a few hundred million rands in the kitty.

Various options are being considered on what to do with these surplus funds, including transferring the amount to the next fiscal year, reducing the pension fund deficits or the Treasury's forward cover debt. Given the pressure for social spending, officials have indicated that a transfer to the next fiscal year seemed the best way to use the funds.

The spending overrun consists of an additional R500m spent from a special R1bn allocated to urbanisation after last year's Budget, as well as a R1bn contingency also added on after the Budget. It implies a real increase in government expenditure of 1% for the fiscal year instead of the budgeted real decline. Since GDP fell by a real 1%, this implies that government's stake in the economy grew — contrary to stated policy.

Economists said the extra social pressures on government had made the spending overrun understandable, but called on government to avoid extra-budgetary expenditures. Spending of the off-budget R2bn transfer to the Independent Development Trust will only come through in this fiscal year but will not be reflected in the books. This made judging the impact of fiscal policy on the economy more difficult, they said.

Sacob urges Stals: drop Bank rate — and also the fuel price

B/Day 14/2/91.

(49)

ANDREW GILL

THE SA Chamber of Business (Sacob) yesterday urged Reserve Bank Governor Chris Stals to lower Bank rate by 1% as soon as possible.

A delegation of Sacob representatives met Stals for 90 minutes in Pretoria yesterday where they "emphasised that economic conditions now favoured an early lowering of Bank rate", the chamber said.

The delegation urged that any announcement on the Bank rate cut should be made within the next couple of weeks.

The current economic conditions cited included a rise in gold and foreign exchange reserves, lower inflation, a relatively stable exchange rate and declining credit demand.

"While the Reserve Bank should continue to exercise monetary discipline and reduce inflation, Sacob believes that greater financial stability in the economy now makes some relaxation in monetary policy possible," a statement said.

"While Sacob recognises that a fall in Bank rate alone would not transform SA's economic situation, it would have a positive psychological impact on business confidence and would assist in reducing business costs," the statement said.

Stals has come under pressure recently in calls for a reduction in Bank rate and he admitted at the Frankel Max Pollak Vinderine conference in Johannesburg on Tuesday that pressures were increasing for an early relaxation in monetary policy.

He said the Bank had great sympathy for the difficult time many sectors of the economy had to face.

The good news, Stals said, was that most of the underlying factors of demand and supply were now moving rather strongly towards a situation wherein lower interest rates would become sustainable without any undue increase in money supply.

The Sacob delegation, led by deputy president Hennie Viljoen, also said that in order to reduce inflationary expectations and support monetary policy, a further reduction in fuel prices would "help to offset the cost-push inflation which the SA economy was currently experiencing".

A Sacob delegation would be meeting Finance Minister Barend du Plessis in pre-Budget talks to speak about the Budget, Parsons said.

The expensive balancing act

Sowetan 14/2/91.

(49)

DR AZAR Jammine of Econometrix estimates it will take R20 billion to R30 billion every year over the next decade to start closing the gap in black/white living standards. MICHAEL CHESTER reports.

FOCUS

NOW that the death knell has tolled on apartheid, under international as well as internal pressures, the main focus has turned to the political chess tournament between partisan alliances.

Beyond the political rhetoric, however, vital questions are being posed that bring much of the bluster down to earth.

How much cash will have to be ploughed into socio-economic programmes to bring about the transformation to the promised land of the "New South Africa"?

Where will all the funds come from?

Who pays the bills and how soon - especially in view of the way expectations have been pitched so high?

The answers coming out may not always be palatable to reformers in a rush.

For example, one of the first shocks for the politicians was an assessment from the SA Chamber of Business (Sacob), which calculated the basic costs of remedies to racial inequities at R52 billion.

Sacob has cautioned that it would be hopelessly beyond economic reach to provide all the remedies at a single stroke.

Far better, it has argued, would be to face blunt economic realities and seek agreement on socio-economic programmes that may need to be spread over the next 10 years to meet the acid test of affordability.

The deeper the economic researchers probe, the bigger the problems that emerge - and the higher the cost of solutions.

From new masses of research, Dr Azar Jammine, head of the reputable Econometrix think-tank, puts the overall costs at R20 billion to R30 billion every single year over the next decade to start closing the gap in black/white living standards.

It makes the R2 billion special fund handed over to former Urban Foundation boss Jan Steyn to launch the Independent Development Trust last year - with the task of setting the wheels in motion towards black upliftment - look like a drop in the ocean.

Econometrix looks first at black housing.

The shortage of formal housing alone stands anywhere between 800 000 and two million - and that covers no more than black families with incomes large enough to cope with the high demands of a formal building society mortgage.

Still to be counted are 7,4 million black people crowded into 460 000 squatter shacks - an average of 16 to each shack.

Even the provision of basic housing structures to eliminate shortages by the turn of the century would cost over R5 billion a year - based on the provision of 250 000 modest new homes every year from now until the year 2000 and allowing for high population growth.

Next comes the acute shortage of electric power lines to black homes.

A nationwide count, taking rural as well as urban areas into account, shows a phenomenal four out of every five black households are still without electricity. That is about 20 million South Africans without even an electric light - let alone fridge, cooker or TV set.

Based on conventional connection costs, to link all the households to the power grid would take R14 billion - R1,4 billion a year if tackled in a 10-year programme.

Health services have also left black families way behind.

Jammine point out the shortage of hospital beds for black families is so acute that even if all 11 700 unused beds in white hospitals were made available to all population groups it would hardly make a dent in shortfall - though it would cost an additional R700 million a year just to provide the extra staff.

The full scale of the problem comes into perspective with estimates showing that infant mortality in Soweto, at 80 to every 1000 newborn babies, is no less than four times higher than the average white rate - and is even worse in rural areas.

The astronomical cost of solutions is one huge question mark.

Next come the education disasters caused by apartheid.

Econometrix estimates no less than 45 percent of the black population have not been taught to read or write.

Among black workers in actual employment, 30 percent have never been to school at all while 36 percent never went beyond primary school. Only 31 percent had at least some sort of secondary school education.

The shortage is put at 33 000 classrooms. If mobilised to take in black pupils, the 7400 white classrooms standing empty at a recent count would cover no more than one-fifth of total requirements.

The new studies quote Government estimates that spending on black education alone to bring about black/white parity would need to soar from a current R5,4 billion to at least R21,7 billion.

The Human Sciences Research Council calculated that if spending on black and white education had been levelled out in 1990/91, the overall cost would have been R37 billion.

Jammine says the crisis in education over the past 15 years has already left in its wake what he calls "a lost generation of young blacks".

In terms of gross domestic product per capita, even bringing white affluence into the count, South Africa was slotted as low as 48th down the ladder.

Even worse, when items such at literacy and life expectancy were added, South Africa slumped to 62nd. The only countries ranking any lower were the 48 other countries in Africa and a handful of impoverished Asian and Central American countries.

US Ambassador William Swing looks at developments in SA

Time for a new social contract

Star 14/2/91 (49) (3...)

MOST of the current public debate in South Africa focuses on a new constitution. Important as the constitutional negotiations are to a new future, there are two other areas which will — in my view — significantly determine whether democracy can be built in South Africa, given the valuable years apartheid has squandered.

These are: the issue of the shape of a future economy; and whether or not a democratic ethos can be created to support a new social contract.

Given the economic recession, any optimism, of course, is not unqualified.

Although apartheid may be withering away, its heritage will unfortunately be felt for a long time to come: five percent of South Africans (nearly all white) own 88 percent of the total wealth; seven million South Africans live in sub-standard housing; functional illiteracy among blacks tops 60 percent; up to six million South Africans of all races are unemployed or underemployed.

While these statistics document an absence of justice in this country's economy, they also illustrate a lack of growth.

The stagnation in South Africa's economy results from a history of structural problems, including an absence of skilled labour; high tax rates to pay for apartheid's overhead costs; a concentration of economic power in large conglomerates and the Government; an over-reliance on a protectionist trade policy; and financial sanctions.

In sum, the root cause of South Africa's low economic growth has been the creation of artificial structures to maintain apartheid and the failure to incorporate up to 80 percent of the population fully into the economy.

The challenge now is how to encourage both equity and growth in South Africa's economy. Fortunately, there appears to be a new flexibility among the participants in the economic debate, so that discussion is moving away from the "capitalisation versus nationalisation" confrontation and is beginning to focus on the exercise of economic power by the Government, private sector and labour in the post-apartheid economy.

Government, business and the political opposition are finally talking to each other about the needs of a post-apartheid society and the resources available to meet those needs, without the ideological baggage of the past.

This discussion is of crucial importance because a successful future economic policy requires maintaining a balance between commitment and resources.

It is becoming obvious that the primary economic resources for the new South Africa will have to come from within, for a while at least.

South Africa will no doubt benefit from a post-apartheid dividend, as it eliminates repetitive social systems, reduces spending on defence and security and saves the costs of circumventing sanctions.

The opportunities will be there. The huge pent-up demand for housing, education and hospitals, for example, offers enormous potential for private and public enterprise in the country — with one important condition: the future prosperity of South Africa will come not from the exploitation of black labour, but from the fulfilment of black needs.

There will inevitably be costs, some say as high as $15 billion, in new investment in social needs each year for the forseeable future. Inflation is likely to increase during a post-apartheid period, foreign debt will be built up and standards of living for some will decline. Many ask the question: "Can South Africa afford to make these investments in a new economic order?"

The more penetrating question is perhaps: "Can South Africa afford not to?"

Peaceful negotiations require stability and one thing South Africa certainly cannot afford is to allow political violence to overwhelm the culture of dialogue.

Each year the United States honours the memory of one of its most celebrated citizens, Dr Martin Luther King, Jr, with a national holiday. Dr King argued that political violence "is both impractical and immoral".

"It is impractical because it is a descending spiral ending in destruction for all ... immoral because it thrives on hatred rather than love. It destroys community and makes brotherhood impossible. It leaves society in monologue rather than dialogue."

The culture of dialogue, the culture of tolerance, must be established and maintained above all in South Africa, for only when differences of political opinion are allowed, only when it is accepted that people of goodwill may disagree, can a society prosper.

Dr King believed it crucial to know the other's point of view, for then "if we are mature, we may learn and grow and profit from the wisdom of the brothers who are called the opposition".

One way of encouraging the culture of dailogue is by supporting broadly inclusive negotiations which incorporate all elements of the political spectrum in South Africa.

We Americans thus urge all those still outside the negotiating process to join in. Whatever their proposals for South Africa's future, we encourage them to seek their objectives through the process of dialogue and political change, so South Africa might "profit from the wisdom of the brothers".

● **This is a shortened version of an article published in the South African magazine, Tribute.** □

Sacob urges Stals to make Bank Rate cut

Finance Staff 49 Star 14/2/91

The SA Chamber of Business (Sacob) has asked Reserve Bank Governor Dr Chris Stals to reduce Bank Rate by one percent as soon as possible.

Sacob said yesterday that a delegation, led by deputy president Hennie Viljoen, had told Dr Stals in Pretoria that economic conditions now favoured an early lowering of Bank Rate.

While the Reserve Bank should continue exercising monetary discipline and reduce inflation, Sacob said that greater financial stability made some relaxation in monetary policy possible.

"A further reduction in fuel prices over the next few weeks will also help to offset the cost-push inflation, which the economy is currently experiencing," it said.

Sacob recognised that a fall in Bank Rate alone would not transform the economic situation, but it would have a positive psychological impact on business confidence and would assist in reducing business costs.

Insight into the PAC

(49) Sowetan 14/2/91

Book Reviews

An Africanist's View of Economic Emancipation - A Draft Paper. By **SIPHO SHABALALA** (Published by Skotaville). Reviewed by **JOSHUA RABOROKO.**

"Economically we stand for a planned economy and the most equitable distribution of wealth," said late founder of the Pan Africanist Congress Robert Mangaliso Sobukwe.

"I have said that to me, at least, the slogan 'equal opportunities' is meaningless if it does not take equality of income as the springboard from which all will take off," he continued.

Sobukwe's words feature prominently in this draft economic paper. Sowetan 14/2/91

They are very encouraging indeed when considering that any liberation movement, after gaining political power, cannot ignore the sources of economic power - a lesson which most African states ignored before and after obtaining independence from their colonial rulers.

"This book provides irrefutable proof that the PAC is the organisation that strives to ensure that the people of this land enjoy the riches of their country," says the late PAC president Mr Zephania Mothopeng in the foreword.

"It wants the dignity of the African to be restored to him/her."

The book is recommended to Africanists and those who are interested in the PAC's outlook for a future economy in liberated Azania. The movement's policy has been explicitly spelt out here.

Top academics for city seminar

South 14/2 - 20/2/91

By Musa Ndwandwe

EMINENT national and overseas academics will participate in a historic workshop on "Budgeting for Redistribution" to be held in Cape Town later this month.

Economists from the United States, Europe and Africa will meet with South African economic experts in a workshop jointly organised by the University of the Western Cape's Economic Policy Research Project and the University of Cape Town's South African Labour and Development Research Union.

The African National Congress and the Congress of South African Trade Unions will also send representatives.

The workshop will be officially opened by UWC's rector, Professor Jakes Gerwel.

Workshop coordinator Professor Lieb Loots, said the closed sessions from February 24 to 28 and March 1, will deal with the detailed mechanisms of the various redistribution policies of which the overseas economists had experience. (49)

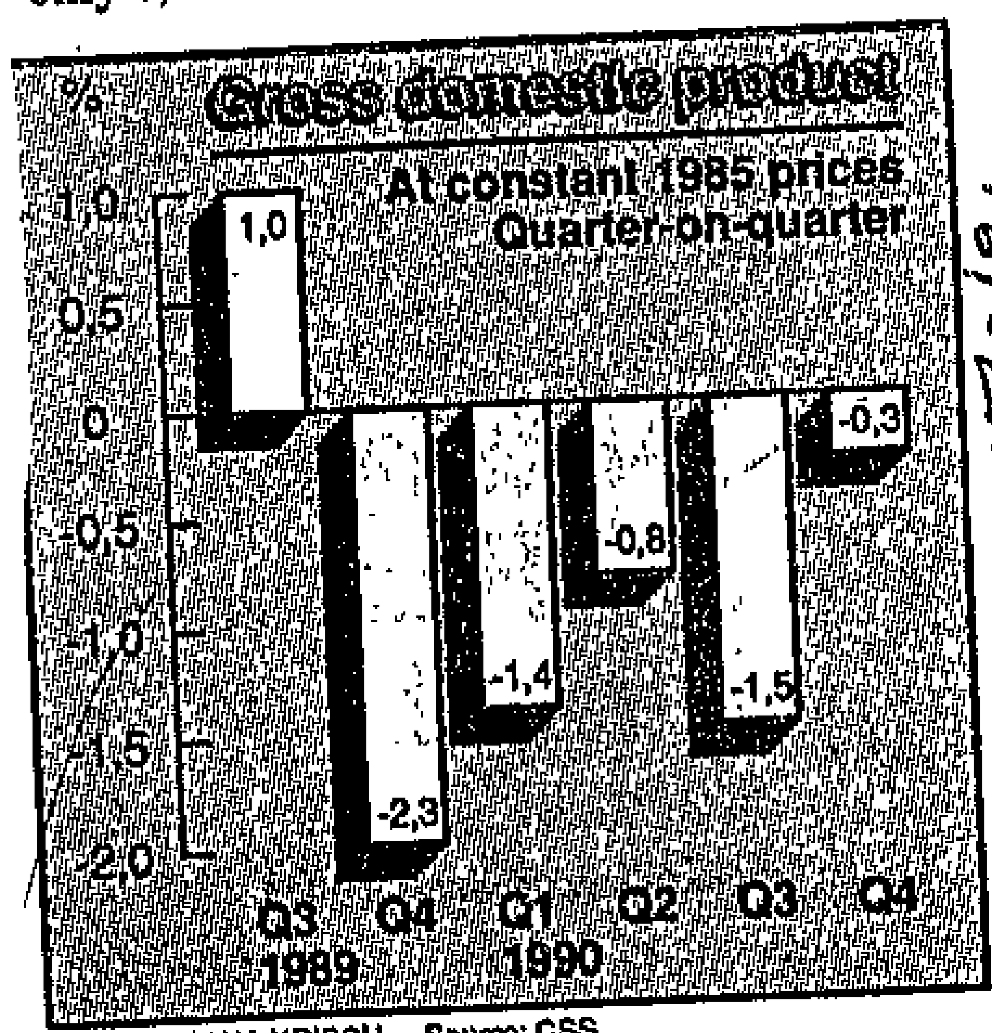
Open sessions of the workshop, to be held at UCT, will focus on specific areas where redistribution of wealth is needed in the country. Means of achieving this will be discussed.

GDP shrinks by only 0,3%

(49)

SHARON WOOD

SA MAY be on the road to recovery with gross domestic product (GDP) shrinking by only 0,3% in the fourth quarter of 1990, the



Graphic: FIONA KRISCH Source: CSS

B/Day 15/2/91

lowest decline in five quarters of recession, preliminary figures which were released yesterday show.

Total GDP for the fourth quarter was R132bn at constant 1985 prices, compared with the third quarter's R132,1bn.

Widespread expectations for 1990 growth were realised, with GDP declining by 0,9% at market prices for the year.

Non-agricultural production still showed no signs of entering a recession, growing by 0,2% at factor cost from the third quarter (seasonally adjusted and annualised), Central Statistical Service (CSS) figures showed.

Flat growth characterised this sector which declined in only one quarter during the current recession, down 2,1% in the second quarter of 1990.

□ To Page 2

GDP

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(49) □ From Page 1

Manufacturing production grew by 2,3% in the fourth quarter, after three quarters of recession and compared with the second quarter's 4% fall. Good exports, with large armament exports, in the fourth quarter could have contributed to this rise, said Bankorp chief economist Nick Barnardt.

The hardest hit sector of the economy during 1990, the primary sector, continued to suffer in the fourth quarter.

Once again bad agricultural conditions dragged agricultural production down, but the fourth quarter decline of 7,1% was up from the 33,7% slide in the third quarter.

Mining production remained in recession declining by 1,5% compared with the 6,3% rise in the third quarter.

But there could be some respite this year with mining production improving in line with higher commodity prices, said Nedcor chief economist Edward Osborn.

He said positive political developments, the likely removal of sanctions and lower inflation prospects had improved the outlook for domestic growth in 1991.

"Substantial upward revisions of the GDP figures during 1990 suggest that the recession was not as deep as originally thought," he said.

Third quarter contraction was revised up to -1,5% from the original -2,1%.

The fourth quarter figures show a degree of recovery and "if agricultural conditions improve during 1991 there is a distinct possibility of an improvement in GDP this year, possibly to a modest 1%", Osborn said.

Recent financial and political developments would take some time to buoy the real economy, Barnardt said.

A cut in prime rate, which seemed close at hand, would also stimulate the economy in the year ahead.

Financial markets are expecting a 1% drop in prime within days after Reserve Bank Governer Chris Stals's recent statement that he will let market interest rates, where a downside bias has already been established, pre-empt an interest rate cut.

Some improvement on economic front

Star 15/2/91 (49)

By Sven Lünsche

Economic growth fell for the fifth consecutive quarter in the last three months of 1990, but the moderate tempo of the slowdown has surprised most economists.

Figures released by Central Statistical Services yesterday show that real Gross Domestic Product (GDP) at 1985 prices declined by only 0,3 percent in the December quarter, considerably less than the falls recorded in the previous four quarters.

GDP dropped by 1,5 percent in the September quarter, by 0,8 percent in the June quarter and by 1,4 percent in the first three months of 1990.

GDP for the year as a whole decreased by 0,9 percent, compared with positive growth rates of 2,1 percent in 1989 and 4,1 percent in 1988.

The Reserve Bank's chief economist Dr Jaap Meier said yesterday he was surprised that the economy was not cooling down faster, given the political uncertainties, the stringent monetary policies and the fact that sanctions were only now beginning to unwind.

He ascribed the better-than-expected performance to the tremendous growth in exports and to the continued resilience of private spending.

Merchandise exports, boosted in the main by higher manufacturing exports, rose by almost eight percent, despite a four percent fall in net gold receipts.

Private spending is expected to have risen for the fifth year in succession in 1990, but with the rate slowing from 2,4 percent in 1989 to just under one percent last year.

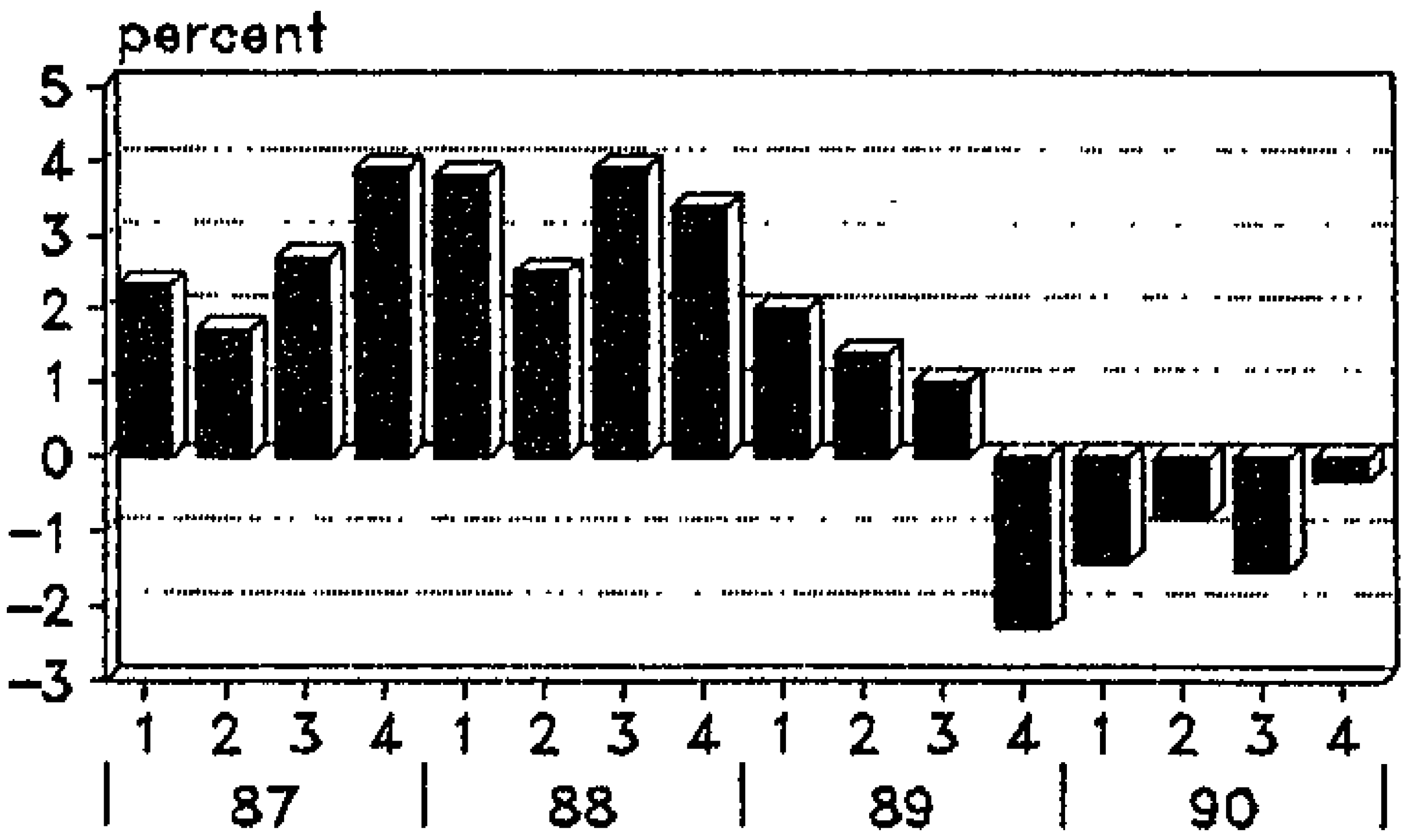
Mike Brown, economist at Frankel Max Pollak Vinderine, estimated in a recent publication that private spending could rise a further 0,5 percent this year, despite prospects of only a limited drop in interest rates.

This would benefit manufacturing in particular, the sector which, at 2,3 percent, recorded the strongest growth in the fourth quarter of last year and even boosted capacity utilisation over the three months.

The strong showing by manufacturers lifted real GDP growth by the non-agricultural sector to 0,2 percent in the fourth quarter, compared with a decline of 1,5 percent in mining and a fall of 7,1 percent in agriculture.

Production in the the secondary sector rose by 1,6 percent, while the contribution of tertiary industries fell by an insignificant 0,1 percent.

For the year as a whole output by agriculture plunged 9,4 percent, while mining and the manufacturing recorded declines of 1,6 and 2,4 percent respectively.



Quarterly GDP growth — 1985 prices

CAPITAL EXPENDITURE (49)

GROWING DOWN F/M 15/2/91

The collapse of capital formation was largely responsible for poor economic growth in the Eighties, says Nedbank chief economist Edward Osborn.

"What people don't realise," adds Osborn, "is that there is a very direct linkage between capital formation activity and the overall state of the economy. An important element of total manufacturing is directly involved in the process of capital formation, such as basic steel, steel fabricating, steel engineering and the building and construction industry as a whole. With the fall in capital

Continue P

formation, these industries' contribution to economic activity declined, which is reflected in GDP growth.

"Another aspect, of course, is the implication of lower capital formation for future growth in terms of increased capacity of the economy to perform."

There is thus a long-term economic loss, when there is a failure of fixed investment in the economy.

Growth in expenditure on plant, machinery and equipment, transport vehicles and building and construction, fell from 3,5% a year in the Seventies to 0,1% in the Eighties, Osborn writes in the latest edition of the bank's *Guide to the Economy*.

The decline was "most evident in the public sector" because of "a combination of downward revised forecasts of demand for the services of public utilities, previous excessive levels of expenditure and growing financial stringency."

In the private sector new capital formation "apart from some important developments in manufacturing earlier in the Eighties, such as in the pulp and paper industry, was confined to commercial building and the mining industry, mainly coal and platinum. The capital spending that took place in the manufacturing sector was broadly restricted to replacement and renewal of plant."

He attributes this indifferent performance to "political uncertainty, a general lack of confidence about the future, the disinvestment episode, the drying up of foreign capital in the sphere of direct investment and a contraction of real profitability, masked by inflation." ■

SUMMING UP

% growth

	70-79	79-89
Private consumption	3,302	3,356
Government consumption	5,110	4,034
Gross capital formation	3,468	0,111
Exports of goods & services	2,490	1,705
Imports of goods & services	−0,339	1,846

Source: Nedbank

R20-billion a year needed to close living standard gap

ARGUS 15/2/91

Dr Azar Jammine of Econometrix estimates it will take R20 to R30-billion every year over the next decade to start closing the gap in black/white living standards. MICHAEL CHESTER reports from Johannesburg.

NOW that the death knell has tolled on apartheid, under international as well as internal pressures, the main focus has turned to the political chess tournament between partisan alliances.

DEVELOPMENT

Beyond the political rhetoric, however, vital questions are being posed that bring much of the bluster down to earth.

How much cash will have to be ploughed into socio-economic programmes to bring about the transformation to the promised land of the "New South Africa"?

Where will all the funds come from? Who pays the bills? How soon — especially in view of the way expectations have been pitched so high?

The answers coming out may not always be palatable to reformers in a rush.

For example, one of the first shocks for the politicians was an assessment from the SA Chamber of Business (Sacob), which calculated the basic costs of remedies to racial inequities at R52-billion.

Affordability

Sacob has cautioned that it would be hopelessly beyond economic reach to provide all the remedies at a single stroke.

Far better, it has argued, would be to face blunt economic realities and seek agreement on socio-economic programmes that may need to be spread over the next 10 years to meet the acid test of affordability.

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From new masses of research, Dr Azar Jammine, head of the reputable Econometrix think-tank, puts the overall costs at R20 to R30-billion every single year over the next decade to start closing the gap in black/white living standards.

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Even the provision of basic housing structures to eliminate shortages by the turn of the century would cost over R5-billion a year — based on the provision of 250 000 modest new homes every year from now until the year 2000 and allowing for high population growth.

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The Human Sciences Research Council calculated that if spending on black and white education had been levelled out in 1990/91, the overall cost would have been R37-billion.

Dr Jammine says the crisis in education over the past 15 years has already left in its wake what he calls "a lost generation of young blacks".

He refers to United Nations research that ranked all countries with a population of more than one million in what it called a "human development index". In terms of gross domestic product per capita, even bringing white affluence into the count, South Africa was slotted as low as 48th down the ladder.

Staggering

Even worse, when items such at literacy and life expectancy were added, South Africa slumped to 62nd. The only countries ranking any lower were the 48 other countries in Africa and a handful of impoverished Asian and Central American countries.

In terms of literacy, Zimbabwe, Zambia, Tanzania, Lesotho and Botswana all ranked above South Africa.

When all the factors are combined, Econometrix comes to the conclusion that the only conceivable route is to spread an action programme over the next 10 years. Even then, the bill would be a staggering R20 to R30 billion a year - equal to a 30 to 50 percent increase in the annual national budget.

Optimists who believe a magic wand may be waved to call a halt to unrest and tensions on the sub-continent may point to the vast potential savings that could be made by slashing expenditure on defence.

Also at hand may be huge savings by the elimination of the duplications and triplications of all the bureaucratic machinery that has been needed to sustain the apartheid system.

Dr Jammine estimates all those possible savings at around R8 billion — a significant figure but nowhere near large enough to solve budget headaches.

Govt wants extra R2,8bn in Budget

BDay 18/2/91

LESLEY LAMBERT (49)

CAPE TOWN — Finance Minister Barend du Plessis has asked Parliament for an extra R2,8bn for the administration of government during the current financial year.

This is 4% more than the budgeted expenditure of R71,9bn.

The additional requirement does, however, include the contingency reserves of R1bn announced in last year's Budget speech and another R1bn announced later in the year by President F W de Klerk for an increase in police salaries.

If Parliament approves the amount, total government spending during the 1990/91 financial year will be R74,7bn.

Breakdowns provided by the Government departments of their extra spending needs show efforts have been made to cut administrative costs.

DP Finance spokesmen Ken Andrew argues although many of the extra requirements are for socio-economic upliftment, the 4% overrun shows government spending is not disciplined enough.

The biggest item in the revised expendi-

☐ To Page 2

Budget

BDay 18/2/91.

(49)

☐ From Page 1

ture is the allocation of R579,2m for increases in the salaries of police and nurses and the removal of disparities between the salaries of male and female teachers.

The Department of Planning and Provincial Affairs's Urban development and black housing aid programme has asked for an additional R137,3m for the purchase of land and the provision of services.

And a further R217,4m has been requested by the Department of Education and Training for pre-primary, primary and secondary education.

The Trade and Industry Department's additional requirements are R50,9m for its foreign trade relations and export promotion programme and R51m for a separate export trade promotion scheme which provides financial aid for exporters.

An extra R2,2m requested in a separate privatisation vote makes provision for the continuation of programmes and is attributed largely to the appointment of additional advisers and consultants to carry out special investigations.

The largest item in the revised privatisation Budget is a R2m fee for a probe into the most efficient structure for SAA in a deregulated airways market.

Provision is also made for an R80 000 consultancy fee for an investigation into privatisation and deregulation at local government level, while an additional amount of R81 000 will be paid to Pim Goldby consultants for a valuation of the state's interest in Sasol III. The breakdown of the expenditure also includes a R19 000 fee paid to Finansbank for the management of the Iscor privatisation.

Strategic stockpiles being reduced

(49)

Key resources are sold to pay for upliftment

B.Day 19/2/91

BILLY PADDOCK

CAPE TOWN — Finance Minister Barend du Plessis confirmed yesterday that government had been selling off stockpiles of strategic resources to raise funds for socio-economic development programmes.

It could not be confirmed that the resources included oil, nor how much money had been raised.

Du Plessis told Parliament yesterday the R319,4m spent on land purchases for black urbanisation and predominantly black education came from the National Supplies Procurement Fund.

"It has been possible to utilise ... funds accumulated by the National Supplies Procurement Fund, chiefly in consequence of the reduction of strategic stockpiles.

"The easing of international attitudes towards SA has already reduced the pressure on such stockpiling."

When asked for clarity, Du Plessis referred the questions to Trade and Industry Minister Kent Durr, who said: "There is no longer a need for many of the strategic items and provisions and we are judiciously paring strategic stockpiles down."

Durr then said he was referring to only non-oil items. "Oil is the responsibility of Mineral and Energy Affairs Minister Dawie de Villiers." De Villiers could not be reached for comment last night.

It was originally intended that socio-economic spending would be financed through privatisation, but no progress was made during the year on this front.

Du Plessis said of the R1bn in social spending envisaged in his Budget speech as coming from privatisation only R319,4m had been spent. The remaining R680,6m would nevertheless be included in the Additional Appropriation for 1991/92, should such expenditure take place in the next financial year.

He indicated that the R1bn was intended for the elimination of backlogs in education and for land purchase for urbanisation. State debt, already amounting to more than the defence allocation in the Budget, had increased more than expected as a result of open market operations.

He said spending from the Contingency Reserve had been exceeded by R479,1m. Of this R418m was for servicing public debt.

"Which in turn derives largely from the continuing restrictive monetary policy measures of the SA Reserve Bank, with support from the Treasury, whereby more state paper is issued than is needed to finance the deficit before borrowing," he said. More particulars would be given in the Budget speech on March 20.

He said the higher debt servicing costs could also be attributed to certain investors opting for the highest possible returns, through investment in short term bills carrying a higher interest rate than government stock.

☐ To Page 2

Resources sold

B.Day 19/2/91. (49)

☐ From Page 1

Du Plessis said that of the extra R2,8bn passed by Parliament yesterday it was estimated that surrenders by departments would reach R250m.

He said it was a strict law that all departments surrender funds budgeted but not used. "There will be no spending spree by departments at the end of the financial year to use up their budgets," he said.

He said government had worked hard to keep discipline and had this not happened in the departments, the R479,1m excess spending could have been as high as R1,5bn.

Although the increased Contingency Reserve had, for good reason, been exceeded by R479,1m no extra taxes would be imposed nor would additional loans be raised.

He said revenue collections indicated that already at this stage sufficient funds would be available to finance the Contingency Reserve of R2bn and the overshoot of R479,1m.

DP finance spokesman Ken Andrew said that against the yardstick set by Du Plessis this Additional Appropriation represented a failure.

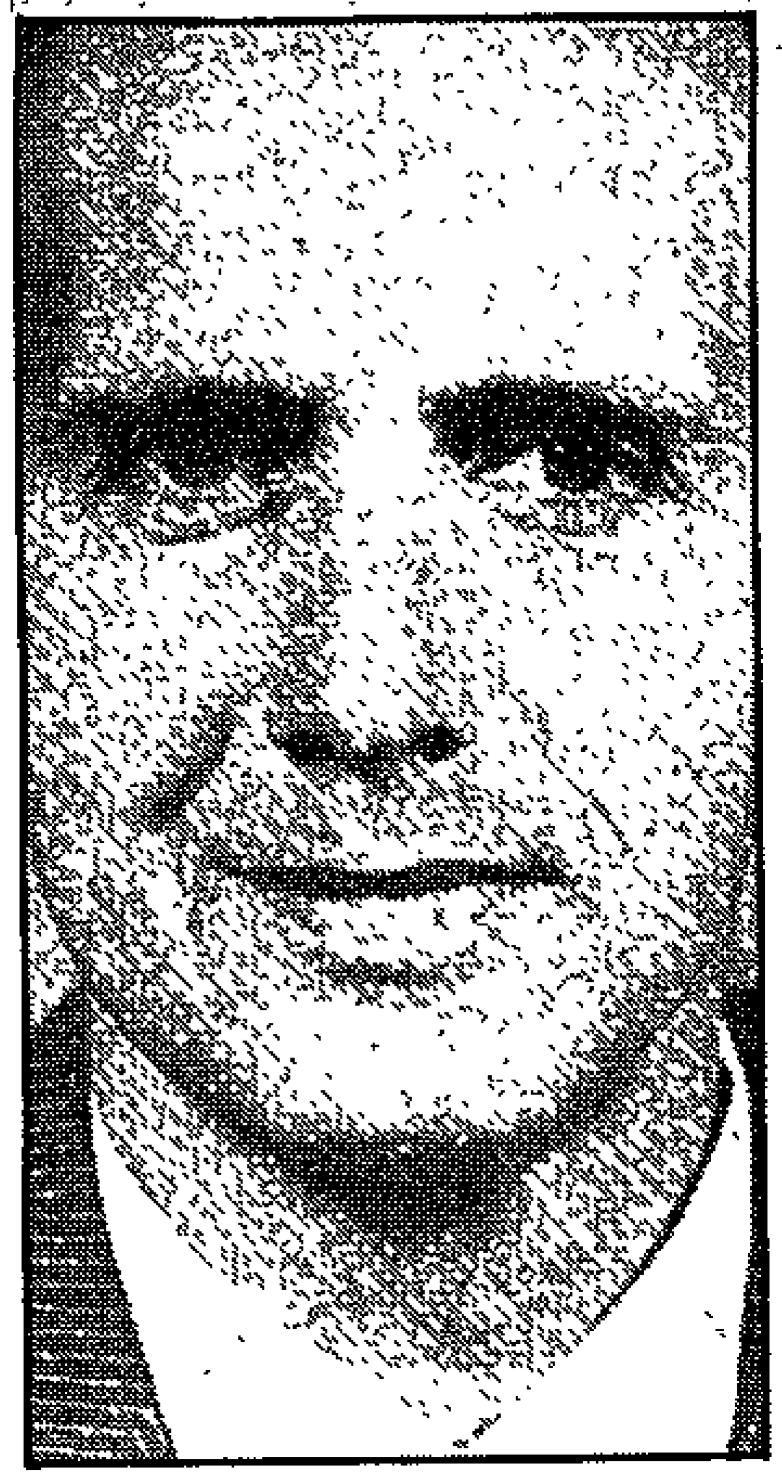
"The 1990/91 Budget has been overspent by R2,8bn or 4% — the worst performance for at least three years, and not a good omen at a time when pressures to overspend are going to be greater than ever," he said.

He said Du Plessis had set himself the goal of greater discipline and control over state spending and in this he had failed.

DP slates Govt for overspending

Star 19/2/91

49



Ken Andrew . . . overspending not a good omen.

By Peter Fabricius
Political Correspondent

The Government has been criticised for overspending this year's Budget by R2,8 billion and failing to cut "bloated" apartheid bureaucracies along with apartheid laws.

Departing from his party's support of the Budget last year, the new **Democratic Party finance spokesman, Ken Andrew,** tore into **Finance Minister Barend du Plessis** when he presented his Additional Budget to Parliament yesterday.

Mr du Plessis denied the charge and said the Government had in fact saved R1 billion in the Budget by cutting unnecessary costs and reallocating funds.

Mr Andrew said the DP could not support the Additional Budget as the Government had overspent by R2,8 billion, or 4 percent — "the worst performance for three years and not a good omen at a time when pressures to overspend are going to be greater than ever".

Mr du Plessis, in his Budget speech last year, had set himself the goals of greater discipline and control of State spending, Mr Andrew said.

This he had failed to do. Mr du Plessis had also promised that the R2 billion contingency reserves would be used only for real emergencies and would not be exceeded.

"He was wrong on both counts. Besides set-offs against privatisation income of R319 million, the R2 billion contingency reserve has been exceeded by R479 million."

Government spending had exceeded last year's spending by 14,7 percent — an increase in real terms.

"Are the bloated apartheid bureaucracies being scrapped with apartheid itself? I doubt it.

"When influx control was scrapped, what happened to the tens of thousands of officials employed to administer the pass laws?

"Where they retrenched? I know that some were employed by the Department of Education and Training as sports officers, but what happened to the rest? South Africans would welcome an assurance from the Minister that the public service shrunk when the pass laws were repealed and that it will shrink when Group Areas and the Population Registration Act go."

Mr du Plessis rejected this criticism and said that in effect only R61 million of the Additional Budget could be described as overspending.

Some R2 billion of it had been foreseen and provided for with contingency reserves during the first three months of the financial year, which brought the potential spending for 1990/91 to R74,932 billion.

These had been used for security services and for black education and housing.

The extra money for socio-economic spending had been intended to come from privatisation proceeds but as there had been none, R319,4 million had been financed instead from the selling of National Supplies Procurement Fund stockpiles.

The revised total expenditure for the year was estimated at R74,731 billion after an adjustment of R250 million.

This amount was R201 million below the potential expenditure level, the Minister said.

He said that although the contingency reserve had been exceeded by R479,1 million, all but R61 million was due to public debt servicing.

Conservative Party finance spokesman Daan Nolte also said his party would not support the Additional Budget.

Control of State's spending 'a failure'

(49)

Sowetan 20/2/91

By ISMAIL LAGARDIEN
Political Correspondent

THE Government's financial planning and expenditure control for the last Budget was a failure, Mr Ken Andrew of the Democratic Party said in Parliament yesterday.

Responding to the Minister of Finance, Mr Barend du Plessis' request for additional funds in the Additional Appropriation Bill, Andrew said that the current years' performance was the worst in three years.

Last year, during the same debate, Du Plessis said the contingency funds were to be used for "real emergencies" and not as a second bite at the cherry.

The Minister also said that in terms of possible exeptions, there was only one condition - that no one would exceed the amount reserved for the contingency fund, Andrew explained.

Planning

"This is exactly what has now happened."

The Government's expenditure has exceeded last year's by 14.7 percent, a jump contrary to the Minister's Budget speech in 1990.

"The problem is not necessarily what the money was spent on. It is a question of having foresight and doing proper planning, admittedly never great strengths of the National Party," Andrew said.

The Finance Minister requested R2,9 billion - 4 percent more than he budgetted for last March - to supplement the current Budget.

The new Budget is expected to be anounced on March 20 this year.

Realities of economics 'hit home'

(49)

6 / P 20/2/91

By ANDREW GILL

HARD economic and socio-political realities have already caused a degree of convergence between the redistribution and efficiency approaches to economic policy, Standard Bank says in its economic review.

This has happened despite the two groups being obviously constrained by constituency pressures.

Neither approach in its pure form "offers a viable solution to the socio-political economic puzzle".

The redistribution policy had two major weaknesses, it said. Its mixed economy approach still relied to a significant degree on the private sector as a producer and creator of wealth and employment. Its sustainability was suspect as the mechanism relied on wealth accumulated in the past for redistributon.

The major problem of the efficiency approach was that it firmly relied on the supposition that political action would sufficiently empower black people in the market economy to allow them to reap requisite benefits from economic growth.

ANC rethinks nationalisation

PATRICK BULGER

NATIONALISATION could create a national debt problem, a flight of skills and economic insecurity, says an ANC discussion paper which signals a new debate within the organisation on state ownership.

Excerpts of the paper appear in this month's edition of the ANC journal Mayibuye. The paper itself is being distributed widely in ANC circles.

It lists the advantages and disadvantages of nationalisation and says nationalisation "is not a simple, clear-cut issue".

Although ANC economic policy is still apparently in a formative stage, nationalisation has been a central plank of policy since it was adopted in the movement's Freedom Charter in 1955.

The discussion paper notes that while nationalisation could ensure essential services, better working conditions, increased social expenditure and the "democratisation of the economy, we cannot have the view that nationalisation will give a new democratic government the means to provide us all with jobs, houses and education".

"If we are going to nationalise, we need to borrow the money to pay for the companies we buy. We will have to pay back this money with interest. This money will be spent without creating a single new job.

"If we are unable to pay back because the government does not make enough profit from that particular nationalised industry, we will be increasing our debt problems," the paper argues.

"This happened in some countries where the government nationalised the mines, for example, and then ran into many difficulties," the paper says.

Nationalisation could lead to investor

□ To Page 2

Sowetan 2/1/91 (49)

ANC rethink

Sowetan 2/1/91 (49)

□ From Page 1

insecurity and a fall in foreign investment. It notes "the impact on the economy when financial sanctions were introduced in 1985".

The policy could end up benefiting only the few "who run the industry and are employed by it. The rest of the people would then benefit very little".

The paper says it could be argued "we cannot afford the R70bn it would cost to nationalise the mines".

It argues instead for higher mining taxes, worker safety laws and mineral rights leases.

"We need to look more carefully at the economic reality and begin to find a more overall policy that will begin to solve our problems," it concludes.

The paper is illustrated by a cartoon showing the advantages of nationalisation as better wages and upliftment — while disadvantages are illustrated by a skilled person leaving the country and "No Jobs" signs on factory gates.

ANC rethinks nationalisation

Star 21/2/91

(49)

By Esmaré van der Merwe
Political Reporter

In a dramatic turnabout in the ANC's economic thinking, the organisation has admitted nationalisation might not be a workable solution to the country's problems.

A frank assessment of the pros and cons of nationalisation, contained in an ANC policy paper, is being distributed among the movement's members for discussion.

The document, issued by the ANC's department of economics and planning, in simple terms discusses the implications of nationalising certain sectors of the South African economy.

The policy document is printed in condensed form in the latest issue of the ANC's official mouthpiece, Mayibuye.

It frankly admits: "We cannot have the view that nationalisation will give a new democratic government the means to provide us all with jobs, houses and education. We need to look carefully at the economic reality to find a policy that will begin to solve our problems."

Using the mining industry as an example, the ANC says one could argue that nationalisation could bring about better wages and working conditions, and that mining profits could be used to provide for the poor.

On the other hand, it could be argued that the ANC could not afford to spend R70 billion on nationalising the mines.

"Even if we borrowed this money it would give us serious debt problems for many years."

Another major disadvantage could be that skilled workers might leave the country "and the mining industry will collapse because we do not have the necessary skilled people who are loyal to our aims".

The article says there are other ways of achieving the goals which the ANC has wanted to achieve through nationalisation.

"For example, we could maintain the high taxes on mining.

"We could introduce new laws which will improve working conditions. We could take control of mineral rights and lease these out to the private sector.

"These alternative methods could allow us to meet some of the goals of nationalisation without the dangers."

Mayibuye lists two other major disadvantages of nationalisation:

- Foreign investors may feel insecure about putting their money into South Africa; and
- Nationalisation could benefit only those who run and are employed in the industry. It notes: "This problem of a self-serving bureaucracy has been experienced in many countries."

Among the benefits of nationalisation listed in the article are:

- Nationalisation of industries which provide basic services could ensure that all people have access to services.
- Workers could have better working conditions and security of employment. They could have a greater say in the running of their companies and could prevent racist and sexist labour practices.
- Nationalisation could ensure that profits are invested in useful ways, either by social expenditure or investment in essential industry.
- Nationalisation could democratise the economy, which at present is hugely centralised with four conglomerates — Anglo American, Rembrandt, Barlow Rand and Sanlam — controlling 81 percent of the shares on the Johannesburg Stock Exchange.

Rethink by ANC on economic policy

Argus 21/2/91
49

Political Staff

IN a dramatic turnabout in the economic thinking of the African National Congress, the organisation has admitted that nationalisation might not be workable.

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The policy document, drawn up in November, is printed in condensed form in the latest issue of the ANC's official mouthpiece, Mayibuye.

"We cannot have the view that nationalisation will give a new democratic government the means to provide us all with jobs, houses and education.

"We need to look more carefully at the economic reality and begin to find a more overall economic policy that will begin to solve our problems."

Skilled workers

Using the mining industry as an example, the ANC says one could argue that nationalisation will bring about better wages and working conditions, and that profits could be used to provide for the poor.

On the other hand, it could be argued that the ANC could not afford to spend R70 billion on nationalising mines.

"Even if we borrowed this money it would put us into serious debt problems for many years."

Another major disadvantage could be that skilled workers such as engineers, the majority of whom were foreigners, might leave the country "and the mining industry will collapse because we do not have the necessary skilled people who are loyal to our democratic aims".

The article says there are other ways of achieving the ANC's goals.

"For example, we could maintain the high taxes on mining and ensure that the government gets a share of the profits.

"These alternative methods could allow us to meet some of the goals of nationalisation without all the possible dangers that nationalisation carries."

ANC 'rethink' on economy

CAPE Times 21/2/91 49

Own Correspondent

JOHANNESBURG. — Nationalisation could create a national debt problem, a flight of skills and economic insecurity, according to an ANC discussion paper which signals a new debate within the organisation on state ownership.

Excerpts of the paper appear in this month's edition of the ANC journal Mayibuye. The paper itself is being distributed widely in ANC circles.

It lists the advantages and disadvantages of nationalisation and says nationalisation "is not a simple clear-cut issue".

Although ANC economic policy is still apparently in a formative stage, nationalisation has been a central plank of policy since it was adopted in the movement's Freedom Charter in 1955.

The discussion paper notes that while nationalisation could ensure essential services, better working conditions, increased social expenditure and the "democratisation of the economy", "we cannot have the view that nationalisation will give a new democratic government the means to provide us all with jobs, houses and education".

"If we are going to nationalise, we need to borrow the money to pay for the companies we buy. We will have to pay back this money with interest. This money will be spent without creating a single new job.

"If we are unable to pay back because the government does not make enough profit from that particular nationalised industry, we will be increasing our debt problems. This happened in some countries where the government nationalised the mines, for example, and then ran into many difficulties."

Nationalisation could lead to investor insecurity and a fall in foreign investment. The paper notes "the impact on the economy when financial sanctions were introduced in 1985".

The policy could end up benefiting only the few who ran the industry and were employed by it.

The paper says it could be argued "we cannot afford the R70 billion it would cost to nationalise the mines". It argues instead for higher mining taxes, worker safety laws and mineral rights leases.

To nationalise or not?

THE ANC has initiated a major debate on nationalisation among its members by way of a discussion document which explicitly spells out its disadvantages.

The document was issued by the ANC's Department of Economic Policy and was distributed nationwide this week. Sowetan 22/2/91

It sets out both the advantages and disadvantages of nationalisation and includes a questionaire asking members to explain why they thought the advantages of nationalisation outweighed the disadvantages. (49)

The paper was published by the Centre for Development Studies, an ANC-orientated academic think-tank attached to the University of the Western Cape.

It uses the failed Zambian attempt to nationalise its copper mines to illustrate one of the disadvantages of such a policy.

Money would have to be borrowed to pay for nationalisation, the document says.

"This money will be spent without creating a single new job. We will have to pay back this

SAPA

money with interest."

If there were insufficient funds to pay it back, the debt situation would deteriorate as had happened in Zambia where the copper price had fallen, technical staff had left and eventually the government had been forced to re-privatise.

Nationalisation could lead to skilled personnel leaving the country. It would also be difficult to find the skilled people "loyal to our democratic aims" to run the nationalised industries.

Investors

The world did not favour nationalisation much today and this could lead to foreign investors feeling insecure about investing in South Africa.

"This could lead to serious problems of a fall in foreign investment."

These investments were needed for growth. The impact on the economy had been illustrated when financial sanctions were introduced in 1985.

A final danger listed was the possibility that nationalisation could end up benefiting only a few: those who ran and worked an industry. The rest would benefit very little.

"This problem of a self-serving bureaucracy has been experienced in many countries, as we have seen in the case of Eastern Europe recently."

Under the possible advantages of nationalisation the document lists:

* Guaranteed accessibility to infrastructural services where these, such as electricity, are nationalised;

* Workers could have better working conditions and pay with race and sex discrimination prevented by legislation and affirmative action;

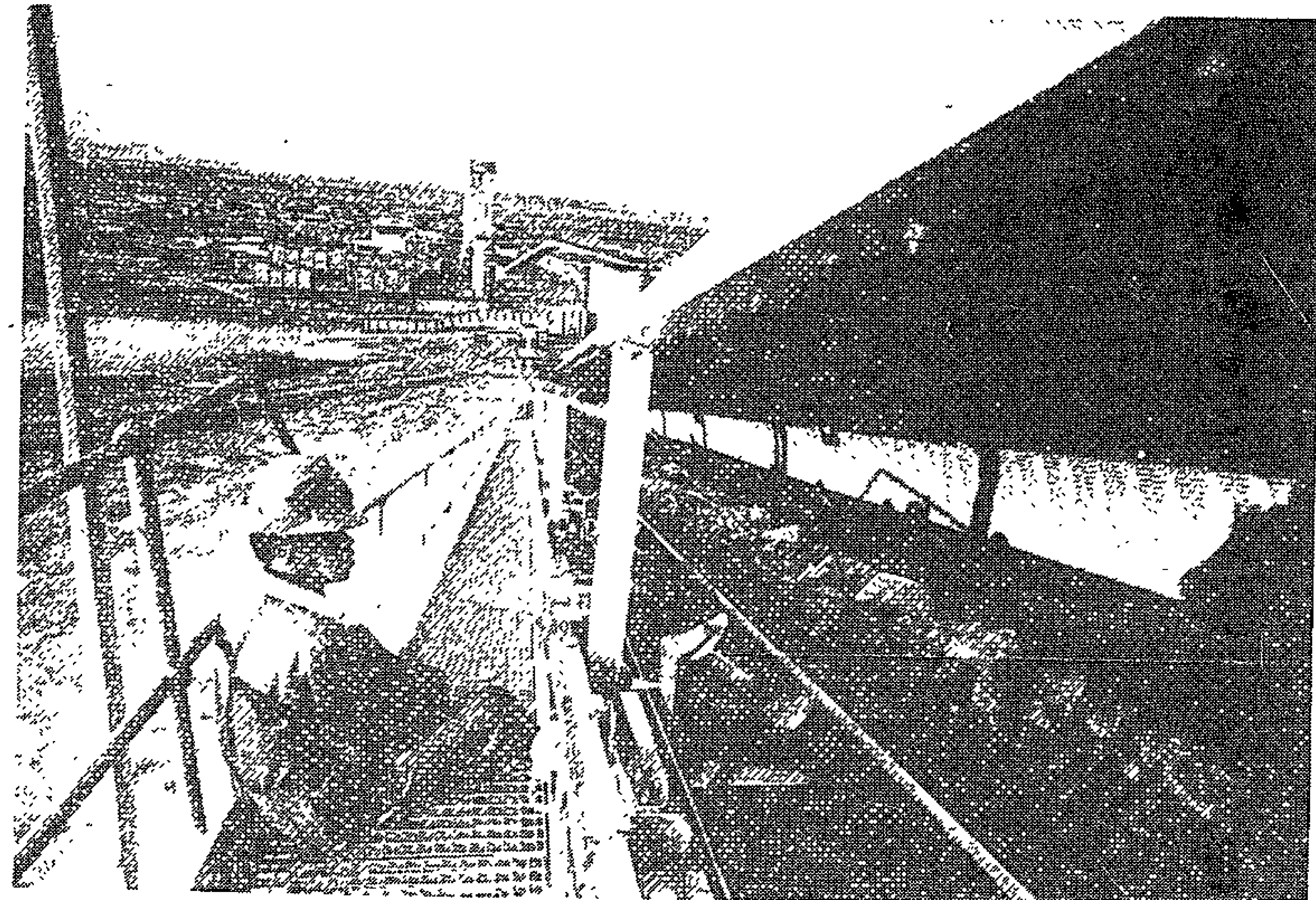
* Profits from such industries could be invested in productive activities benefiting the people;

* Democratising the economy by reducing the control of large corporations (it lists Anglo American, Rembrandt, Barlow Rand and Sanlam as controling 81 percent of the economy) by nationalising these conglomorates or parts of them; and

* New state-owned factories could be set up to provide important services the private sector might find unprofitable.

The document said banks invested funds only in profit-making ventures.

"This could be used to suggest a case for the nationalisation of banks," it



Mining, South Africa's biggest industry, is bound to be the focus of any attempt at nationalisation.

Sowetan 22/2/91

concludes. (49)

The four-page document says it has to be read with the ANC's discussion document on economic policy, which said the ANC was committed to a mixed economy, will respond to the problem of economic stagnation and massive inequalities.

It sees the need for a national development plan based on the strategy of "growth through redistribution.

Answering the question: How do you nationalise a corporation, it says this can be done by:

* Government investing in setting up a new industry; or

* Introducing a law which puts a certain industry in the hands of the government by way of compensation or confiscation.

The document finally calls for a debate on the issue of nationalisation.

"It is clear from the advantages and disadvantages we have mentioned that nationalisation is not a clear-cut issue. We need to examine each case very carefully."

For instance, the argument for nationalising the gold mines held out prospects for better wages and conditions for miners and the use of profits to build housing for the poor.

"On the other hand, it could also be argued that we could better use the R70 billion it would cost to buy the mines for other things; that we will loose skilled engineers and cause the mining industry to decline, resulting in the loss of jobs."

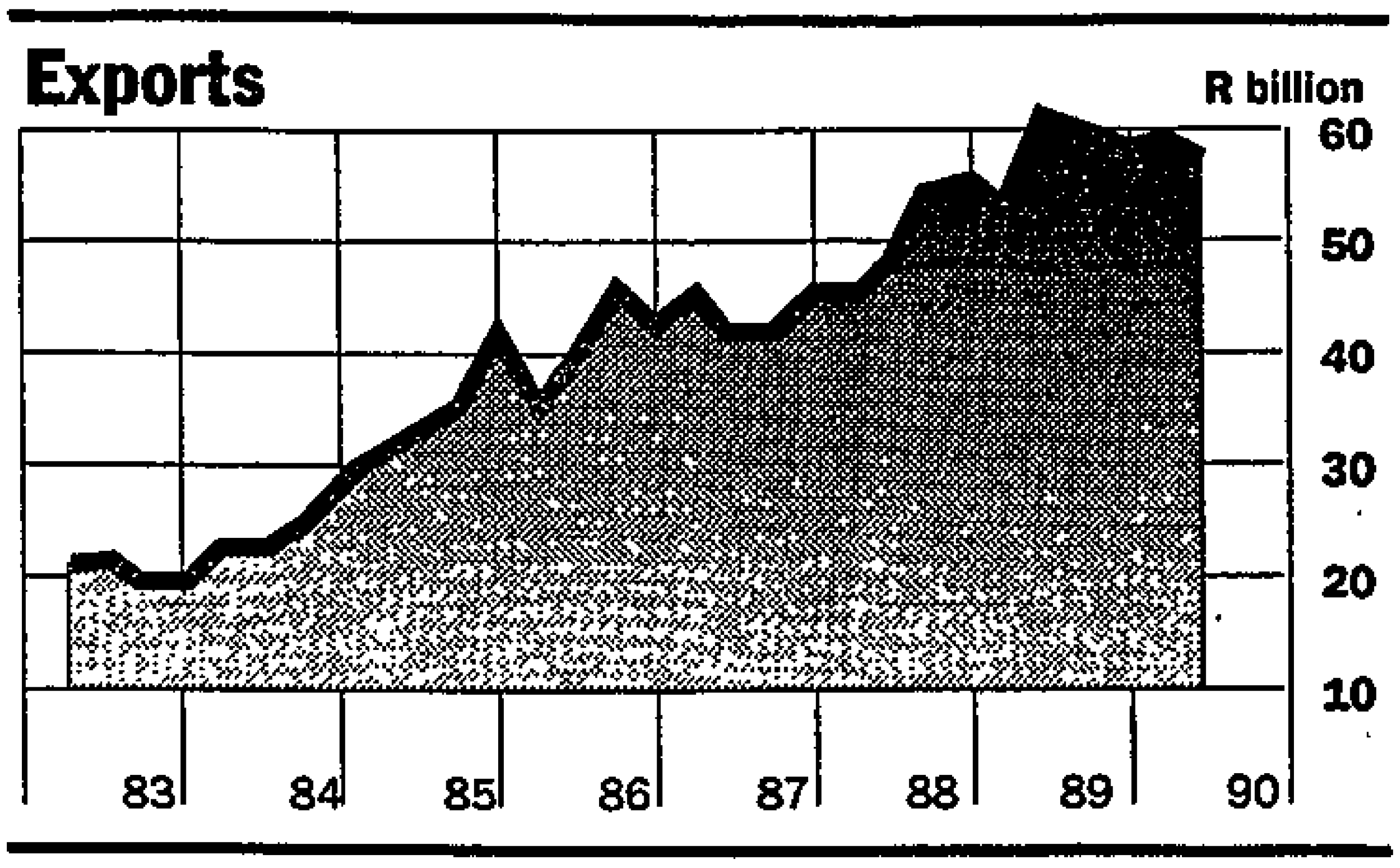
SA enhancing its investment rating

Star 22/2/91 (49)

CAPE TOWN — South Africa could repay all of its foreign debt with less than 80 percent of its annual export earnings, the Minister of Finance, Mr Barend du Plessis, said in Parliament yesterday.

Replying to debate on the Mini-Budget, he said this was considerably lower than many other Western countries.

In international terms South Africa was hopelessly underborrowed.



Negative

However, this was a positive factor in restructuring the economy so that South Africa would become a favourable investment prospect.

The negative side was that as much as half of South Africa's savings — money necessary to create infrastructure and jobs — had been used in the last five years to pay off foreign debt.

He promised to say more about savings and their relationship to tax and economic growth in the main Budget, so that a more meaningful debate could take place on the subject there.

Mr Du Plessis also said one could not create enough jobs if the country's population growth rate was too high.

This very sensitive issue needed to be addressed at the highest level.

Money allocated to education was not being spent as effectively as it could be.

"Money can be better spent getting it through to the teachers. More teachers, better teachers."

Education expenditure was an indictment in itself and it had to be spent on more classrooms with more teachers.

The need to spend money more effectively also had to be examined in the health and welfare sectors.

Duplications

"I believe if we can cut structurally the duplications (in the various ministries) we can reach the children."

It cost the same to maintain elderly poeople of whatever colour, and disparities in pensions had to be eliminated, but the money to do this could not be taken from a growing economy.

There was no money available from development, and it was not known how much could come from a change in budgetary priorities. — Sapa.

GDP FM 22/2/91 (49)

IN GOOD MEASURE

Official statistics measure SA's economic output in two different ways. Estimates of GDP growth provided by the Central Statistical Service (CSS) are based on the value of production, while figures in the Reserve Bank *Quarterly Bulletin* incorporate expenditure estimates as well as production.

Preliminary estimates published by CSS last week, indicate a shrinkage in output of 0,9% in 1990. A sectoral analysis shows the sharpest decline came in agriculture — 9,5%, while mining fell 1,6% and manufacturing 2,4%. Agriculture represents about 6% of GDP, mining around 12% and manufacturing approximately 22%.

Central bank figures will not be available till next month, so an analysis of the components of expenditure is not yet possible.

Though theoretically the two methods of calculating GDP should generate the same figure, in reality recording errors, problems relating to deflators and statistical distortions throw up differing results. In 1989, GDP at market prices amounted to R133,6bn in constant 1985 prices, while expenditure on GDP totalled R134,8bn. The difference is shown as a "residual item."

There are two other problems relating to the collection and collation of statistics.

One is that value of output does not include the contribution of the informal sector, which is thought to have risen significantly in recent years. (A CSS sample survey in October 1989 indicated that activity outside the developed sector was equal in value to

Continue →

about 8% of GDP. Results of a survey conducted in October 1990 will be published before the end of March.) Expenditure on output, however, does measure a large part of this activity.

The second problem is the time lag involved. Though surveys are done on a quarterly basis, they are interpreted in the context of benchmark surveys made once in a period of several years. "Ideally," says a spokesman for the Bank, "these should take place every year but from a cost point of view this isn't possible. So mining, agriculture and manufacturing are done every three years while commerce, catering and accommodation are done every five years."

There is a further lag while surveys are processed. Says CSS's George Mills: "The results of periodic censuses can take up to three years to collect, process and publish." This is due mainly, he says, to poor response from the private sector. "So the returns for the 1988 manufacturing census are still being collected and the existing benchmark is the survey done in 1985."

Though for a variety of reasons, information is not as up to date as that available in countries such as the US and Canada, it is comparable with that of countries at the same stage of development, says the Bank spokesman.

"And it gives a reasonable indication of a trend in the economy," says Bankorp economist Nick Barnardt.

However, a problem has emerged following a series of revisions, to incorporate new benchmark data and to extract Namibia from the total. Says a Standard Bank position paper: "In some cases the result of the revisions was to completely alter the behaviour of some major economic variables ... Some revisions date as far back as 1975 and have changed the appearance of the way the economy is statistically said to have behaved."

Drastically revised figures include:

- ☐ Gross domestic fixed investment which declined by 7% in 1985 instead of by the orginally estimated 2,1%;
- ☐ Government consumption expenditure which grew 3,4% that year instead of shrinking by 2,1%;
- ☐ A fall in inventories in 1986 of R1,6bn as opposed to R400m; and
- ☐ GDP growth of 4,1% in 1988 up from an initial estimate of 3,2%.

"Data on exports and imports have yet to be revised, though on past experience significant revisions to these aggregates can still be expected."

Revisions have also been published for the first two quarters of 1990. Standard Bank group economist Nico Czypionka says: "Provisional estimates for the first quarter were revised to an extent that made a mockery of econometric forecasts for the remaining three quarters of the year. They also affect simulations in the period beyond."

The position paper points out: "In SA in recent years the constant price data has been rebased to 1985, followed by a further major revision a year later and now a succession of ongoing revisions. The result is that new data often applies to neither the existing model nor previous data, which means the entire model must be re-estimated before the significance of the data can be assessed. This has happened three times in 1990 alone."

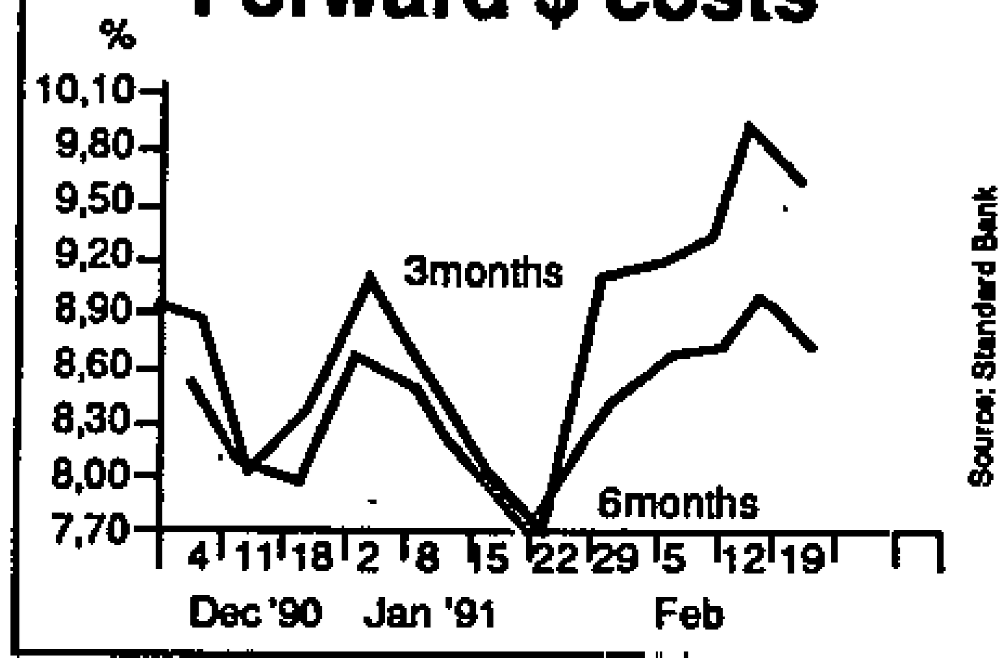
Says CSS's Mills: "The revision of GDP in 1988 is well within international limits. The same applies to expenditure components — these were revised downward by the US government no less than 3% in 1989."

The Bank spokesman points out: "The estimates were not erroneous; they reflected data available at that time." A note in the March 1989 *Quarterly Bulletin* outlines new data which caused earlier revisions.

Accuracy of econometric forecasts, then, are inhibited by the logistical problems involved in gathering and interpreting historical information. And policy-makers no doubt rely not only on statistics when making decisions, but also on the oldest guideline there is: gut feeling. ■

MARKET INDICATORS

Forward $ costs



RAND'S PRICE

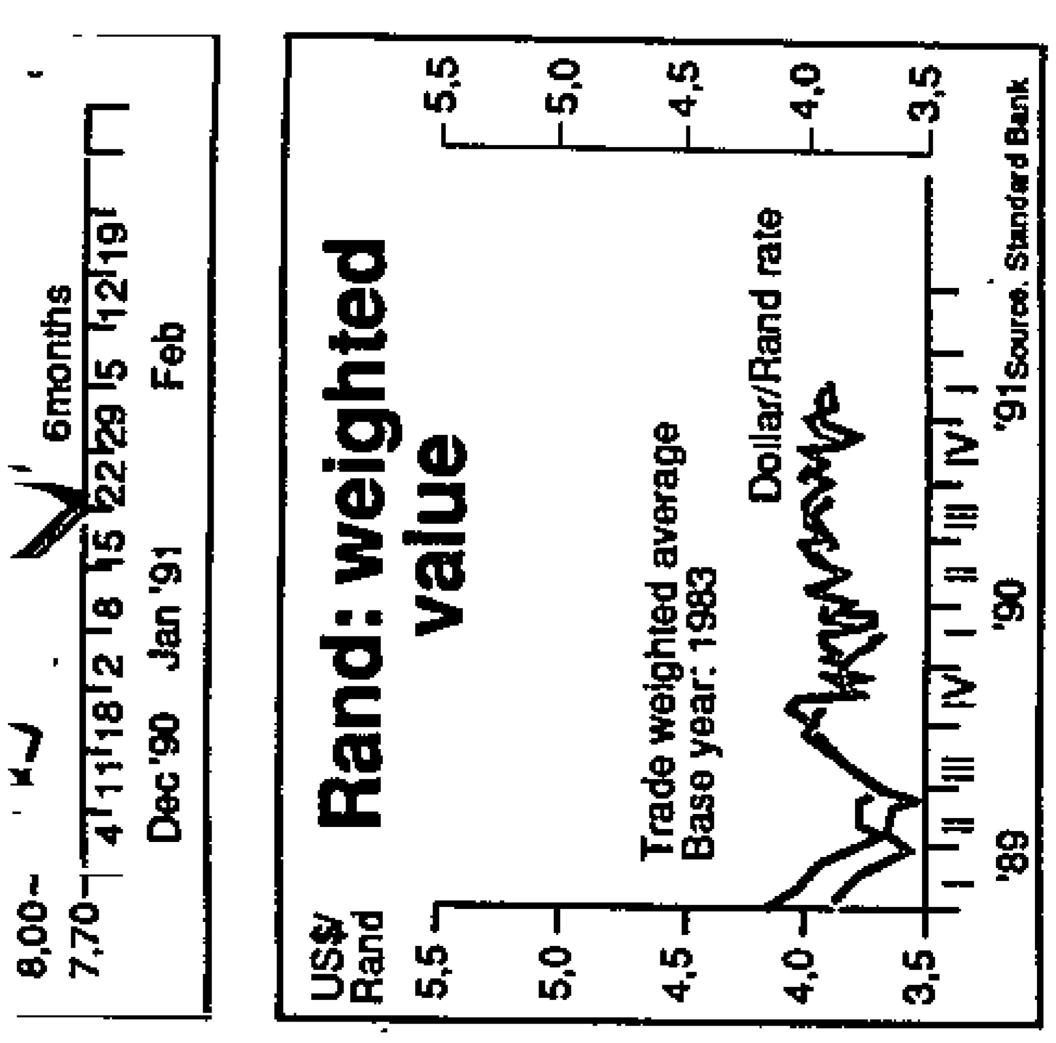
Feb 19 1991	R1 equals	One foreign unit equals (R)
SDR	*0,273	*3,668
	0,295	3,391
ECU	0,284	3,524
	0,323	3,096
UK £	0,200	4,997
	0,230	4,353
US $	0,393	2,545
	0,393	2,545
Canada $	0,453	2,210
	0,471	2,123
Switzerland Fr.	0,499	2,004
	0,582	1,718
France Fr	1,978	0,506
	2,227	0,4[illegible]

surplus value is equalized industry by in-

issue is a momentous one. For, proper as it
Karl Marx in the role of Prometheus, so
he aspire to the role of a Merlin, who reveals
steries below the surface of things that can-
to conventional political economy.
e is a school in the history of science whose
ners are concerned primarily with how ear-

Canada		2,...
	0,4??	2,004
Switzerland Fr.	0,4818	1,718
	0,5?2	0,506
France Fr	1,978	0,449
	2,227	1,718
Germany DM	0,582	1,527
	0,655	0,020
Japan Yen	51,180	0,018
	56,680	0,002
Italy Lira	436,380	0,002
	486,255	0,959
Zimbabwe $	1,043	1,111
	0,900	0,244
Austria Schil	4,090	0,216
	4,625	1,527
Holland Guilder	0,656	1,353
	0,739	
US $ value of SDR	1,322	$1,445
US $ value of ECU	1,220	1,390
Financial Rand		
Cost per US $	3,465	3,208
Discount (%)	26,463	20,682

Year ago figures in light print. *February 14. ‡February 15.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.
The above rates are for guidance purposes only.



[1] Reading recent works by two other authors worthy of ...ect and just evaluation, I must record no reason to ...dify my thesis. Cf. M. Dobb, *Theories of value and ...tribution since Adam Smith,* Ch. 6 on Marx [1, 1973]. ...o illustrate for Dobb's readers the crucial analytic point, ...ppose (as is possible) that equal organic composition of ...apital does happen to obtain in the real world. Then the ...ransformation problem is agreed by all to be trivially ...imple, and indeed hardly necessary. In that case my need ... object to a values tableau as a digression from under-standing of the actual prices plateau evaporates. But one is still left, even in this case, with no new insights, statically or dynamically, in the distribution of income or the share of wages by Marx's innovations concerning rates of surplus value, commodity fetishism, modes of production

* * *

Political biases of the economist can contaminate the search for truth in this imperfect world. Hence, as a check on the degree to which my biases may have infected and contaminated my analysis's objectivity, I think it will be of interest that, just as Baumol by serendipity found fascinating letters of Marx and Engels in a lower-Manhattan ashcan, by similar happy chance I came upon the following answer to what I have called the Number One Problem by America's leading Leftist, Thorstein Veblen. Joseph Dorfman recently unearthed this 1895 item,[2] written, it is interesting to note, before Böhm-Bawerk's critique and while Thorstein Veblen was serving as the underpaid sub-editor of the *Journal of Political Economy:*

involving productive labor in a collective or social division of labor. A Sraffian, Clarkian, neo-Walrasian, would merely be *reposing* the problem of how inventions, thrift, composition of demand, and relative factor supplies alter (1) the R^* profit rate, by asking how these factors alter (2) the now-trivially-related rate of surplus value r^*.

Cf. also the excellent E. Wolfstetter "Surplus Labour, Synchronized Labour Costs and Marx's Labour Theory of Value" [3, 1973]. This affirms the truth that, for normative purposes under socialist planning or Pareto-optimal market exchanges, it is prices tableaux not values tableaux that are relevant when they differ. On p. 799 this also makes the point of Morishima's (10) in his *Reply* that, within the values tableau there is a common s_j/v_j that can be interpreted as the fraction of labor not worked for the subsistence wage itself. But one is left with no interest in this once he has grasped the "neutral" technocratic theorem: $a_0\,[I-a]^{-1}m<1$ implies and is implied by R^* positive in $a_0\,(1+R^*)\,[I-a\,(1+R^*)]^{-1}m=1$. Similarly, with von Weizsäcker, let labor grow like $L_0\,(1+g)^t$, workers' consumptions like $L_0 m\,(1+g)^t$. Then this will be feasible only if the following "neutral" theorem applies: $a_0\,(1+g)\,[I-a\,(1+g)]^{-1}m<1$, if and only if $R^*>g$ provides a root for $a_0\,(1+R^*)\,[I-a\,(1+R^*)]^{-1}m=1$.

I accept Morishima's correction that in his book he did say that actual price weights might serve for aggregation as well as value weights. I reproach myself for not having made this clear. But of course this only reinforces my point about the dispensability of $c_j+v_j+r^*v_j$ tableaux in comparison with $C_j+V_j+R^*\,(C_j+V_j)$ tableaux.

[2] That this was not a momentary aberration from Veblen's view will appear from a close reading of his famous 1906 essays in the *Quart. J. Econ.*, "The Socialist Economics of Karl Marx, I, II." Cf. relevant Veblen passages of 1893, 1895, 1897, and 1922 in Dorfman's *Thorstein Veblen: Essays, reviews and reports—Previously uncollected writings* at pp. 419, 263–4 and 444–5, 462, 241 [2, 1973].

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FINANCE

More bulge to government pockets

Bonanza for the exchequer in 'mild downturn'

Star 24/2/91

49

Claire Gebhardt

GOVERNMENT is set to rake in considerably more than the R64,938 million it budgeted for in the 1990/91 financial year. Star 24/2/91

Sanlam estimates that total exchequer receipts of R67,5 billion are about 10 percent more than the total revised tax receipts in the previous financial year, and compare favourably with the 5,8 percent rise envisaged by the Minister of Finance.

It attributes the bonanza to a "comparatively mild downturn in the economy" and generous adjustments in labour remuneration which helped to maintain private consumer spending at a relatively high level.

As in previous years, government appears to have underestimated personal income-tax receipts.

Sanlam's preliminary figures show:

- Revenue from personal income tax at R22 500 million is approximately R2 000 million more than budgeted for.
- GST however will bring in about R400 million less than the R18 500 million allowed for.
- Company tax will contribute nearly R180 million less than the budgeted amount of R13 180.
- Mining tax (excluding gold mines) will yield about R300 million more than the R1 300 million target.
- The tax on gold mines (including gold-mine leases) will amount to about R940 million — nearly R320 million less than budgeted for in the current year, and R400 million less than the figure in the previous financial year.
- Customs and excise duties will romp in R450 million above the budgeted R11 300 million.

On the other hand, total government expenditure in the current financial year will be approximately R74 732 mllion — R1 800 million more than budgeted for and an increase of 14,7 percent against the 11,9 percent envisaged.

Sanlam predicts that the deficit before borrowing for the 1990/91 financial year will amount to about R7 230 million, 2,7 percent of gross domestic product (GDP), as opposed to the R7 994 million or 2,8 percent of GDP projected.

THE WEEK AHEAD by William Richards

Economic indicators overdue

BDay 25/2/91

FINANCIAL markets have been on tenterhooks all weekend following the delay in publication of SA's inflation and money supply figures for January. The figures — of critical importance in forming interest rate expectations — were both due out last Thursday.

However, computer problems at Central Statistical Service (CSS) in Pretoria snared the consumer price index data, and CSS officials expect to have the January inflation figures ready only tomorrow. This is a full five days later than the usual release date for the monthly consumer inflation outturn, and comes at a crucial time in the inflation and interest rate cycle. Markets are trying to gauge the pace of inflation's decline and whether the downtrend is sustained enough to justify action to ease credit conditions by the Reserve Bank.

SA's money supply figures are equally important in the influence they exert on the future course of domestic monetary policy, and they have also been delayed. All the commercial banks were meant to have certified their liabilities to the public with the Reserve Bank by last Thursday morning; from these figures the Bank calculates the rate of expansion of the money supply.

It is understood, however, that one of the "big five" failed to certify on time and, in the absence of the data, the Reserve Bank had to suspend compilation of the figures.

The delay will have caused considerable frustration among analysts trying to assess the financial authorities' monetary stance. In addition, it has deprived the local money and capital markets of key information about progress — or otherwise — in the authorities' fight against inflation and undue credit creation.

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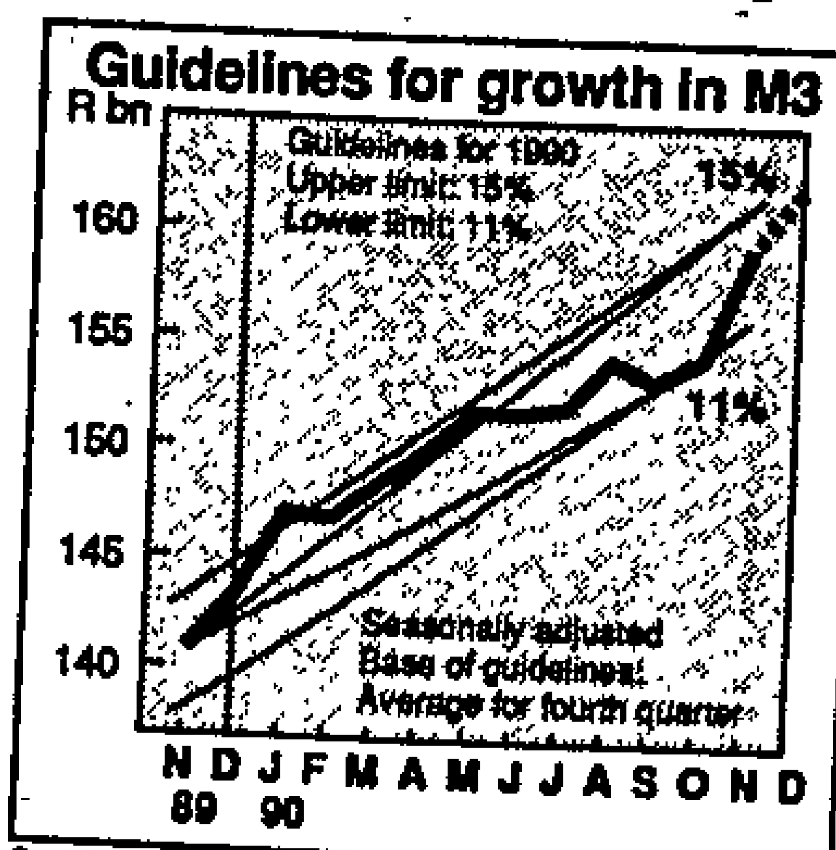
Expectations remain, however, that the inflation rate will slow somewhat from the 14,6% posted in the year to December. This is likely to be partly due to the lower petrol price and lower seasonal food prices.

Money supply growth, conversely, is likely to be stuck at around the 13% annual rise in the broad M3 measure of money recorded in November and December. This is probably the result of re-intermediation, as banks bring facilities back on balance sheet to comply with the provisions of the Deposit-Taking Institutions Act.

Internationally, the growth rate of the US economy comes under the spotlight again this week when the revised rate of America's GNP growth in the fourth quarter of last year is published.

The primary fourth quarter US growth rate, released a month ago, showed the economy contracting at an annualised rate of -2,1%. This was the biggest fall in economic activity since the last recession in 1982, and was the first stage in confirming that the US economy is officially in another recession.



Graphic: LEE EMERTON Source: SA RESERVE BANK

Two consecutive quarters of negative GNP growth are needed to fulfil the formal definition of recession. The current quarter is also expected to show economic contraction in the US, thus formally showing the US in its first recession in 10 years.

The preliminary GNP figure for the fourth quarter is unlikely to show change from the preliminary -2,1%. Any deepening of the contraction, however, will raise the likelihood that the US Federal Reserve will again lower US interest rates sometime this quarter to boost economic activity and restrict the recession to two quarters.

Other indicators of US economic performance are also due this week: on Friday the index of US leading indicators for February is due out. The index showed a small rise of 0,1% in December, but needs three consecutive monthly increases to show any sure sign of economic recovery. This is unlikely now.

Also on Friday, the monthly purchasing managers' index emerges. This shows the percentage of around 300 manufacturing firms reporting higher levels of activity compared to the previous month. Index levels below 50 show a contracting economy. The index has been below 50 since June last year and fell below 40 last month. The February outturn is likely to show another fall.

The January level of construction spending, which reflects the interest rate-sensitive building sector, is revealed on Friday. The monthly outturn has not been positive since March last year and, given the state of the US economy, is set to remain negative for some months yet.

Sanlam predicts decline in Budget expenditure

Bday 25/2/91 (49)

CAPE TOWN — Sanlam economists expect a Budget deficit of approximately R7,7bn for 1991/92 and estimate that Finance Minister Barend du Plessis will budget for a deficit of about R9,3bn, leaving only R1,6bn for tax concessions.

Chief economist Johan Louw estimates that government will budget for an 11% increase in total expenditure to R82,95bn which, in real terms, will mean a decline in spending.

This will be funded by estimated revenue of R75,25bn which represents an increase of about 11,5% over last year's receipts. Louw argues that additional tax revenue generated by high inflation will make up for the limiting effect of slow economic growth on revenue.

Writing in Sanlam's latest economic survey, Louw says limited tax concessions are likely to applied in the following forms:

- a reduction in the rates of the import surcharge;
- an increase in the amount of private investors' interest income exempt from tax, and;
- further relief to individuals for the effects of inflation, or bracket-creep.

But government is unlikely to cut the maximum marginal income tax rate from 44% to 43% in its effort to reduce the personal tax rate because

LESLEY LAMBERT

this would result in a loss of about R2bn in revenue, Louw says.

Companies are also unlikely to see any change in the nominal tax rate, although amendments to certain rebates or write-offs could result in an increase in the effective tax rate.

Louw estimates total receipts for the 1990/91 financial year will be R67bn — about 10% more than the previous year's total revised tax receipts.

This is based on preliminary indications that personal income tax will yield about R2bn more than the budgeted R20,5bn, mining tax R300m more than the budgeted R1,3bn and excise duty about R450m more than the budgeted R11,3bn.

These gains will be offset by lower than expected returns from GST, company tax and tax on gold mines.

Total government expenditure in the current financial year will be R1,8bn more than budgeted for, excluding the R1bn contingency reserve announced in last year's budget. This represents a 14,7% increase compared with the 11,9% envisaged.

Louw believes the overall effect of the Budget will be neutral, although the strict control of government spending could have an adverse effect on certain companies in the building and construction industry.

Foreign cash vital — Bankorp

(49)

By Sven Lünsche Star 13/2/91

A substantial inflow of foreign capital will be essential to sustain the next economic upswing and guarantee that enough new jobs are created to put a lid on rising unemployment.

Bankorp's Economics Unit paints a sombre picture of medium-term economic growth, indicating that political factors could easily make or break the economy.

The economists argue that imports could rise rather sharply in the next upswing forecast for the 1993-94 period and that this could convert the current surplus on the current account of the balance of payments into a deficit by 1993.

The strong showing of the current account limited the decline in Gross Domestic Product in 1990 and will be one of the few strong factors in the economy this year, but could decline by as much as R6 billion by 1995, Bankorp estimates.

"This could seriously destabilise the domestic financial environment, resulting in a renewed economic downturn in 1994-95," Bankorp says.

"In these circumstances, only one factor can facilitate continued growth with financial stability: a substantial and steady inflow of foreign loan and investment funds from 1993 through to the year 2000 and beyond."

To receive this inflow, Bankorp argues, five political factors will play a key role:

- The level of domestic conflict and violence.
- Progress with constitutional negotiations.
- The level of politically inspired labour unrest.
- The economic policies and actions of a new government.
- Peace, stability and co-operation in the Southern African region.

"In most of these cases there are a few key political figures who will play a decisive role in the years to come.

"They will be largely responsible for the attitude that foreign bankers and investors adopt towards SA in the 1990s.

"Consequently, they hold the performance of the economy, the stability of the socio-political setup and the material living standard of all South Africans in their hands," Bankorp says.

"However, if politicians, through their actions, continue to avoid promoting capital inflows we can forget the 1990s," the bank says.

Nafcoc backs free market

Star 25/2/91

By Sven Lünsche Star 25/2/91

(49)

The National African Federated Chamber of Commerce and Industry (Nafcoc) has committed itself to the promotion of the free-market system as a means to achieve a more equitable distribution of wealth and income in South Africa.

In a key document, outlining its view on the economy in a post-apartheid South Africa, Nafcoc acknowledges that the market is the feature that makes free-enterprise economies superior to centrally planned socialist systems.

"Therefore it is this feature that one must highlight in a new economic system for South Africa," the document says.

Nafcoc is the umbrella body for black business and has close links with the ANC.

It says the role of the Government must be that of a facilitator, ensuring a stable socio-economic environment, directing the provision of social services and guaranteeing free access to economic resources.

But Nafcoc says it is essential that both individual liberties and individual properties are protected.

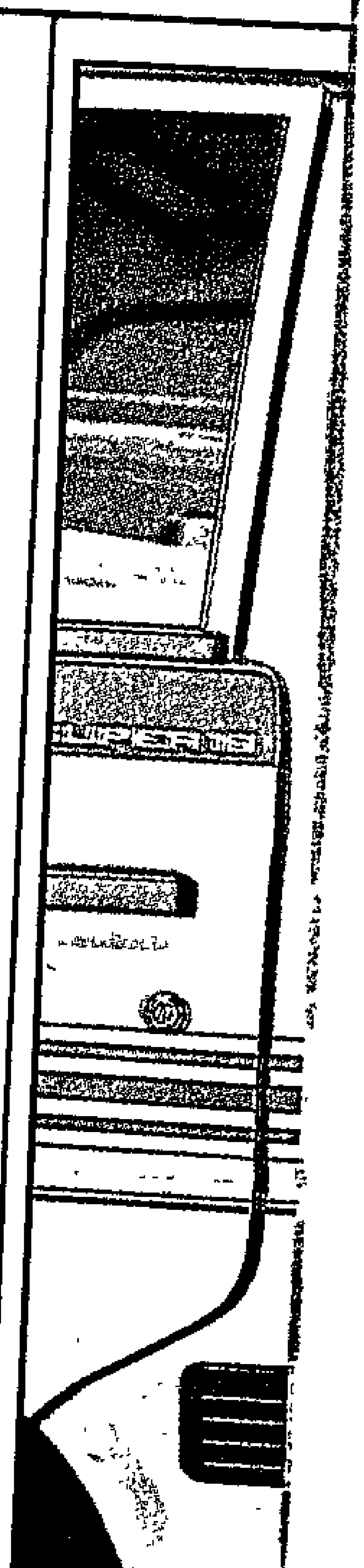
A future government should give special support to blacks, the document says.

"The State needs to correct past wrongs by improving the redistribution of income, promotion of asset ownership and protection of the poor by measures that do not distort the market."

Nafcoc stresses that the main rationale for redistribution is not only to correct the wrongs of the past, but to enable blacks to make a new start.

"It would be inadequate to confine oneself to dismantling apartheid and expect blacks to compete with whites who have been placed in a very strong economic position by policies of the past."

On the question of land reform, Nafcoc argues that a programme should be implemented that would lead to a more equitable distribution of land, with minimal negative impact on agricultural productivity.



Rather be Mr Nkadimeng of

Markets expect interest rate cut 'after Budget'

BDay 27/2/91 (49)

SHARON WOOD

MONEY and capital market rates hardened yesterday as markets shifted their interest rate horizons to after the Budget.

Markets had expected a reduction in interest rates for weeks, with both capital and money market rates moving down in response to Reserve Bank Governor Chris Stals' statement that he would let markets preempt a reduction in the prime overdraft rate.

But a bankers' meeting at the Reserve Bank this week combined with disappointing inflation figures and expectations of high money supply growth to push rates higher.

The benchmark Eskom E168 closed at 15,49% yesterday from Friday's close of 15,37%. In the money market, the key three-month BA rate firmed to 17,35% after falling to 17,25% on Monday.

Money supply figures to be released today are expected to surge with the inclusion of off-balance sheet lending in the figures.

Bankers said off-balance sheet lending had been estimated at between R8bn and R10bn, which would cause a quantum leap in January's M3 monetary aggregate.

This amount would not be included in on-balance sheet figures at once.

Reserve Bank deputy governor Jaap Meijer said money supply figures would not be a "crucial and decisive" factor in determining when interest rates would come down.

Bankers said Stals was unlikely to use the expected jump in the M3 money supply figure, the monetary aggregate used to formulate official interest rate policy, to determine the near-term direction of interest rates.

Instead, Stals would have to use another aggregate, perhaps M1A, to decide whether money supply had slowed down sufficiently to justify an interest rate cut, they said.

This would create problems because there were no targets with which to judge M1A growth.

Bankers said there would be no reduction in interest rates until after the Budget on March 20, because Stals was waiting to see market reaction to what was believed to be an expansionary Budget.

Income tax collections ahead of budget

GERALD REILLY

49

PRETORIA — Income tax collections are running well ahead of printed budget estimates for the first 10 months of the year, Inland Revenue statistics indicate. BIPam 27/2/91

However, GST collections for the full financial year may fail to reach the budget expectation of R18,532bn.

Economists say this is a reflection of the economic downturn and the shrinking of disposable incomes in the face of high inflation.

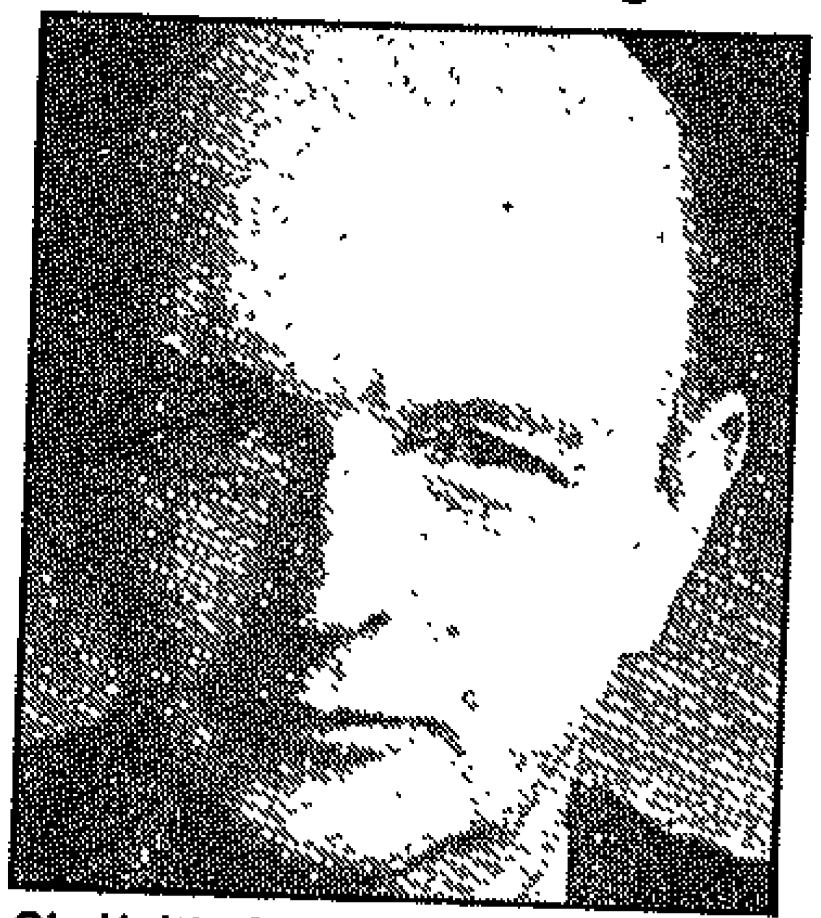
In the April-January period, income tax collections totalled R31bn compared with R26,8bn in 1989-90.

This represents 86% of expected total collections — 4% up on the figure for the previous tax year. Budget income tax revenue expectation for the year amounted to R35,865bn.

Income tax collections will be boosted further during this month when the second provisional tax payments are taken into account.

GST collections for the 10 months amounted to R15,183bn compared with R14,043bn. Budget expectation is R18,532bn.

'Stability and certainty' needed to foster trade



Sir Keith Stuart . . . Two-way trade valued at R11 million.

By Frank Jeans Star 27/2/91 (49)

South Africa's business relations with Britain are poised for renewed prosperity and need only the spark of stability and certainty.

This was the message which British business leaders have brought to this country under the banner of the United Kingdom South Africa Trade Association (Uksata).

Sir Keith Stuart, the mission leader told a press conference in Johannesburg yesterday: "British businessmen are cautiously optimistic about trade and investment opportunities in South Africa."

State President de Klerk's iniatives in the dismantling of apartheid have kindled bright prospects for increasing trade and investment opportunities for Britain. The Gulf War and political events in eastern Europe have strengthened South Africa's position as a primary market for the future.

"All we need in South Africa is stability and certainty and the absence of bad news," said Sir Keith.

"The problems in the Middle East, together with the general recession in the UK economy, are helping to bring home to British industrialists the attractions of South Africa as a market for goods and services."

The basics for sustained growth are already in place, with two-way trade currently valued at the R11 billion mark and investment at R50 billion — nearly half of all foreign investment in this country.

His advice to local exporters, too is: "Go out and hard sell in Britain. You will find a favourable reception."

Sir Keith and his team will be meeting representatives of South Africa's main political parties and while he emphasised that he was making a personal comment, he left no doubt about British attitudes towards a possible policy of nationalisation under a future ANC Government.

"Nationalisation has proved to be totally inefficient as a means of redistribution of wealth and even the Labour Party of today no longer advocates nationalisation," he said.

"I believe any move towards nationalisation in South Africa would be a major disincentive to British investment."

Cit. Trafs 27/2/91 49

Business Report

Negative real growth for SA

By PIETER COETZEE
Financial Editor

THE continued expected strict monetary and fiscal policy, together with the problems experienced in the agricultural sector at present, will lead to a negative real growth rate of 0,5% this year, predicts Transnet in its latest economic report.

Although the balance of payments is still a problem and must be taken into account when determining what the government must focus on during a given period, the emphasis will once again fall on the curtailment of inflation this year.

The painful process of adjustment SA must go through to rid itself of the unacceptably high inflation rate of the past fifteen years, will therefore be continued.

The expectation is that the inflation rate will decline to 11% by the end of 1991. The decline will accelerate — especially by the end of the year — due to statistical reasons that are connected with the sharp rise at the end of 1990.

The continued strict monetary policy will mean that real interest rates will be maintained, money supply and bank credit will be restricted, that the domestic demand will be subdued, imports will be restricted and the exchange rate will be kept relatively stable.

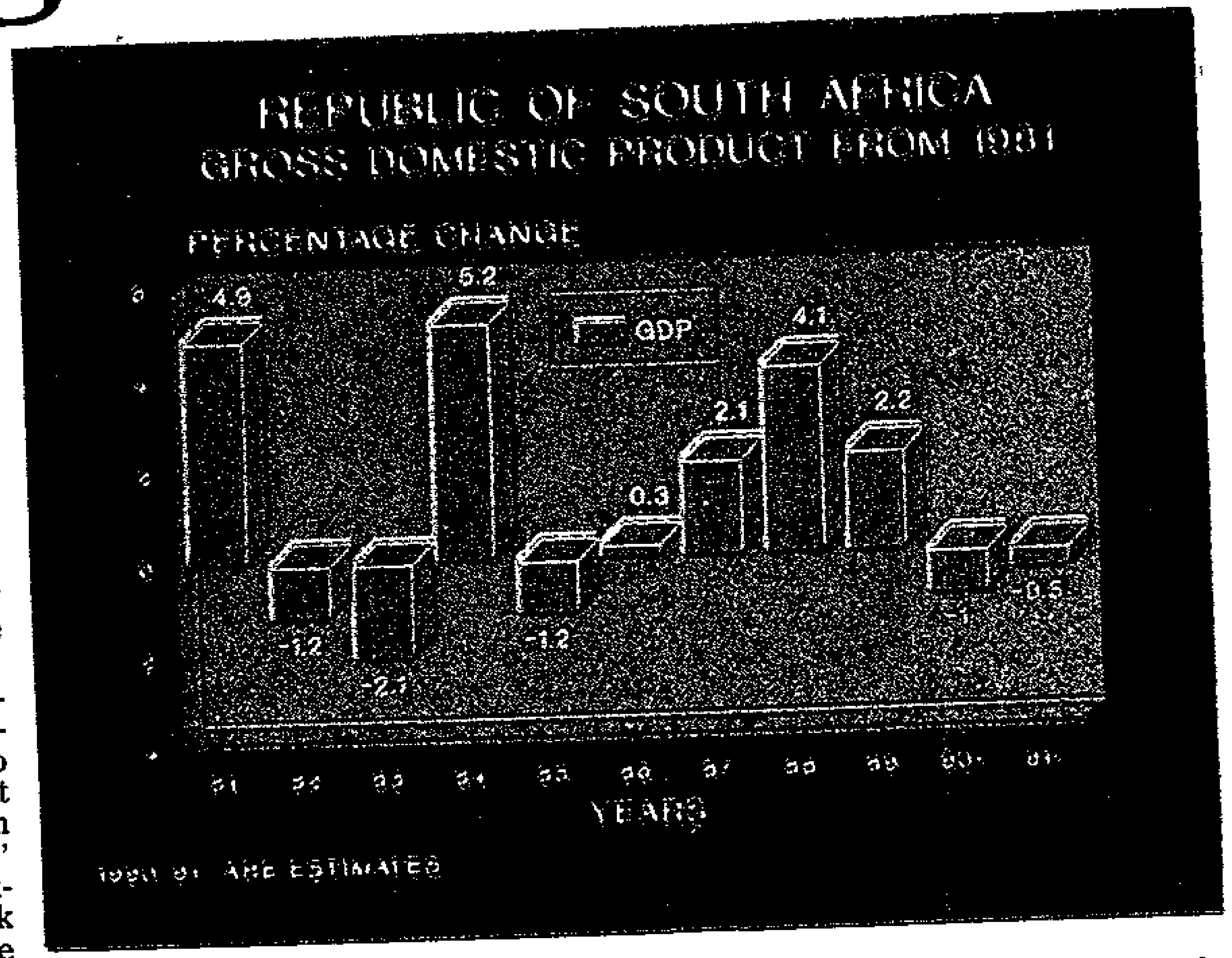
"If the policy can be maintained, inflation expectations may be broken and it will also mean that savings will rise from the unacceptably low levels of the past number of years particularly if a savings-friendly tax policy can be followed.

"Such a strict monetary policy, supported by a stable exchange rate will result in discipline in all sectors of the economy. All costs and supply levels will have to be kept well under control."

The report says that the negative growth rate expected in the economy this year will cause a further increase in unemployment.

"Unfortunately the increase in unemployment will not prevent the influx of people from the rural areas to the cities and it can be expected that the concentration of the population in the cities will continue to increase."

According to the report the extremely poor matric results of black matric pupils last year, as well as the composition of the population of SA, demonstrate once again that it will be expected of employers in the years to come to continue to pay a lot of attention to the internal training of the available manpower.



SLIGHTLY BETTER NEWS? ... SA's real gross domestic product is expected to reflect a negative growth rate of 0,5% in 1991 after last year's negative growth rate of 1%.

Money supply figures surprise

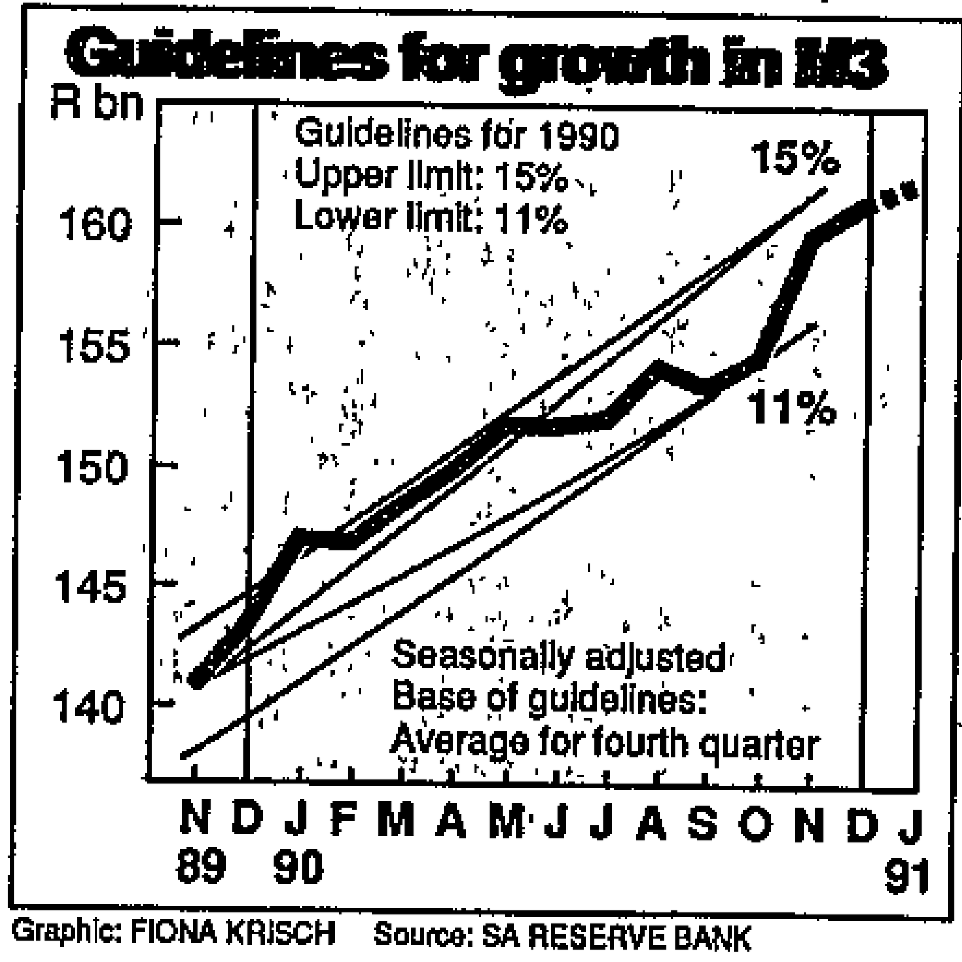
(49)

SHARON WOOD

B/Day 28/2/91

BETTER-than-expected money supply figures surprised economists and markets yesterday.

Slowing money supply growth confirmed that credit demand was weakening rapidly in line with a recessionary economy, but conflicted with the disappointing inflation figures released on Monday, economists said.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

The money supply figures left room for a near-term reduction in interest rates, but Reserve Bank Governor Chris Stals was still looking for a positive downward move in the inflation rate before easing monetary policy, they said.

Economists welcomed the year-on-year drop in the broad M3 monetary aggregate to 10,25% in January from 12,38% in December, shown in figures released by the Reserve Bank yesterday.

The M3 rate of increase eased to 12,57% (seasonally adjusted and annualised) in January from 12,99% in December.

This figure, used by the Reserve Bank to determine monetary policy, remained within the Reserve Bank guidelines of 11%-15% for 1990.

☐ To Page 2

Money supply

B/Day 28/2/91 (49)

☐ From Page 1

Simpson McKie gilt analyst Marilyn Visser said capital market rates fell sharply within five minutes of the release of surprisingly low money supply figures.

Nedcor chief economist Edward Osborn said Stals would probably wait until after the Budget and the almost simultaneous release of February consumer price index figures before considering a possible interest rate cut.

Rand Merchant Bank chief economist Rudolf Gouws said the annualised figure which the Reserve Bank focused on had not slowed sufficiently to justify an immediate interest rate cut.

Standard Bank chief economist Nico Czypionka said: "The latest money supply figure is encouraging enough to enable the Reserve Bank to set lower money supply growth targets for 1991 with confidence that these will be achieved."

Budget seminar to be addressed by experts

By JOSHUA RABOROKO (49)

AS a result of political and economic developments in South Africa, *Sowetan Business*, in conjunction with leading business people and experts, is organising a seminar to address the implications of tax in the 1991/92 Budget.

This important seminar, to be held at the Carlton Hotel on April 9, is part of the *Sowetan Business* Nation Building campaign. Sowetan 28/2/91.

It is believed that the Minister of Finance, Mr Barend du Plessis' 1991/92 budget speech in Parliament on March 20, will be more interesting and challenging to everybody because of economic and political developments in the past months.

Already there are indications that there will be no significant drop in taxes - even though Government had a favourable financial year and the economy has cooled down significantly in the past year, according to early predictions.

According to experts the Minister will have little room to manoeuvre towards his goal of lower personal taxes.

The seminar, whose theme is "Sowetan Business Post Budget and Tax Update," will be addressed by Mr Matsheru Matsheru, leading tax expert, Mr Trevor van Heerden, chief director of Inland Revenue, Mr Anthony Chait, head of the tax division: Fisher Hoffman Stride, Mr Allan Denny, chief executive of Andrew Forbes and Company, Mr Stephen Meintjies, managing director AVF Asset Management.

For booking contact Suzette Mafuna at (011) 834-7204/5.

Money supply growth continues to slow down

Star 28/2/91

.49

By Sven Lünsche

Growth in the broad money supply measure, M3, continued its recent slowdown in January as credit extension to the private sector fell back further.

According to provisional estimates by the Bank, M3 grew by 10,25 percent to R160,519 billion in the 12 months to January, compared with a revised growth rate of 12,38 percent in December.

On an annualised basis M3 grew by a seasonally adjusted 12,57 percent from mid-November 1989, which is the base of the current guideline year.

In June 1990 the rate of increase in M3 was 16,4 percent and declined steadily until October's 10,2 per cent, the lowest since February 1987 when it reached 7,7 percent. It moved up to 13,22 percent in November and fell back to 12,99 percent in December.

Growth in the money supply has not only been lower than the prevailing inflation rates over the last five months, but is also at the lower end of the 11 to 15 percent target range set by the Reserve Bank for 1990.

Reserve Bank Governor Dr Chris Stals is expected to announce new targets after the March 20 Budget. The recent slowdown in the M3 growth rate coupled with an expected further decline in consumer spending could well see the target range dropped to between eight and 12 percent for the 12 months to mid-November 1991.

The rate of increase in the narrowly defined M1 in December was 15,90 percent, almost double the growth rate of 7,96 percent in November, while M2 rose by 13,47 percent, compared with 13,11 percent in November.

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Max Sisulu warns on nationalisation

(49)

NATIONALISATION was expensive and did not guarantee the redistribution of wealth or democracy, an ANC economist attached to the Economic Policy Research Project at the University of the Western Cape, Mr Max Sisulu, said last week. South 28/2-6/3/91.

Addressing a seminar on campus, he said nationalisation was "merely one tool" the ANC would consider while drafting a new economic policy.